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VALHI INC /DE/  
Form S-4/A  
January 08, 2003

As filed with the Securities and Exchange Commission on January 8, 2003

Registration No. 333-101244

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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PRE-EFFECTIVE AMENDMENT NO. 1 TO  
FORM S-4

REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933

-----

VALHI, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

2810  
(Primary Standard Industrial  
Classification Code Number)

87-0  
(I.R.S. Employer

THREE LINCOLN CENTRE  
5430 LBJ FREEWAY, SUITE 1700  
DALLAS, TEXAS 75240-2697  
(972) 233-1700  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal  
executive offices)

STEVEN L. WATSON  
PRESIDENT AND CHIEF EXECUTIVE OFFICER  
VALHI, INC.  
THREE LINCOLN CENTRE  
5430 LBJ FREEWAY, SUITE 1700  
DALLAS, TEXAS 75240-2697  
(972) 233-1700  
(Name, address, including zip code, and telephone number, including  
area code, of agent for service)

Copies to:

Don M. Glendenning  
Toni Weinstein  
Locke Liddell & Sapp LLP

Robert E. Musgraves  
Tremont Corporation  
1999 Broadway

Theodor  
James  
Piper Ru

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2200 Ross Avenue  
Suite 2200  
Dallas, Texas 75201  
(214) 740-8000  
Facsimile: (214) 740-8800

Suite 4300  
Denver, Colorado 80202  
(303) 296-5652  
Facsimile: (303) 291-2990

1251 Avenue o  
New York, N  
(212)  
Facsimile: (

Approximate date of commencement of proposed sale to the public: As soon as practicable after the Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]\_\_\_\_\_

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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[TREMONT CORPORATION LOGO]

Dear Tremont Stockholder:

The board of directors of Tremont Corporation and a special committee of the Tremont board of directors have approved a merger transaction with Valhi, Inc. in which Tremont will become a wholly-owned subsidiary of Valhi. There will be a special stockholders' meeting on February 7, 2003 at 10:00 a.m., local time, at the offices of Tremont at 1999 Broadway, Suite 4300, Denver, Colorado, at which you will be asked to approve the adoption of the merger agreement. To complete the merger, the holders of a majority of the outstanding shares of Tremont common stock must approve the proposal to adopt the merger agreement.

Upon adoption of the merger agreement, Valhi Acquisition Corp., a wholly-owned subsidiary of Valhi, will be merged into Tremont. In the merger, you will receive 3.4 shares of Valhi common stock in exchange for each share of Tremont common stock that you own and cash for any fractional share of Valhi common stock that you would otherwise be entitled to receive.

Tremont Group, Inc. currently owns 80% of the outstanding shares of

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common stock of Tremont. Valhi currently owns 80% of the outstanding shares of Tremont Group common stock, and NL Industries, Inc., a majority-owned subsidiary of Valhi, currently owns the remaining 20%. TREMONT GROUP HAS INDICATED THAT IT INTENDS TO VOTE ITS SHARES OF TREMONT COMMON STOCK IN FAVOR OF ADOPTION OF THE MERGER AGREEMENT. THEREFORE, ASSUMING THAT TREMONT GROUP SO VOTES ITS SHARES, THE MERGER AGREEMENT WILL BE APPROVED AND THE MERGER WILL BE COMPLETED.

PLEASE CAREFULLY CONSIDER ALL OF THE INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS, INCLUDING IN PARTICULAR THE DISCUSSION IN THE SECTION ENTITLED "RISK FACTORS" ON PAGE 20.

The board of directors of Tremont, acting on the unanimous recommendation of the Tremont special committee, has approved and adopted the merger agreement and recommends that you vote FOR adoption of the merger agreement. Whether or not you plan to attend the special meeting, please complete, sign, date and return the proxy in the enclosed envelope.

The attached proxy statement/prospectus provides you with detailed information about the merger. Also included are copies of Valhi's and Tremont's latest Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q. You may obtain additional information about both Tremont and Valhi from the other documents that they have each filed with the Securities and Exchange Commission.

Sincerely,  
/s/ J. LANDIS MARTIN  
J. Landis Martin  
Chairman of the Board, President and  
Chief Executive Officer

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE MERGER DESCRIBED IN THIS PROXY STATEMENT/PROSPECTUS OR THE VALHI COMMON STOCK TO BE ISSUED IN CONNECTION WITH THE MERGER, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROXY STATEMENT/PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This proxy statement/prospectus is dated January 8, 2003 and was first mailed to Tremont stockholders on or about January 10, 2003.

TREMONT CORPORATION  
1999 BROADWAY, SUITE 4300  
DENVER, COLORADO 80202

-----

NOTICE OF SPECIAL MEETING  
TO BE HELD ON FEBRUARY 7, 2003

To the Stockholders of Tremont Corporation:

A special meeting of the stockholders of Tremont Corporation will be

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held on February 7, 2003, at 10:00 a.m., local time, at the offices of Tremont at 1999 Broadway, Suite 4300, Denver, Colorado, to:

1. Consider and vote on a proposal to adopt a merger agreement, dated as of November 4, 2002, by and among Valhi, Valhi Acquisition Corp., a wholly-owned subsidiary of Valhi, and Tremont, as amended; and
2. Transact any other business that properly comes before the special meeting.

Only Tremont stockholders of record at the close of business on January 10, 2003 will receive notice of and be able to vote at the special meeting and any adjournment or postponement thereof. The stock transfer books of Tremont will not be closed following the record date. A complete list of stockholders entitled to vote at the special meeting will be available at the special meeting. Such list of stockholders will also be available for ten days prior to the special meeting, between the hours of 8:45 a.m. and 4:30 p.m., local time, at our offices at the address shown above. You should contact the Secretary of Tremont if you desire to review the list of stockholders.

The enclosed document describes the merger agreement, the merger and the actions to be taken in connection with the merger. The merger cannot be completed unless the holders of a majority of the outstanding shares of Tremont common stock on the record date vote to approve the merger. Whether or not you are able to attend the special meeting in person, please sign and return promptly the enclosed proxy card in the enclosed, postage-paid envelope. You may revoke your proxy in the manner described in the enclosed document at any time before it is voted at the special meeting. If you choose, you may still vote at the special meeting even though you previously submitted your proxy card.

By Order of the Board of Directors,  
/s/ ROBERT E. MUSGRAVES  
Robert E. Musgraves  
Vice President, General Counsel and Secretary

Denver, Colorado  
January 8, 2003

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- A -- Agreement and Plan of Merger
- B -- Opinion of Morgan Joseph & Co. Inc.

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4,346,686 SHARES OF COMMON STOCK  
OF  
VALHI, INC.

SPECIAL MEETING OF STOCKHOLDERS  
OF  
TREMONT CORPORATION  
TO BE HELD ON FEBRUARY 7, 2003

QUESTIONS AND ANSWERS ABOUT THE MERGER

- Q: WHAT WILL I VOTE ON AT THE SPECIAL MEETING?
- A: Tremont stockholders will be asked to approve the proposal to adopt the merger agreement.
- Q: WHAT WILL I RECEIVE IN THE MERGER?
- A: Each share of Tremont common stock will be converted into 3.4 shares of Valhi common stock and cash for any fractional share of Valhi common stock that you would otherwise be entitled to receive. Valhi stockholders will retain their existing Valhi shares.
- Q: WILL THE EXCHANGE RATIO AND THE VALUE OF THE SHARES I RECEIVE CHANGE BETWEEN NOW AND THE TIME THAT THE MERGER IS COMPLETED?
- A: The exchange ratio, which determines the number of shares of Valhi common stock that you will receive, will not change. The market value of the shares of Valhi common stock you will receive may fluctuate between the date of this proxy statement/prospectus and the completion of the merger, based on changes in the market price for Valhi common stock.
- Q: WHAT SHOULD I DO NOW WITH RESPECT TO THE MERGER?
- A: After you read and consider carefully the information contained in this proxy statement/prospectus, please fill out, sign and date your proxy card and mail your signed proxy card in the enclosed, postage-paid envelope as soon as possible so that your shares may be represented at the special meeting.
- Q: WHEN AND WHERE IS THE SPECIAL MEETING OF TREMONT STOCKHOLDERS?
- A: The special meeting will be held on February 7, 2003 at the offices of Tremont at 1999 Broadway, Suite 4300, Denver, Colorado, at 10:00 a.m., local time.
- Q: WHAT STOCKHOLDER APPROVALS ARE NEEDED TO APPROVE THE MERGER?
- A: To complete the merger, the approval of the proposal to adopt the merger agreement by the holders of a majority of the outstanding shares of Tremont common stock must be obtained. TREMONT GROUP, WHICH CURRENTLY OWNS 80% OF THE OUTSTANDING SHARES OF TREMONT COMMON STOCK, HAS INDICATED THAT IT INTENDS TO VOTE ITS SHARES IN FAVOR OF ADOPTION OF THE MERGER AGREEMENT. THEREFORE, ASSUMING THAT TREMONT GROUP SO

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VOTES ITS SHARES, THE MERGER AGREEMENT WILL BE APPROVED AND THE MERGER WILL BE COMPLETED. Valhi currently owns 80% of the outstanding shares of Tremont Group common stock, and NL Industries, Inc., a majority-owned subsidiary of Valhi, currently owns the remaining 20%.

Q: WILL VALHI STOCKHOLDERS VOTE ON THE MERGER?

No vote of Valhi stockholders is required to complete the merger.

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Q: WHAT HAPPENS IF I DO NOT RETURN MY PROXY CARD AND DO NOT VOTE AT THE MEETING?

A: Failure to return your proxy or vote in person at the meeting will have the same effect as a vote against adoption of the merger agreement.

Q: IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A: Yes, but only if you provide instructions to your broker on how to vote. You should fill out, sign, date and return the voting instruction form and otherwise follow the directions provided by your broker regarding how to instruct your broker to vote your shares.

Q: CAN I CHANGE MY VOTE OR REVOKE MY PROXY AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A: Yes, you may change your vote by delivering a written notice stating that you would like to revoke your proxy or delivering a new, later-dated proxy card to EquiServe Trust Company, N.A., the inspector of elections, on or before the business day prior to the special meeting or by attending the special meeting and voting in person. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change your vote.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. Shortly after the completion of the merger, you will receive a letter of transmittal with instructions informing you how to send in your stock certificates to the exchange agent. You should use the letter of transmittal to exchange your Tremont stock certificates for the merger consideration to which you are entitled as a result of the merger. YOU SHOULD NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY CARD.

Q: ASSUMING THAT THE MERGER IS COMPLETED, MAY I EXERCISE DISSENTERS' RIGHTS AND DEMAND AN APPRAISAL OF MY TREMONT SHARES?

No. You will not be entitled to dissenting stockholders' appraisal rights under Delaware law and you will be bound by the terms of the merger agreement.

Q: WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A: We expect to complete the merger shortly after the special meeting on February 7, 2003.



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Q: WHAT ARE THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO TREMONT STOCKHOLDERS?

A: Generally, holders of Tremont common stock will not be required to pay any U.S. federal income tax as a result of the merger, except for tax imposed on cash, if any, that you receive in lieu of fractional shares of Valhi common stock.

Q: HOW WILL EXISTING VALHI STOCKHOLDERS BE AFFECTED BY THE MERGER?

A: Existing Valhi stockholders will own the same number of Valhi shares that they owned immediately prior to the merger. However, because Valhi will issue new shares of its common stock in the merger, each outstanding share of Valhi common stock immediately prior to the merger will represent a smaller percentage of a larger company after the merger.

Valhi stockholders will not recognize any gain or loss for federal income tax purposes as a result of the merger, and will not have any dissenters' rights of appraisal as a result of the merger and the issuance of Valhi shares.

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Q: WHAT HAPPENS TO MY FUTURE DIVIDENDS?

A: Tremont's current regular quarterly dividend is \$.07 per share, or \$.28 per share on an annual basis. Assuming that the merger is completed as currently scheduled, Tremont will have paid the last quarterly dividend on its common stock on December 27, 2002 to Tremont stockholders of record as of December 13, 2002.

Valhi's current regular quarterly dividend is \$.06 per share, or \$.24 per share on an annual basis (the equivalent to \$.204 per share per quarter, or \$.816 per share on an annual basis of Tremont common stock after considering the exchange ratio of 3.4 to 1). Subject to the determination of Valhi's board of directors, Valhi expects to continue its regular quarterly dividend following completion of the merger.

Q: WOULD MY RIGHTS AS A VALHI STOCKHOLDER DIFFER FROM MY RIGHTS AS A TREMONT STOCKHOLDER?

A: When the merger is completed, Tremont stockholders will become Valhi stockholders, and their rights will be governed by Delaware law and Valhi's certificate of incorporation and bylaws. There are certain differences between the rights of Tremont stockholders under Tremont's organizational documents as compared to their rights as stockholders of Valhi.

Q: WILL CONTRAN CORPORATION STILL HAVE VOTING CONTROL OVER, AND WILL HAROLD C. SIMMONS STILL BE DEEMED TO CONTROL, VALHI FOLLOWING THE MERGER?

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A: As of the date of this prospectus/proxy statement, Contran Corporation owned, directly or through subsidiaries, approximately 93% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, Chairman of the Board of each of Contran, Valhi, NL and Tremont Group and a director of Tremont, may be deemed to control each of Contran, Valhi, NL, Tremont Group and Tremont.

We expect that Contran's ownership interest in Valhi will decrease to 89% as a result of the issuance of additional shares of Valhi common stock in the merger. Therefore, after the merger is completed, Contran will still have voting control over Valhi, and Mr. Simmons will still be deemed to control Valhi.

Q: HAS LITIGATION BEEN FILED IN CONNECTION WITH THE PROPOSED MERGER?

A: Yes, in late July 2002, shortly after the announcement of a merger proposal, complaints were filed against Tremont, Valhi and members of Tremont's board of directors. The complaints, purported class actions, generally allege, among other things, that the terms of the proposed merger of Valhi and Tremont are unfair and that defendants have violated their fiduciary duties. The complaints seek, among other things, an order enjoining consummation of the proposed merger and the award of unspecified damages, including attorneys' fees and other costs. At the request of the parties, the court ordered that these actions be consolidated under the caption In re Tremont Corporation Shareholders Litigation and directed the filing of a consolidated complaint. Valhi and Tremont believe, and understand that each of the other defendants believes, that the complaints are without merit, and Valhi and Tremont intend, and understand that each of the other defendants intends, to defend against the actions vigorously.

Q: WHOM SHOULD I CALL WITH QUESTIONS?

A: Please call Joan Prusse at (303) 296-5600 with any questions about the merger.

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### SUMMARY

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. You should carefully read this entire document and the other documents we refer to in this proxy statement/prospectus. These documents will give you a more complete description of the transaction we are proposing. Information in this proxy statement/prospectus regarding Valhi's ownership interest in Tremont, NL Industries, Inc., or "NL," CompX International, Inc., or "CompX," and Waste Control Specialists LLC, or "Waste Control Specialists," and Tremont's percentage ownership in Titanium Metals Corporation, or "TIMET," and NL, is each as of December 31, 2002.

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THE COMPANIES (See page 58)

TREMONT CORPORATION  
1999 Broadway, Suite 4300  
Denver, Colorado 80202  
(303) 296-5652

Tremont Corporation is principally a holding company with operations conducted through 39%-owned TIMET and through 21%-owned NL. Valhi owns an additional 63% of NL.

TIMET is one of the world's largest producers of titanium sponge, melted products (ingot and slab) and mill products. TIMET had an estimated 24% share of worldwide industry shipments of titanium mill products in 2001. TIMET has production facilities in the U.S. and Europe. TIMET is continuing its efforts to develop new applications for titanium in the automotive and other emerging markets.

NL is the world's fifth-largest producer, and Europe's second-largest producer, of titanium dioxide pigments or "TiO(2)," which are used for imparting whiteness, brightness and opacity to a wide range of products, including paints, plastics, paper, fibers and other "quality-of-life" products. NL had an estimated 11% share of worldwide TiO(2) sales volume in 2001. NL has production facilities throughout Europe and North America.

Tremont has an insurance operation through wholly-owned Tall Pines Insurance Company. Tremont also owns certain real estate interests through wholly-owned TRECO L.L.C.

VALHI, INC.  
Three Lincoln Centre  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240  
(972) 233-1700

Valhi is principally a holding company with operations conducted through majority-owned subsidiaries or less than majority-owned affiliates in the chemicals (through its 63% ownership of NL), component products (through its 69% ownership of CompX), waste management (through its 90% ownership of Waste Control Specialists) and titanium metals (through its ownership of Tremont as described in this proxy statement/prospectus) industries.

CompX is a leading manufacturer of ergonomic computer support systems, precision ball bearing slides and security products for office furniture, computer-related applications and a variety of other products. CompX has production facilities in North America, Europe and Asia.

Waste Control Specialists owns and operates a facility in West Texas for the processing, treatment, storage and disposal of hazardous, toxic and certain types of radioactive wastes. Waste Control Specialists is seeking additional regulatory authorization to expand its treatment and disposal capabilities for low-level and mixed radioactive wastes.

Valhi has other investments and joint ventures, including The Amalgamated Sugar Company LLC, a manufacturer of refined sugar.

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VALHI ACQUISITION CORP.  
Three Lincoln Centre,  
5430 LBJ Freeway, Suite 1700  
Dallas, Texas 75240  
(972) 233-1700

Valhi Acquisition Corp., a wholly-owned subsidiary of Valhi, is a Delaware corporation organized for the sole purpose of effecting the merger. It is not anticipated that Valhi Acquisition will have any significant assets or liabilities, other than those arising under the merger agreement or in connection with the merger, or will engage in any activities other than those incidental to its formation and capitalization and the merger.

THE MERGER (See page 53)

Valhi will acquire Tremont by means of the merger of Valhi Acquisition into Tremont. At the effective time of the merger, Tremont will become a wholly-owned subsidiary of Valhi. The merger agreement, which has been restated to include Amendment No. 1 thereto, is attached as Appendix A to this proxy statement/prospectus. Please read the merger agreement as it is the legal document that governs the merger.

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WHAT YOU WILL RECEIVE IN THE MERGER (See page 53)

When we complete the merger, you will receive 3.4 shares of Valhi common stock for each share of Tremont common stock that you own plus cash for any fractional share interest that you would otherwise receive in the merger. The cash payment will be in an amount equal to the fraction multiplied by the average closing price per share of Valhi common stock during the ten trading days ending on the business day that immediately precedes the closing date of the merger.

THE SPECIAL MEETING (See page 22)

The special meeting of Tremont stockholders is scheduled to be held at 10:00 a.m., local time, on February 7, 2003, at the offices of Tremont at 1999 Broadway, Suite 4300, Denver, Colorado.

RECORD DATE; VOTING POWER (See page 23)

The Tremont board of directors has fixed the close of business on January 10, 2003 as the record date to determine holders of shares of Tremont common stock entitled to notice of and to vote at the special meeting.

As of the record date, there were 6,424,858 shares of Tremont common stock outstanding, held by approximately 5,000 holders of record, which represents approximately 8,500 stockholders. If you held Tremont common stock at the close of business on the record date, you are entitled to one vote per share on any matter that may properly come before the special meeting.

As of the date of this proxy statement/prospectus, there are no outstanding options to purchase Tremont common stock, and Tremont has agreed not to grant any stock options until the merger is completed or the merger agreement is terminated.

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VOTING SECURITIES AND VOTE REQUIRED (See page 23)

The merger requires the approval of the proposal to adopt the merger agreement by the holders of a majority of Tremont common stock outstanding on the record date. TREMONT GROUP, INC., WHICH CURRENTLY OWNS 80% OF THE OUTSTANDING SHARES OF TREMONT COMMON STOCK, HAS INDICATED THAT IT INTENDS TO VOTE ITS SHARES IN FAVOR OF ADOPTION OF THE MERGER AGREEMENT. THEREFORE, ASSUMING THAT TREMONT GROUP SO VOTES ITS SHARES, THE MERGER AGREEMENT WILL BE APPROVED AND THE MERGER WILL BE COMPLETED. Valhi currently owns 80% of the outstanding shares of Tremont Group common stock, and NL Industries, Inc., a majority-owned subsidiary of Valhi, currently owns the remaining 20%.

CONFLICTS OF INTEREST AND CERTAIN RELATIONSHIPS AND TRANSACTIONS (See page 37)

Some members of the Tremont board of directors and management have interests in the merger that could conflict with your interests as a holder of Tremont common stock, as described below:

- o Harold C. Simmons is Chairman of the Board of each of Contran, Valhi, NL and Tremont Group and a director of Tremont, and may be deemed to control each of Contran, Valhi, NL, Tremont Group and Tremont;
- o Glenn R. Simmons (a brother of Harold C. Simmons) and Steven L. Watson are directors of Tremont and are also directors of each of Valhi, NL, TIMET and Tremont Group, Mr. Glenn Simmons is Vice Chairman of the Board of each of Contran, Valhi and Tremont Group, and Mr. Watson is President and Chief Executive Officer of Valhi and President of each of Contran and Tremont Group;
- o J. Landis Martin is Chairman of the Board, President and Chief Executive Officer of Tremont and is also Chief Executive Officer and a director of each of NL and TIMET and a director of Tremont Group; and
- o General Thomas P. Stafford (Retired) is a director of Tremont and is also a director of each of NL and TIMET.

As of the date of this proxy statement/prospectus, Contran Corporation owned, directly or through subsidiaries, approximately 93% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. We expect that Contran's ownership interest in Valhi will decrease to 89% as a result of the issuance of additional shares of Valhi common stock in the merger. Therefore, Contran will still have voting control over Valhi, and Mr. Simmons will still be deemed to control Valhi.

Also, Valhi, Tremont and their affiliates have in the past entered into various transactions with related parties, including Contran.

No director or executive officer of Valhi or Tremont has or will receive any payment relating to the completion of the merger.

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### SPECIAL COMMITTEE OF THE TREMONT BOARD OF DIRECTORS

Because of the potential conflicts of interest noted above, the Tremont board of directors believed that five directors had actual or potential conflicts of interest in evaluating a transaction with Valhi. Therefore, the board appointed a special committee comprised of the remaining two directors, W. Hayden McIlroy and Terry Neal Worrell, neither of whom is an employee of Valhi, Tremont or any other affiliate of Tremont or a director of Valhi or any other affiliate of Tremont, to evaluate the transaction. The special committee unanimously recommended that the Tremont board approve the merger.

### TREMONT STOCK OWNERSHIP (See page 23)

On the record date and as of the date of this proxy statement/prospectus:

- o Valhi owned 80% of the outstanding shares of Tremont Group, and NL owned the remaining 20%;
- o Tremont Group owned of record 5,141,421 shares, representing 80% of the outstanding shares, of Tremont common stock;
- o Valhi and NL owned of record 5,000 and 8,167 shares, respectively, each representing 0.1% of the outstanding shares, of Tremont common stock;
- o Tremont's directors and executive officers and their affiliates owned a total of 25,281 shares, representing 0.4% of the outstanding shares, of Tremont common stock; and
- o Valhi's directors and executive officers and their affiliates (other than those individuals who are also directors of Tremont) owned a total of 875 shares, representing 0.01% of the outstanding shares, of Tremont common stock.

### RELATED TRANSACTIONS TO BE COMPLETED IMMEDIATELY PRIOR TO AND AS SOON AS POSSIBLE FOLLOWING THE COMPLETION OF THE MERGER (See page 43)

Immediately prior to the effective time of the merger of Valhi Acquisition and Tremont, Valhi Acquisition Corp. II, a newly formed Delaware corporation and a wholly-owned subsidiary of Valhi, will merge into Tremont Group. Tremont Group will be the surviving corporation in this merger. As a result of this merger:

- o Valhi will issue 3,495,200 shares of Valhi common stock to NL in exchange for NL's 20% ownership interest in Tremont Group, which is equal to 5,141,421 (the number of shares of Tremont common stock currently owned by Tremont Group, multiplied by NL's 20% ownership interest in Tremont Group) and adjusted for the same 3.4 to 1 exchange ratio in the merger of Valhi Acquisition and Tremont; and
- o Tremont Group will become a wholly-owned subsidiary of Valhi.

Tremont Group has no assets other than its holdings of Tremont common stock.

As soon as possible following the effective time of the merger of Valhi Acquisition and Tremont, Valhi will merge Tremont Group and Tremont, both of which will then be wholly-owned subsidiaries of Valhi, into a newly formed limited liability company, wholly-owned by Valhi.

### FAIRNESS OPINION OF THE SPECIAL COMMITTEE'S FINANCIAL ADVISOR (See page 31)

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In deciding to approve the merger agreement and the merger, the special committee of Tremont's board of directors considered an opinion from Morgan Joseph to the effect that, as of the date of such opinion, the merger exchange ratio was fair, from a financial point of view, to Tremont stockholders, other than Valhi and its affiliates. The full text of the fairness opinion is attached to this proxy statement/prospectus as Appendix B. Please read the fairness opinion in its entirety. The fairness opinion sets forth assumptions made, matters considered and limitations on the review undertaken in connection with the issuance of the fairness opinion.

RECOMMENDATION TO STOCKHOLDERS (See page 29)

The special committee of the Tremont board of directors determined that the merger is fair to, and in the best interests of, the stockholders of Tremont, other than Valhi and its affiliates, and recommended approval of the merger agreement by the Tremont board of directors. After considering the recommendation of the special committee, Tremont's board of directors approved the merger agreement and recommended that you vote FOR the proposal to adopt the merger agreement.

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TREMONT'S REASONS FOR THE MERGER (See page 29)

Tremont's board of directors and special committee recommended the merger for the following reasons:

- o the potential cost efficiencies through the combination of corporate functions and the elimination of expenses associated with Tremont's public reporting requirements;
- o the opportunity for you to achieve diversification of your holdings through indirect ownership of interests in Valhi's businesses and assets;
- o the opportunity for you to have an ownership interest in a company with a relatively larger asset base and enhanced capital structure with potentially improved access to capital and financing sources;
- o the opportunity for you to own shares in a larger, publicly-traded company with relatively higher historical trading volumes and public market float;
- o the merger provides for the consolidation of Tremont's and Valhi's ownership interests in NL;
- o the unlikely possibility that another company might be willing to acquire all, or the minority shares, of Tremont on terms and conditions that would be as favorable to the Tremont stockholders as those available through the merger;
- o the fairness opinion of Morgan Joseph;
- o the fairness of the terms of the merger agreement, including the provisions that permit Tremont to entertain competing business combination proposals prior to the closing and terminate the merger

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agreement without making any payment to Valhi;

- o the procedural fairness of the merger due to the structure and deliberations of the special committee of Tremont's board of directors; and
- o the merger will generally not be a taxable transaction to Tremont and its stockholders.

VALHI'S REASONS FOR THE MERGER (See page 31)

By completing these transactions, Tremont will become a wholly-owned subsidiary of Valhi and Valhi's corporate structure will become simplified. Tremont currently is a public company incurring legal and accounting costs. Tremont will no longer be required to make filings as a separate entity with the SEC. As a result, there should be savings in legal, accounting and stockholder relations costs. The merger will also result in a 65% increase in the public market float of Valhi common stock from approximately 6.6 million shares to approximately 10.9 million shares.

REGULATORY APPROVALS AND OTHER CONDITIONS (See pages 42 and 55)

Except for the filing of the certificate of merger with the Secretary of State of the State of Delaware, no other governmental authorization or regulatory approval is required of Valhi or Tremont in order to complete the merger.

In addition, the merger will be completed only if other conditions are met or waived, if waivable, including:

- o the holders of a majority of the outstanding shares of Tremont common stock approve the proposal to adopt the merger agreement at the special meeting, which is assured if Tremont Group votes the 80% of Tremont common stock owned by it, as it has indicated that it intends to;
- o Tremont and Valhi receive all necessary consents and approvals;
- o neither Tremont or Valhi has breached any of its representations or obligations under the merger agreement such that there is a material adverse effect on Tremont or Valhi; and
- o there has not occurred any change that could reasonably be expected to result in a material adverse effect on Tremont or Valhi.

In addition to these conditions, the merger agreement, attached to this proxy statement/prospectus as Appendix A, describes other conditions that must be met before the merger may be completed.

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TERMINATION OF THE MERGER AGREEMENT (See page 56)

Valhi and Tremont may agree to terminate the merger agreement and elect not to complete the merger at any time before the merger is completed, even if Tremont's stockholders have approved the proposal to adopt the merger agreement. Each of the parties also may terminate the merger in other circumstances and for



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other reasons, including if the merger has not been completed by February 28, 2003.

### COMPLETION OF THE MERGER (See page 24)

The merger will become final at the time specified in the certificate of merger to be filed with the Secretary of State of the State of Delaware. We currently anticipate that the merger will be completed shortly after the special meeting of Tremont stockholders.

### EXCHANGE OF STOCK CERTIFICATES (See page 24)

Promptly after the merger is completed, you will receive a letter and instructions on how to surrender your Tremont stock certificates in exchange for Valhi stock certificates. You will need to carefully review and complete these materials and return them as instructed along with your stock certificates for Tremont common stock. Please do not send Tremont, Valhi or their transfer agents any stock certificates until you receive these instructions.

### MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER (See page 41)

Generally, Tremont's stockholders will not recognize any gain or loss for federal income tax purposes as the result of the merger, except if, and to the extent that, you receive cash in lieu of fractional shares.

Tax matters are very complicated, and the tax consequences of the merger to you will depend on your own situation. You are urged to consult your own tax advisors to determine the effect of the merger on you under applicable federal, state, local and foreign tax laws.

### DIFFERENCES IN STOCKHOLDERS' RIGHTS (See page 59)

When the merger is completed, you will automatically become a Valhi stockholder. Your rights as a Valhi stockholder will differ in certain respects from your rights as a Tremont stockholder due to provisions in Valhi's certificate of incorporation and bylaws that differ from those in Tremont's certificate of incorporation and bylaws.

### NO APPRAISAL RIGHTS (See page 42)

Because Tremont common stock and Valhi common stock are listed on the New York Stock Exchange, Tremont stockholders will not have appraisal rights under Delaware law.

### ACCOUNTING TREATMENT (See page 42)

Both the merger of Tremont and Valhi Acquisition and Valhi's acquisition of the shares of Tremont Group currently owned by NL will be accounted for using the purchase method of accounting (step acquisitions of Tremont) in accordance with accounting principles generally accepted in the United States of America, or "GAAP."

### LISTING OF VALHI COMMON STOCK

Valhi has agreed to list the shares of Valhi common stock to be issued in connection with the merger of Tremont and Valhi, as well as the shares of Valhi common stock to be issued to NL in connection with Valhi's acquisition of NL's

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ownership interest in Tremont Group, on the New York Stock Exchange.

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### ORGANIZATIONAL STRUCTURE

The following summarizes the current condensed organizational structure and stock ownership of Valhi and Tremont.

#### CURRENT ABBREVIATED ORGANIZATIONAL STRUCTURE

[CHART]

[A chart showing (i) Contran's 92.5% ownership of Valhi, (ii) Valhi's 80% ownership of Tremont Group, (iii) Valhi's 63.2% ownership of NL, (iv) NL's 20% ownership of Tremont Group, (v) Tremont Group's 80% ownership of Tremont, (vi) Tremont's 21.4% ownership of NL and (vii) Tremont's 39.4% ownership of TIMET]

- (a) Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is the sole trustee. In addition, Mr. Simmons is the sole trustee of the Combined Master Retirement Trust, or "CMRT," a trust formed by Valhi to permit the collective investment by trusts that maintain the assets of certain employee benefit plans adopted by Valhi and related companies, and a member of the trust investment committee. Mr. Simmons is Chairman of the Board of each of Contran, Valhi, NL and Tremont Group and a director of Tremont. Mr. Simmons may be deemed to control each of Contran, Valhi, NL, Tremont Group, Tremont and TIMET.
- (b) The outstanding shares of Valhi common stock are owned by public stockholders (approximately 6.0%), by Contran Corporation either directly or through subsidiaries (approximately 92.5%) and by other entities affiliated with Mr. Simmons (approximately 1.5%).
- (c) The outstanding shares of Tremont Group, Inc. common stock are owned by Valhi (approximately 80.0%) and by NL (approximately 20.0%).
- (d) The outstanding shares of NL common stock are owned by public stockholders (approximately 15.4%), by Valhi (approximately 63.2%) and by Tremont (approximately 21.4%). Valhi may be deemed to control NL.
- (e) The outstanding shares of Tremont common stock are held by public stockholders (approximately 19.8%), by Tremont Group, Inc. (approximately 80.0%), by Valhi (approximately 0.1%) and by NL (approximately 0.1%).

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- (f) The outstanding shares of TIMET common stock are owned by public stockholders (approximately 51.6%), by Tremont (approximately 39.4%) and by the CMRT (approximately 9.0%). TIMET may be deemed to be controlled by Tremont.

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The following summarizes the condensed organizational structure and stock ownership of Valhi and Tremont as we expect it to exist after the merger.

### POST-MERGER ABBREVIATED ORGANIZATIONAL STRUCTURE

[CHART]

[A chart showing (i) Contran's 89.2% ownership of Valhi, (ii) Valhi's 100% ownership of Tremont Group, (iii) Valhi's 63.2% ownership of NL, (iv) Valhi's 100% ownership of Tremont, (v) Tremont's 21.4% ownership of NL and (vi) Tremont's 39.4% ownership of TIMET]

- (a) Immediately prior to the effective time of the merger of Valhi Acquisition and Tremont, Valhi Acquisition Corp. II, a newly formed Delaware corporation and a wholly-owned subsidiary of Valhi, will merge into Tremont Group. Tremont Group will be the surviving corporation in this merger. In exchange for NL's 20% ownership interest in Tremont Group, Valhi will issue to NL 3,495,200 shares of Valhi common stock, which is equal to 5,141,421 (the number of shares of Tremont common stock currently owned by Tremont Group) multiplied by NL's 20% ownership interest in Tremont Group, adjusted for the same 3.4 exchange ratio in the merger of Valhi Acquisition and Tremont. As a result of this transaction, Tremont Group will become a wholly-owned subsidiary of Valhi.
- (b) Valhi will, as soon as possible after the effective time of the merger of Valhi Acquisition and Tremont, merge Tremont Group and Tremont into a newly formed limited liability company, wholly-owned by Valhi.

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### COMPARATIVE PER SHARE MARKET PRICE AND DIVIDEND INFORMATION

Valhi common stock and Tremont common stock are each listed on the New York Stock Exchange. Valhi's and Tremont's ticker symbols are "VHI" and "TRE," respectively. The following table shows, for the calendar quarters indicated, based on published financial sources, the high and low closing sale prices of shares of Valhi and Tremont common stock and the cash dividends paid per share

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of Valhi and Tremont common stock.

|  | VALHI    |          |                | TREMONT  |          |
|--|----------|----------|----------------|----------|----------|
|  | HIGH     | LOW      | DIVIDENDS PAID | HIGH     | LOW      |
| Year ended December 31, 2000                     |          |          |                |          |          |
| First Quarter .....                              | \$ 11.56 | \$ 10.19 | \$ .05         | \$ 19.00 | \$ 13.00 |
| Second Quarter .....                             | 13.56    | 10.38    | .05            | 22.63    | 16.00    |
| Third Quarter .....                              | 13.00    | 10.75    | .05            | 33.63    | 21.00    |
| Fourth Quarter .....                             | 12.88    | 11.44    | .06            | 33.00    | 24.00    |
| Year ended December 31, 2001                     |          |          |                |          |          |
| First Quarter .....                              | \$ 12.00 | \$ 10.00 | \$ .06         | \$ 39.00 | \$ 27.00 |
| Second Quarter .....                             | 12.95    | 10.00    | .06            | 40.60    | 27.00    |
| Third Quarter .....                              | 13.30    | 10.16    | .06            | 36.85    | 27.00    |
| Fourth Quarter .....                             | 13.42    | 11.11    | .06            | 28.90    | 27.00    |
| Year ended December 31, 2002                     |          |          |                |          |          |
| First Quarter .....                              | \$ 13.30 | \$ 10.80 | \$ .06         | \$ 29.50 | \$ 26.00 |
| Second Quarter .....                             | 15.63    | 10.61    | .06            | 29.85    | 27.00    |
| Third Quarter .....                              | 19.18    | 9.82     | .06            | 37.50    | 30.00    |
| Fourth Quarter .....                             | 10.75    | 8.30     | .06            | 34.95    | 29.00    |
| Year ending December 31, 2003                    |          |          |                |          |          |
| First Quarter (through<br>January 7, 2003) ..... | \$ 8.65  | \$ 8.36  | --             | \$ 29.85 | \$ 29.00 |

On October 30, 2002, Valhi's board of directors declared a dividend of \$.06 per share, which was paid on December 31, 2002 to stockholders of record as of December 13, 2002. Valhi's current regular quarterly dividend is \$.06 per share. Declaration and payment of future Valhi dividends and the amount thereof will depend on Valhi's results of operations, financial condition, cash requirements for its businesses, contractual requirements and restrictions and other factors deemed relevant by Valhi's board of directors.

On October 22, 2002, Tremont's board of directors declared a dividend of \$.07 per share, which was paid on December 27, 2002 to stockholders of record as of December 13, 2002. Tremont's current regular quarterly dividend is \$.07 per share. Assuming that the merger is completed as currently scheduled, Tremont will have paid the last quarterly dividend on its common stock on December 27, 2002. If the merger is not completed, payment of future Tremont dividends will depend on Tremont's results of operations, financial condition, cash requirements for its businesses, contractual restrictions and other factors deemed relevant by the Tremont board of directors.

Other than regular quarterly dividends, Valhi and Tremont have agreed

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pursuant to the merger agreement that, until the merger is completed or the merger agreement is terminated, neither Valhi nor Tremont will make, declare or pay any dividend or distribution on its common stock.

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The following table sets forth the closing prices per share of Valhi common stock and Tremont common stock on July 26, 2002, the last full trading day prior to the public announcement of Valhi's merger proposal, on November 4, 2002, the last full trading day prior to the public announcement of the execution of the definitive merger agreement, and on January 7, 2003, the most recent practicable date prior to the mailing of this proxy statement/prospectus to Tremont's stockholders. This table also sets forth the equivalent price per share of Tremont common stock on those dates. The equivalent price per share is equal to the closing price of a share of Valhi common stock on that date multiplied by 3.4, the exchange ratio in the merger. These stock prices will fluctuate prior to the special meeting of Tremont stockholders and completion of the merger, and Tremont stockholders are urged to obtain current market quotations prior to making any decision with respect to the merger.

|                        | VALHI<br>COMMON STOCK | TREMONT<br>COMMON STOCK | TREMONT COMMON<br>STOCK PER SHARE<br>EQUIVALENT |
|------------------------|-----------------------|-------------------------|---|
|                        | -----                 | -----                   | -----   |
| July 26, 2002 .....    | \$ 18.43              | \$ 33.30                | \$ 62.66  |
| November 4, 2002 ..... | \$ 10.60              | \$ 34.85                | \$ 36.04  |
| January 7, 2003 .....  | \$ 8.36               | \$ 29.30                | \$ 28.42  |

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SELECTED HISTORICAL FINANCIAL INFORMATION

The following financial information is provided to assist you in your analysis of the financial aspects of the merger. The annual Valhi historical information has been derived from the audited consolidated financial statements of Valhi as of and for each of the years ended December 31, 1997 through 2001. The annual Tremont historical information has been derived from the audited consolidated financial statements of Tremont as of and for each of the years ended December 31, 1997 through 2001. The historical information as of and for the nine months ended September 30, 2001 and 2002 has been derived from interim, unaudited consolidated financial statements of both Valhi and Tremont that, in the opinion of each company's management, include all adjustments that are considered necessary for the fair presentation of the respective company's

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results for the interim periods. The information is only a summary and should be read in conjunction with each company's historical consolidated financial statements and related notes contained in the Valhi's and Tremont's annual, quarterly and other reports that have been incorporated by reference herein, as well as other information that Tremont and Valhi have each filed with the SEC. See "Where You Can Find More Information." Valhi's and Tremont's consolidated financial statements are also included in their respective most recent Forms 10-Q, Valhi's Current Report on Form 8-K dated November 15, 2002 and Tremont's Current Report on Form 8-K dated November 15, 2002, each of which accompanies this proxy statement/prospectus. The historical results included below and elsewhere in this proxy statement/prospectus are not indicative of the future performance of Valhi or Tremont.

Certain financial information for Valhi for the years ended December 31, 1997 and 1998, as presented in this proxy statement/prospectus, has been reclassified from amounts previously presented in certain of Valhi's annual reports due to Valhi's adoption of Statement of Financial Accounting Standards, or "SFAS," No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections, effective April 1, 2002. Following the adoption of SFAS No. 145, losses on the early extinguishment of certain indebtedness in 1997 and 1998 have been reclassified from an extraordinary item to income from continuing operations. Similarly, certain financial information for Tremont for the year ended December 31, 1998, as presented in this proxy statement/prospectus, has been reclassified from amounts previously presented in certain of Tremont's annual reports due to Tremont's April 1, 2002 adoption of SFAS No. 145. All of such reclassifications had no effect on either Tremont's or Valhi's previously reported net income in any year.

SFAS No. 145, among other things, eliminated the prior requirement that all gains and losses from the early extinguishment of debt were to be classified as an extraordinary item. Upon adoption of SFAS No. 145, gains and losses from the early extinguishment of debt are now classified as an extraordinary item only if they meet the "unusual and infrequent" criteria contained in Accounting Principles Board Opinion, or "APBO," No. 30. In addition, upon adoption of SFAS No. 145, all gains and losses from the early extinguishment of debt that had previously been classified as an extraordinary item are to be reassessed to determine if they would have met the "unusual and infrequent" criteria of APBO No. 30; any such gain or loss that would not have met the APBO No. 30 criteria is retroactively reclassified and reported as a component of income before extraordinary item.

Valhi and Tremont each concluded that all of their previously-recognized gains and losses from the early extinguishment of debt that occurred on or after January 1, 1998 would not have met the APBO No. 30 criteria for classification as an extraordinary item, and accordingly such previously-reported gains and losses from the early extinguishment of debt have been retroactively reclassified and are now reported as a component of income before extraordinary item.

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|                                       | YEARS ENDED DECEMBER 31,   |            |            |            |       |
|---------------------------------------|----------------------------|------------|------------|------------|-------|
|                                       | 1997                       | 1998       | 1999       | 2000       |       |
|                                       | (IN MILLIONS, EXCEPT PER S |            |            |            |       |
| STATEMENTS OF OPERATIONS DATA:        |                            |            |            |            |       |
| Net sales:                            |                            |            |            |            |       |
| Chemicals .....                       | \$ 837.2                   | \$ 894.7   | \$ 908.4   | \$ 922.3   | \$    |
| Component products .....              | 108.7                      | 152.1      | 225.9      | 253.3      |       |
| Waste management (1) .....            | --                         | --         | 10.9       | 16.3       |       |
|                                       | -----                      | -----      | -----      | -----      | ----- |
|                                       | \$ 945.9                   | \$ 1,046.8 | \$ 1,145.2 | \$ 1,191.9 | \$    |
|                                       | =====                      | =====      | =====      | =====      | ===== |
| Operating income:                     |                            |            |            |            |       |
| Chemicals .....                       | \$ 63.7                    | \$ 151.8   | \$ 126.2   | \$ 187.4   | \$    |
| Component products .....              | 28.3                       | 31.9       | 40.2       | 37.5       |       |
| Waste management (1) .....            | --                         | --         | (1.8)      | (7.2)      |       |
|                                       | -----                      | -----      | -----      | -----      | ----- |
|                                       | \$ 92.0                    | \$ 183.7   | \$ 164.6   | \$ 217.7   | \$    |
|                                       | =====                      | =====      | =====      | =====      | ===== |
| Equity in earnings (losses):          |                            |            |            |            |       |
| Waste Control Specialists (1) .....   | \$ (12.7)                  | \$ (15.5)  | \$ (8.5)   | \$ --      | \$    |
| Tremont Corporation (2) .....         | --                         | 6.6        | (48.7)     | --         |       |
| TIMET (3) .....                       | --                         | --         | --         | (9.0)      |       |
| Income (loss) from continuing         |                            |            |            |            |       |
| operations (4) .....                  | \$ 22.8                    | \$ 219.6   | \$ 47.4    | \$ 76.6    | \$    |
| Discontinued operations (5) .....     | 33.6                       | --         | 2.0        | --         |       |
|                                       | -----                      | -----      | -----      | -----      | ----- |
| Net income (loss) .....               | \$ 56.4                    | \$ 219.6   | \$ 49.4    | \$ 76.6    | \$    |
|                                       | =====                      | =====      | =====      | =====      | ===== |
| Basic earnings per share data:        |                            |            |            |            |       |
| Income (loss) from continuing         |                            |            |            |            |       |
| operations .....                      | \$ .20                     | \$ 1.91    | \$ .41     | \$ .67     | \$    |
| Net income (loss) .....               | \$ .49                     | \$ 1.91    | \$ .43     | \$ .67     | \$    |
| Weighted average common shares        |                            |            |            |            |       |
| outstanding .....                     | 115.0                      | 115.0      | 115.0      | 115.1      |       |
| Diluted earnings per share data:      |                            |            |            |            |       |
| Income from continuing operations ... | \$ .20                     | \$ 1.89    | \$ .41     | \$ .66     | \$    |
| Net income .....                      | \$ .49                     | \$ 1.89    | \$ .43     | \$ .66     | \$    |
| Weighted average common shares        |                            |            |            |            |       |
| outstanding .....                     | 115.9                      | 116.1      | 116.2      | 116.3      |       |
| Cash dividends per share .....        | \$ .20                     | \$ .20     | \$ .20     | \$ .21     | \$    |
| BALANCE SHEET DATA (at period end):   |                            |            |            |            |       |
| Total assets .....                    | \$ 2,178.1                 | \$ 2,242.2 | \$ 2,235.2 | \$ 2,256.8 | \$    |
| Long-term debt .....                  | 1,008.1                    | 630.6      | 609.3      | 595.4      |       |
| Stockholders' equity .....            | 384.9                      | 578.5      | 589.4      | 628.2      |       |

(1) Consolidated effective June 30, 1999.

(2) Commenced recognizing equity in earnings effective July 1, 1998; consolidated effective December 31, 1999.

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- (3) Commenced reporting equity in earnings effective January 1, 2000.
- (4) Income from continuing operations in 1998 includes the previously-reported (i) \$330 million pre-tax gain (\$152 million net of income taxes and minority interest) related to the sale of NL's specialty chemicals business unit, (ii) \$68 million pre-tax gain (\$44 million net of income taxes) related to Valhi's reduction in interest in CompX and (iii) \$32 million charge (\$21 million net of income taxes) related to cash payments made to settle certain litigation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Valhi Form 10-K for the year ended December 31, 2001 and the Valhi Form 10-Q for the quarter ended September 30, 2002, both of which accompany this proxy statement/prospectus, for a discussion of unusual items occurring during 1999, 2000, 2001 and 2002. There were no unusual items occurring during 1997.
- (5) Discontinued operations consists of Valhi's former forest products and fast food businesses.

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As discussed in the notes to Valhi's consolidated financial statements included in the Valhi Current Report on Form 8-K dated November 15, 2002 and the Valhi Form 10-Q for the quarter ended September 30, 2002, each of which accompanies this proxy statement/prospectus, Valhi adopted SFAS No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Under SFAS No. 142, goodwill, including goodwill arising from the difference between the cost of an investment accounted for by the equity method and the amount of the underlying equity in net assets of such equity method investee, or "equity method goodwill," is no longer amortized on a periodic basis. Goodwill (other than equity method goodwill) is subject to an impairment test to be performed at least on an annual basis, and impairment reviews may result in future periodic write-downs charged to earnings. Equity method goodwill is not tested for impairment in accordance with SFAS No. 142; rather, the overall carrying amount of an equity method investee will continue to be reviewed for impairment in accordance with existing GAAP. There is currently no equity method goodwill associated with any of Valhi's equity method investees, although Valhi did report amortization of equity method goodwill in 1999. Under the transition provisions of SFAS No. 142, all goodwill existing as of June 30, 2001 ceased to be periodically amortized as of January 1, 2002, and all goodwill arising in a purchase business combination (including step acquisitions) completed on or after July 1, 2001 was not periodically amortized from the date of such combination. The following table presents what Valhi's reported consolidated net income, and related per share amounts, would have been in the 1999, 2000 and 2001 periods if the goodwill amortization included in Valhi's reported consolidated net income had not been recognized.

| YEARS ENDED DECEMBER 31,       |      |      |  |
|--------------------------------|------|------|--|
| 1999                           | 2000 | 2001 |  |
| (IN MILLIONS, EXCEPT PER SHARE |      |      |  |



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|  |    |       |    |       |    |       |    |       |
|--|----|-------|----|-------|----|-------|----|-------|
| Net income (loss) as reported .....                  | \$ | 49.4  | \$ | 76.6  | \$ | 93.2  | \$ |       |
| Adjustments:   |    |       |    |       |    |       |    |       |
| Goodwill amortization .....                          |    | 11.8  |    | 15.9  |    | 16.9  |    |       |
| Equity method goodwill amortization .....            |    | 4.3   |    | --    |    | --    |    |       |
| Incremental income taxes .....                       |    | (2.3) |    | (1.6) |    | (1.1) |    |       |
| Minority interest in goodwill amortization .....     |    | (.7)  |    | (1.0) |    | (1.1) |    |       |
|  |    | ----- |    | ----- |    | ----- |    | ----- |
| Adjusted net income (loss) .....                     | \$ | 62.5  | \$ | 89.9  | \$ | 108.9 | \$ |       |
|  |    | ===== |    | ===== |    | ===== |    | ===== |
| Basic net income (loss) per share as reported .....  | \$ | .43   | \$ | .67   | \$ | .81   | \$ |       |
| Adjustments:   |    |       |    |       |    |       |    |       |
| Goodwill amortization .....                          |    | .10   |    | .13   |    | .15   |    |       |
| Equity method goodwill amortization .....            |    | .04   |    | --    |    | --    |    |       |
| Incremental income taxes .....                       |    | (.02) |    | (.01) |    | --    |    |       |
| Minority interest in goodwill amortization .....     |    | (.01) |    | (.01) |    | (.01) |    |       |
|  |    | ----- |    | ----- |    | ----- |    | ----- |
| Adjusted basic net income (loss) per share .....     | \$ | .54   | \$ | .78   | \$ | .95   | \$ |       |
|  |    | ===== |    | ===== |    | ===== |    | ===== |
| Diluted net income (loss) per share as reported .... | \$ | .43   | \$ | .66   | \$ | .80   | \$ |       |
| Adjustments:   |    |       |    |       |    |       |    |       |
| Goodwill amortization .....                          |    | .10   |    | .13   |    | .15   |    |       |
| Equity method goodwill amortization .....            |    | .04   |    | --    |    | --    |    |       |
| Incremental income taxes .....                       |    | (.02) |    | (.01) |    | --    |    |       |
| Minority interest in goodwill amortization .....     |    | (.01) |    | (.01) |    | (.01) |    |       |
|  |    | ----- |    | ----- |    | ----- |    | ----- |
| Adjusted diluted net income (loss) per share ...     | \$ | .54   | \$ | .77   | \$ | .94   | \$ |       |
|  |    | ===== |    | ===== |    | ===== |    | ===== |

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TREMONT HISTORICAL FINANCIAL INFORMATION

|                                 | YEARS ENDED DECEMBER 31,        |       |      |       |      |        |    |       |    |
|---------------------------------|---------------------------------|-------|------|-------|------|--------|----|-------|----|
|                                 | 1997                            | 1998  | 1999 | 2000  | 2001 |        |    |       |    |
|                                 | (IN MILLIONS, EXCEPT PER SHARE) |       |      |       |      |        |    |       |    |
| STATEMENT OF OPERATIONS DATA:   |                                 |       |      |       |      |        |    |       |    |
| Equity in earnings (losses) of: |                                 |       |      |       |      |        |    |       |    |
| TIMET (1) .....                 | \$                              | 25.2  | \$   | 14.0  | \$   | (72.0) | \$ | (9.0) | \$ |
| NL .....                        |                                 | (5.1) |      | 55.8  |      | 28.1   |    | 28.2  |    |
| Other joint ventures .....      |                                 | 5.2   |      | 2.9   |      | .6     |    | 1.7   |    |
|                                 |                                 | ----- |      | ----- |      | -----  |    | ----- |    |
|                                 | \$                              | 25.3  | \$   | 72.7  | \$   | (43.3) | \$ | 20.9  | \$ |
|                                 |                                 | ===== |      | ===== |      | =====  |    | ===== |    |
| Net income (loss) .....         | \$                              | 13.6  | \$   | 73.8  | \$   | (28.2) | \$ | 9.2   | \$ |

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|  |    |       |    |       |    |        |    |       |    |
|--|----|-------|----|-------|----|--------|----|-------|----|
| Net income (loss) per share:                   |    |       |    |       |    |        |    |       |    |
| Basic .....                                    | \$ | 1.92  | \$ | 11.25 | \$ | (4.41) | \$ | 1.47  | \$ |
| Diluted .....                                  | \$ | 1.76  | \$ | 10.88 | \$ | (4.41) | \$ | 1.43  | \$ |
| Weighted average common shares<br>outstanding: |    |       |    |       |    |        |    |       |    |
| Basic .....                                    |    | 7.1   |    | 6.6   |    | 6.4    |    | 6.3   |    |
| Diluted .....                                  |    | 7.2   |    | 6.7   |    | 6.5    |    | 6.4   |    |
| Cash dividends per share .....                 | \$ | --    | \$ | .21   | \$ | .28    | \$ | .28   | \$ |
| BALANCE SHEET DATA (at period end):            |    |       |    |       |    |        |    |       |    |
| Cash and cash equivalents .....                | \$ | 38.0  | \$ | 3.1   | \$ | 3.0    | \$ | .8    | \$ |
| Total assets .....                             |    | 215.0 |    | 288.6 |    | 232.6  |    | 229.6 |    |
| Indebtedness (2) .....                         |    | --    |    | 5.9   |    | 13.7   |    | 13.4  |    |
| Stockholders' equity .....                     |    | 136.3 |    | 200.2 |    | 163.7  |    | 158.5 |    |

- (1) In 1999 includes a \$61 million (\$38 million net-of-tax) writedown of Tremont's investment in TIMET (see Note 4 to Tremont's consolidated financial statements included in Tremont's Current Report on Form 8-K dated November 15, 2002). In 2002, includes a \$15.7 million writedown of Tremont's investment in TIMET. (See Note 2 to Tremont's consolidated financial statements in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.) There was no income tax benefit associated with the 2002 writedown.
- (2) Represents short-term and long-term indebtedness to related parties.

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As discussed in the notes to the financial statements included in Tremont's most recent Form 10-Q and the Current Report on Form 8-K dated November 15, 2002, each of which accompanies this proxy statement/prospectus, Tremont also adopted SFAS No. 142 effective January 1, 2002. Tremont's only goodwill is equity method goodwill. TIMET has goodwill reported in its separate financial statements; however, beginning in 2000, Tremont no longer had any goodwill inherent in its investment in TIMET, including equity method goodwill, because it was written off as part of the writedown in December 1999 of Tremont's investment in TIMET for an other than temporary decline in the value of its investment. NL has no goodwill reported in its separate financial statements, but Tremont does have equity method goodwill inherent in its investment in NL. The following table presents what Tremont's reported consolidated net income (loss), and related per share amounts, would have been in the 1999, 2000 and 2001 periods if the goodwill amortization included in Tremont's reported consolidated net income (loss) had not been recognized.

YEARS ENDED DECEMBER 31,

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|  | 1999                            | 2000    | 2001     | 2002 |
|--|---------------------------------|---------|----------|------|
|  | (IN MILLIONS, EXCEPT PER SHARE) |         |          |      |
| Net income (loss) as reported .....                  | \$ (28.2)                       | \$ 9.2  | \$ (.8)  | \$   |
| Adjustments:   |                                 |         |          |      |
| Equity method goodwill amortization - NL .....       | 1.4                             | 1.5     | 1.7      |      |
| Equity in TIMET's goodwill amortization .....        | 1.4                             | --      | --       |      |
| Incremental income taxes .....                       | (1.1)                           | (.5)    | (.7)     |      |
| Adjusted net income (loss) .....                     | \$ (26.5)                       | \$ 10.2 | \$ .2    | \$   |
| Basic net income (loss) per share as reported .....  | \$ (4.41)                       | \$ 1.47 | \$ (.13) | \$   |
| Adjustments:   |                                 |         |          |      |
| Equity method goodwill amortization - NL .....       | .22                             | .24     | .27      |      |
| Equity in TIMET's goodwill amortization .....        | .22                             | --      | --       |      |
| Incremental income taxes .....                       | (.17)                           | (.09)   | (.10)    |      |
| Adjusted basic net income (loss) per share .....     | \$ (4.14)                       | \$ 1.62 | \$ .04   | \$   |
| Diluted net income (loss) per share as reported .... | \$ (4.41)                       | \$ 1.43 | \$ (.13) | \$   |
| Adjustments:   |                                 |         |          |      |
| Equity method goodwill amortization - NL .....       | .22                             | .24     | .27      |      |
| Equity in TIMET's goodwill amortization .....        | .22                             | --      | --       |      |
| Incremental income taxes .....                       | (.17)                           | (.09)   | (.10)    |      |
| Adjusted diluted net income (loss) per share ...     | \$ (4.14)                       | \$ 1.58 | \$ .04   | \$   |

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VALHI, INC. SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The merger, as well as Valhi's acquisition of the shares of Tremont Group currently held by NL, will both be accounted for under the purchase method of accounting (step acquisitions of Tremont). The selected unaudited pro forma consolidated financial information presented below gives effect to these transactions. The pro forma balance sheet data gives effect to these transactions as if they had occurred on September 30, 2002. The pro forma statement of operations data gives effect to such transactions as if they had occurred on January 1, 2001. Such information is intended to provide you with a better picture of what Valhi's results of operations and financial position might have looked like had these transactions actually occurred. The consolidated financial information may have been different had these transactions actually occurred. You should not rely on the selected unaudited pro forma consolidated financial information as being indicative of the historical results that would have occurred had these transactions occurred or the future results that may be achieved after these transactions are completed. The following selected unaudited pro forma consolidated financial information has been derived from, and should be read in conjunction with, the Valhi Unaudited Pro Forma Condensed Consolidated Financial Statements and related notes included elsewhere in this proxy statement/prospectus.

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|   | PRO FORMA-<br>YEAR<br>ENDED<br>DECEMBER 31,<br>2001 | PRO FORMA-<br>NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2002 |
|---|---|---|
|   | -----   | -----   |
|   | (IN MILLIONS,<br>EXCEPT PER SHARE DATA)             |   |
| STATEMENT OF OPERATIONS DATA:               |   |   |
| Net sales .....                             | \$ 1,059.5  | \$ 816.9  |
| Net income (loss) .....                     | \$ 96.9   | \$ (8.9)  |
| Net income (loss) per share:                |   |   |
| Basic .....                                 | \$ .80  | \$ (.07)  |
| Diluted .....                               | \$ .79  | \$ (.07)  |
| Weighted average common shares outstanding: |   |   |
| Basic .....                                 | 120.9   | 121.1   |
| Diluted .....                               | 121.8   | 121.1   |
| BALANCE SHEET DATA (at period end):         |   |   |
| Total assets .....                          | N/A   | \$ 2,184.5  |
| Long-term debt .....                        | N/A   | \$ 621.4  |
| Stockholders' equity .....                  | N/A   | \$ 692.4  |

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COMPARATIVE PER SHARE INFORMATION OF VALHI AND TREMONT

The following table sets forth certain selected historical per share information of Valhi and Tremont, as well as certain unaudited pro forma consolidated per share information after giving effect to both the merger (assuming that 3.4 shares of Valhi common stock had been issued in exchange for each outstanding share of Tremont common stock) and Valhi's acquisition of the shares of Tremont Group common stock currently held by NL. You should read this information in conjunction with the selected historical financial information of Valhi and Tremont, and the historical financial statements of Valhi and Tremont and related notes, that are incorporated by reference herein. In addition, Valhi's and Tremont's historical consolidated financial statements are included in their respective Forms 10-Q as well as Valhi's Current Report on Form 8-K dated November 15, 2002 and Tremont's Current Report on Form 8-K dated November 15, 2002, each of which accompanies this proxy statement/prospectus. The unaudited pro forma consolidated per share information is derived from, and should be read in conjunction with, the Valhi Unaudited Pro Forma Condensed Consolidated Financial Statements and related notes included elsewhere in this proxy statement/prospectus. The historical per share information is derived from Valhi and Tremont's audited consolidated financial statements as of and for the year ended December 31, 2001, and Valhi and Tremont's unaudited consolidated financial statements as of and for the nine months ended September 30, 2002. The unaudited pro forma Tremont per share equivalents are calculated by multiplying the unaudited Valhi pro forma consolidated per share amounts by the exchange ratio of 3.4.

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The unaudited pro forma consolidated per share information does not purport to represent what the actual results of operations of Valhi would have been had the merger been completed or project Valhi's results of operations that may be achieved after the merger is completed.

|                                      | YEAR ENDED<br>DECEMBER 31,<br>2001<br>----- | NINE MONTHS<br>ENDED SEPTEMBER 30,<br>2002<br>----- |
|--------------------------------------|---|---|
| NET INCOME (LOSS) PER BASIC SHARE:   |   |   |
| Valhi historical .....               | \$ .81                                      | \$ (.04)  |
| Tremont historical .....             | (.13)                                       | (4.45)  |
| Valhi pro forma .....                | .80   | (.07)   |
| Equivalent Tremont pro forma .....   | 2.72  | (.24)   |
| NET INCOME (LOSS) PER DILUTED SHARE: |   |   |
| Valhi historical .....               | \$ .80                                      | \$ (.04)  |
| Tremont historical .....             | (.13)                                       | (4.45)  |
| Valhi pro forma .....                | .79   | (.07)   |
| Equivalent Tremont pro forma .....   | 2.69  | (.24)   |
| BOOK VALUE PER SHARE:                |   |   |
| Valhi historical .....               | \$ 5.40                                     | \$ 5.48   |
| Tremont historical .....             | 23.06                                       | 19.73   |
| Valhi pro forma .....                | N/A   | 5.71  |
| Equivalent Tremont pro forma .....   | N/A   | 19.41   |
| CASH DIVIDENDS PER SHARE:            |   |   |
| Valhi historical .....               | \$ .24                                      | \$ .18  |
| Tremont historical .....             | .28   | .21   |
| Valhi pro forma .....                | .24   | .18   |
| Equivalent Tremont pro forma .....   | .82   | .61   |

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### RISK FACTORS

In evaluating the merger, you should consider carefully the material risks summarized below relating to the merger.

THE FAIRNESS OPINION DOES NOT ADDRESS CHANGES IN THE VALUE OF TREMONT OR VALHI COMMON STOCK SINCE THE DATE OF THE OPINION

Tremont does not intend to obtain an updated fairness opinion from Morgan Joseph unless a material amendment is made to the financial terms of the merger agreement. Changes in Valhi's or Tremont's stock prices, operations or prospects, general market and economic conditions and other factors on which Morgan Joseph's opinion was based may alter the value of the merger consideration. Therefore, Morgan Joseph's opinion may not accurately address the fairness of the consideration at the time the merger is completed.

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### TREMONT STOCKHOLDERS MAY NOT BE ADEQUATELY COMPENSATED FOR THEIR STOCK

In the merger, each share of Tremont common stock will be converted into 3.4 shares of Valhi common stock and cash for any fractional share interest, which represented approximately a 88.2% and 3.4% premium to the market price of Tremont common stock based on the closing market prices of Valhi and Tremont common stocks on July 26, 2002, the last full trading day prior to the public announcement of Valhi's merger proposal, and on November 4, 2002, the last full trading day prior to the public announcement of signing the definitive merger agreement, respectively. The merger agreement does not contain any provision that would adjust this exchange ratio based on fluctuations in the share prices of Valhi or Tremont common stock after November 4, 2002, the date of the merger agreement. Accordingly, the premium that Tremont stockholders receive for their shares will be affected by the value of Valhi and Tremont common stock at the time that the merger is completed.

### STOCKHOLDERS WILL NOT HAVE APPRAISAL RIGHTS IN THE MERGER

Because Valhi and Tremont common stocks are listed on the New York Stock Exchange, Tremont stockholders do not have appraisal rights under Delaware law. As a result, stockholders who object to the merger and the merger consideration do not have a right to demand different payment for their shares of Tremont common stock and to petition a court for an appraisal to determine the fair value of their shares.

### TREMONT DIRECTORS AND OFFICERS HAVE INTERESTS IN THE MERGER THAT MAY CONFLICT WITH THE INTERESTS OF OUR OTHER STOCKHOLDERS

In considering the recommendation of Tremont's board of directors that you vote in favor of the merger, you should be aware that some of Tremont's directors and officers may have interests in the merger different from or in addition to those of other Tremont stockholders. These interests may present potential or actual conflicts of interest in connection with the merger.

### THE PRICE OF VALHI COMMON STOCK MAY BE AFFECTED BY FACTORS DIFFERENT FROM THOSE AFFECTING THE PRICE OF TREMONT COMMON STOCK

When we complete the merger, you will become a holder of Valhi common stock. The businesses of Valhi are more diverse than the businesses of Tremont, and the results of operations of Valhi, as well as the market price of Valhi common stock, may be affected by factors different from those affecting Tremont's results of operations and the market price of Tremont common stock. As a result, factors that had little or no effect on the price of Tremont common stock may adversely affect the price of Valhi common stock.

### A WARNING ABOUT FORWARD-LOOKING INFORMATION

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we caution you that the statements in this proxy statement/prospectus, including information incorporated by reference into this proxy statement/prospectus, relating to matters that are not historical facts are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "will," "looks," "should," "could," "anticipates," "expects" or comparable terminology or by discussions of strategy or trends. Although we believe that

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the expectations reflected in such forward-looking statements are reasonable, we cannot give you any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly affect expected results, and actual results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this proxy statement/prospectus and those described from time to time in Valhi's and Tremont's other filings with the SEC, which include, but are not limited to, the following:

- o future supply and demand for our products;
- o the extent of the dependence of certain of our businesses on certain market sectors, such as the dependence of TIMET's titanium metals business on the aerospace industry;
- o the cyclical nature of certain of our businesses, such as NL's TiO<sub>2</sub> operations and TIMET's titanium metals operations;
- o the impact of certain long-term contracts on certain of our businesses, such as the impact of TIMET's long-term contracts with certain of its customers and TIMET's and such customers' performance thereunder and the impact of TIMET's long-term contracts with certain of its vendors on its ability to reduce or increase supply or achieve lower costs;
- o customer inventory levels, such as the extent to which NL's customers may, from time to time, accelerate purchases of TiO<sub>2</sub> in advance of anticipated price increases or defer purchases of TiO<sub>2</sub> in advance of anticipated price decreases, or the relationship between inventory levels of TIMET's customers and such customer's current inventory requirements and the impact of such relationship on their purchases from TIMET;
- o changes in raw material and other operating costs, such as energy costs;
- o the possibility of labor disruptions;
- o general global economic and political conditions, such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO<sub>2</sub>;
- o competitive products and substitute products;
- o customer and competitor strategies;
- o the impact of pricing and production decisions;
- o competitive technology positions;
- o the introduction of trade barriers, fluctuations in currency exchange rates, such as changes in the exchange rate between the U.S. dollar and each of the euro and the Canadian dollar;

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- o operating interruptions, including, but not limited to, labor disputes, leaks, fires, explosions, unscheduled or unplanned downtime and transportation interruptions;
- o recoveries from insurance claims and the timing thereof, such as NL's insurance claims with respect to the fire it suffered at one of its German TiO(2) production facilities;
- o potential difficulties in integrating completed acquisitions;
- o our ability to renew or refinance credit facilities;
- o uncertainties associated with new product development, such as TIMET's ability to develop new end-uses for its titanium products;
- o environmental matters, such as those requiring emission and discharge standards for existing and new facilities;
- o government laws and regulations and possible changes therein, such as a change in Texas state law that would allow the applicable regulatory agency to issue a permit for the disposal of low-level radioactive wastes to a private entity such as Waste Control Specialists, or changes in government regulations that might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products;
- o the ultimate resolution of pending litigation, such as NL's lead pigment litigation and litigation surrounding environmental matters of NL, Tremont and TIMET; and
- o possible future litigation.

Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

### THE SPECIAL MEETING

#### PURPOSE

Valhi and Tremont are furnishing this proxy statement/prospectus to Tremont stockholders in connection with the solicitation of proxies by Tremont's board of directors. Tremont's board of directors will use the proxies at the special meeting of stockholders of Tremont and at any adjournment or postponement thereof.

At the special meeting, Tremont stockholders will be asked to vote upon the proposal to approve the adoption of the merger agreement attached to this proxy statement/prospectus as Appendix A, which provides for, among other things, the merger of Valhi Acquisition Corp., a wholly-owned subsidiary of Valhi, into Tremont. As a result, Tremont will become a wholly-owned subsidiary of Valhi.

DATE, PLACE AND TIME



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The special meeting of Tremont's stockholders will be held on February 7, 2003, at 10:00 a.m., local time, at the offices of Tremont at 1999 Broadway, Suite 4300, Denver, Colorado.

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### RECORD DATE

The Tremont board of directors fixed the close of business on January 10, 2003 as the record date for the special meeting. Accordingly, only holders of Tremont common stock of record at the close of business on January 10, 2003 will be entitled to notice of and to vote at the special meeting.

### TREMONT STOCKHOLDERS ENTITLED TO VOTE

As of the record date, there were 6,424,858 shares of Tremont common stock outstanding, held by approximately 5,000 holders of record. Each share of Tremont common stock entitles the holder thereof to one vote.

As of the record date:

- o Tremont Group (which is 80% owned by Valhi and 20% owned by NL) owned of record 5,141,421 shares, representing 80% of the outstanding shares, of Tremont common stock;
- o Valhi and NL owned of record 5,000 and 8,167 shares, respectively, each representing 0.1% of the outstanding shares, of Tremont common stock;
- o Tremont's directors and executive officers and their affiliates owned a total of 25,281 shares, representing 0.4% of the outstanding shares, of Tremont common stock; and
- o Valhi's directors and executive officers and their affiliates (other than those individuals who are also directors of Tremont) owned a total of 875 shares, representing 0.01% of the outstanding shares, of Tremont common stock.

A list of stockholders will be available for examination by holders of Tremont common stock for any purpose relating to the special meeting at the special meeting. A list of stockholders will also be available at Tremont's offices during the ten-day period preceding the special meeting.

### VOTE REQUIRED; VOTING AT THE MEETING

The holders of a majority of the outstanding shares of Tremont common stock entitled to vote at the special meeting, present in person or by proxy, are necessary for a quorum to exist at the special meeting.

Approval of the proposal to adopt the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of Tremont common stock entitled to vote at the meeting.

Valhi has not entered into any voting arrangements or stockholder

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agreements to vote shares at the special meeting. HOWEVER, TREMONT GROUP, WHICH CURRENTLY OWNS 80% OF THE OUTSTANDING SHARES OF TREMONT COMMON STOCK, HAS INDICATED THAT IT INTENDS TO VOTE ITS SHARES IN FAVOR OF ADOPTION OF THE MERGER AGREEMENT. THEREFORE, ASSUMING THAT TREMONT GROUP SO VOTES ITS SHARES, THE MERGER AGREEMENT WILL BE APPROVED AND THE MERGER WILL BE COMPLETED. VALHI CURRENTLY OWNS 80% OF THE OUTSTANDING SHARES OF TREMONT GROUP COMMON STOCK, AND NL, A MAJORITY-OWNED SUBSIDIARY OF VALHI, CURRENTLY OWNS THE REMAINING 20%.

### VOTING PROCEDURES

Tremont common stockholders who attend the special meeting may vote by ballot. However, we know that many of you may not be able to attend the special meeting. Accordingly, the board of directors is soliciting proxies so that each holder of Tremont common stock on the record date has the opportunity to vote on the merger and any other proposal to be considered at the special meeting. When a proxy card is returned properly signed and dated, the stock represented by the proxy card will be voted in accordance with the instructions on the proxy card. If you do not return a signed proxy card or vote your shares of common stock at the special meeting, your shares of Tremont common stock will not be voted and will therefore have the effect of a vote against adoption of the merger agreement. A properly executed proxy marked "abstain" will not be voted. Since the affirmative vote of a majority

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of shares of Tremont common stock outstanding and entitled to vote at the special meeting is required to approve the proposal to adopt the merger agreement, a proxy marked "abstain" will have the effect of a vote against the proposal to adopt the merger agreement. Abstentions occur when a stockholder affirmatively elects to abstain from voting on the matter at issue by so marking his or her proxy card.

Except for routine and non-controversial matters, the rules of the New York Stock Exchange do not permit brokers and nominees to vote the shares they hold for customers either for or against a proposal without specific instructions from the person who beneficially owns those shares. Therefore, if your shares of Tremont common stock are held by a broker or other nominee and you do not give your broker or nominee instructions on how to vote your shares, this will have the same effect as voting against adoption of the merger agreement. Broker non-votes occur when a broker holding stock for customers votes the shares on some matters but not on others. Brokers are permitted to vote on routine, non-controversial proposals in instances where they have not received voting instructions from the beneficial owner of the stock, but are not permitted to vote on non-routine matters, such as the merger. The votes not permitted to be cast on non-routine matters are called "broker non-votes." Broker non-votes will be treated as shares that are present for the purpose of determining the presence of a quorum. However, for the purpose of determining the outcome of any matter as to which the broker or nominee has indicated on the proxy that it does not have discretionary authority to vote, those shares will be treated as not entitled to vote with respect to that matter, even though those shares are considered entitled to vote for quorum purposes and may be entitled to vote on other matters.

Please mark the box on the proxy card to indicate how your shares of Tremont common stock are to be voted. If you return a signed proxy card, but do not indicate how your shares are to be voted, the shares of Tremont common stock represented by the proxy card will be voted "FOR" approval of the proposal to

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adopt the merger agreement. The proxy card also confers discretionary authority on the individuals appointed by the board of directors and named on the proxy card to vote the shares represented by the proxy card on any other matter that is properly presented for action at the special meeting. This discretionary authority will not be used to vote for adjournment of the special meeting to permit further solicitation of proxies if you vote against adoption of the merger agreement.

A Tremont stockholder who has given a proxy may revoke it by:

- o giving written notice of revocation to EquiServe Trust Company, N.A., the inspector of elections;
- o delivering a later-dated proxy card; or
- o attending the special meeting and voting in person. Attendance without voting at the special meeting will not in itself constitute a revocation of a proxy.

Any written notice of revocation or any subsequent proxy card must be sent so as to be delivered at or before the taking of the vote at the special meeting.

### SOLICITATION OF PROXIES

The expenses of the solicitation of proxies for the special meeting will be borne by Tremont, except that the expenses incurred in connection with filing, printing and mailing this proxy statement/prospectus and the proxy cards to Tremont stockholders will be shared equally by Tremont and Valhi.

In addition to solicitation by mail, directors, officers and employees of Tremont may solicit proxies in person or by telephone, telegram or other means of communication. These persons will receive no additional compensation for solicitation of proxies but may be reimbursed for reasonable out-of-pocket expenses. Tremont has retained D.F. King & Co., Inc. to aid in the distribution of this proxy statement/prospectus at a cost Tremont estimates will be \$4,000.

### EFFECTIVE TIME OF THE MERGER AND PAYMENT FOR SHARES

The closing of the transactions contemplated by the merger agreement will take place on a date no later than the second business day after satisfaction or waiver of the conditions to closing described in the merger agreement. Promptly after the closing, a certificate of merger will be filed with the Secretary of State of the State of Delaware. The merger will occur at the time of the filing of the certificate of merger with, and acceptance for record of the certificate of merger by, the Secretary of State of the State of Delaware, or at a later time specified in the certificate of merger.

Promptly after the merger occurs, the exchange agent will mail to each record holder of an outstanding certificate representing Tremont common stock immediately prior to the effective time of the merger a letter of transmittal and instructions for use in effecting the surrender of certificates in exchange for the appropriate merger consideration. Upon surrender to the exchange agent of a certificate, together with a duly executed letter of transmittal and any

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other documents that may be reasonably required by the exchange agent, the holder of the certificate will be entitled to receive the merger consideration described in this proxy statement/prospectus in exchange for each share.

YOU SHOULD NOT SEND IN YOUR CERTIFICATES NOW. YOU SHOULD SEND CERTIFICATES ONLY PURSUANT TO INSTRUCTIONS PROVIDED IN THE LETTER OF TRANSMITTAL TO BE MAILED TO YOU AFTER THE MERGER OCCURS. IN ALL CASES, THE MERGER CONSIDERATION WILL BE PROVIDED ONLY IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THIS PROXY STATEMENT/PROSPECTUS, THE MERGER AGREEMENT AND THE LETTER OF TRANSMITTAL.

### OTHER MATTERS TO BE CONSIDERED

We are not aware of any business or matter, other than the proposal to adopt the merger agreement that may be properly presented at the special meeting. If however, any matter properly comes before the special meeting, the proxy holders will vote on these matters in their discretion, subject to applicable limitations.

### THE MERGER

#### GENERAL DESCRIPTION

At the time that the merger becomes effective, Valhi Acquisition will be merged with and into Tremont. Tremont will be the surviving corporation in the merger and will become a wholly-owned subsidiary of Valhi. As a result of the merger, Tremont stockholders (other than Valhi and Tremont Group) will receive 3.4 shares of Valhi common stock for each share of Tremont common stock that they hold, plus cash for any fractional share interest they otherwise would have received in the merger.

#### BACKGROUND OF THE MERGER

Contran Corporation owns, directly or through subsidiaries, approximately 93% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Valhi currently owns 80% of Tremont Group's outstanding common stock and NL, a majority-owned subsidiary of Valhi, currently owns the remaining 20%. Tremont Group currently owns 80% of Tremont's outstanding common stock. Mr. Simmons, Chairman of the Board of each of Contran, Valhi, NL and Tremont Group and a director of Tremont, may be deemed to control each of Contran, Valhi, NL, Tremont, Tremont Group and certain other entities related to Contran.

Prior to 1998, Valhi owned 30,490 shares of Tremont common stock and NL owned an additional 36,167 shares. In January 1998, Valhi purchased 103,900 shares of Tremont common stock in the open market at an average price (exclusive of commissions) of approximately \$53.09 per share. In June 1998, Valhi purchased 2,948,031 shares, or approximately 48%, of Tremont's outstanding common stock from Contran and certain of Contran's subsidiaries for \$56 per share. Subsequently in 1998 and during 1999, Valhi purchased an additional 125,600 shares of Tremont common stock in open market and private transactions at an average price (exclusive of

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commissions) of approximately \$31.29 per share, increasing Valhi's ownership of Tremont to 50.2% at December 31, 1999. Accordingly, Valhi commenced consolidating Tremont's balance sheet at December 31, 1999, and commenced consolidating Tremont's results of operations and cash flows effective January 1, 2000. Prior to December 31, 1999, Valhi accounted for its interest in Tremont by the equity method.

During 2000, Valhi and NL purchased 905,400 and 1,000,000 shares, respectively, of Tremont common stock at an average price (exclusive of commissions) of approximately \$23.76 per share, increasing Valhi's and NL's ownership of Tremont to 64% and 16%, respectively, at December 31, 2000. Except for a purchase by Valhi of 90,000 shares in a privately negotiated transaction at a price of \$32 per share (which was equal to the market price of Tremont common stock on the date of purchase) from J. Landis Martin (Chairman of the Board, President and Chief Executive Officer of Tremont, President and Chief Executive Officer and a director of NL, Chairman of the Board, President and Chief Executive Officer of TIMET and a director of Tremont Group), all of such purchases were effected in the open market. Effective with the close of business on December 31, 2000, Valhi and NL contributed 4,113,421 and 1,028,000 shares, respectively, of Tremont common stock to newly-formed Tremont Group in return for an 80% and 20% ownership interest, respectively, in Tremont Group. The Tremont Group structure resulted in both NL and Tremont becoming members of the same United States federal income tax group of which Valhi is a member effective January 1, 2001.

Historically, the market-trading activity for Tremont common stock has been insignificant in relation to the number of Tremont shares held by the public. For example, during the first quarter of 2002, the average daily trading volume for Tremont common stock was .08% of the average Tremont shares outstanding that were held by persons other than Tremont Group, Valhi and NL. From time to time, Valhi has evaluated alternatives with respect to Tremont, which included streamlining Valhi's overall corporate structure, and realizing opportunities for cost synergies among its affiliated companies. Such evaluations were informal and no formal proposals regarding Tremont resulted from such evaluations.

In late July 2002, Valhi again began to evaluate alternatives with respect to Tremont and concluded that a transaction in which Tremont would become a wholly-owned subsidiary of Valhi should be pursued. Valhi determined that it would propose a transaction in which Valhi and Tremont would be merged, and Tremont's public stockholders would receive between 2 and 2.5 shares of Valhi common stock, an equivalent of between \$36.86 and \$46.08 per Tremont share, respectively, based on the market price of Valhi common stock on July 26, 2002, or a premium of between 10.7% and 38.4%, respectively, to the market price of Tremont common stock on such date, in exchange for each of their shares of Tremont common stock and Tremont would become a wholly-owned subsidiary of Valhi.

On July 25 and 26, 2002, certain executive officers of Valhi discussed the proposed merger with the outside members of Valhi's board of directors. Also on July 26, J. Landis Martin and Robert E. Musgraves (Vice President, General Counsel and Secretary of Tremont, then Executive Vice President and General Counsel of TIMET and currently Chief Operating Officer (North America) of TIMET) were informed of Valhi's intent to propose a merger to Tremont's board of directors.

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After the close of trading on the New York Stock Exchange on July 26, Valhi faxed the following letter proposing the merger to the Tremont board (in care of Messrs. Martin and Musgraves) and issued a press release announcing the proposal.

July 26, 2002

Board of Directors  
Tremont Corporation  
1999 Broadway  
Suite 4300  
Denver, Colorado 80202

Gentlemen:

Valhi, Inc. ("Valhi") directly and indirectly owns 5,154,588 shares of the common stock of Tremont Corporation ("Tremont"), representing approximately 80% of the 6,424,858 shares of Tremont currently outstanding. Of such shares held directly and indirectly by Valhi, NL Industries, Inc. ("NL"), a majority-owned subsidiary of Valhi, indirectly owns 1,036,167 of the Tremont shares. Approximately 94% of the 115,118,917 outstanding shares of Valhi are held by Contran Corporation and related entities.

Valhi proposes for your consideration a merger of Valhi and Tremont, pursuant to which stockholders of Tremont (including NL) other than Valhi would receive between 2 shares and 2.5 shares of Valhi common stock for each Tremont share held.

While equity investments in Valhi and Tremont offer existing stockholders similar characteristics, with a significant portion of each company's assets represented by their respective direct and indirect interests in NL, Valhi believes that the combination of Valhi and Tremont would produce a number of benefits to Tremont stockholders including, among other things:

- o Based on the historical average daily trading volumes through July 25, 2002, Valhi's average daily trading volume was 10 times the volume for Tremont since January 1, 2002, and 15 times for the past three months. As a result, a combination will provide shareholders the opportunity to achieve improved marketability of their shares through the increased trading volume and increased public market float of the combined entity;
- o The opportunity to achieve diversification through an indirect interest in Valhi's component products, waste management and other businesses; and
- o The opportunity to achieve cost efficiencies through the combination of corporate administrative functions.

Your consideration and response to this proposal will be appreciated.

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Sincerely,

/s/ Steven L. Watson  
Steven L. Watson, President

On July 29, 2002, Tremont issued a press release announcing that it had received the merger proposal from Valhi. Tremont also announced that it expected its board of directors to refer the proposal for review and consideration to a special committee of its board of directors comprised of directors not affiliated with Valhi.

At a regularly scheduled meeting of Tremont's board of directors held on July 30, 2002, the Tremont board noted that five of its seven members were also officers and/or directors of Valhi, NL and/or Tremont Group and had, or may be deemed to have, actual or potential conflicts of interest in evaluating the proposed merger with Valhi. The board then appointed a special committee comprised of the remaining two directors, W. Hayden McIlroy and Terry Neal Worrell, neither of whom was an employee or director of Valhi or an employee of Tremont or any other affiliate of Tremont, to determine whether or not Valhi's proposal was advisable and to negotiate the terms and conditions of any transaction that may arise from the proposal. The board authorized the special committee to retain legal and financial advisors of its own choosing.

On August 9, 2002, the Tremont special committee retained Piper Rudnick LLP as its legal advisor based on a number of factors, including Piper Rudnick's experience in transactions similar to the merger and its lack of previous relationship with Tremont or Valhi or any of their respective affiliates. During the next few weeks, Piper Rudnick contacted several firms to determine their interest in serving as financial advisor to the special committee, their relevant experience and the terms of their engagement. Piper Rudnick proposed that three of the financial advisors make presentations to the special committee. On September 4, 2002, the special committee interviewed the three firms and reviewed the materials prepared by each firm. Based on the interviews and the materials provided, on September 6, 2002, the Tremont special committee retained Morgan Joseph as its financial advisor because of Morgan Joseph's experience in transactions similar to the merger and its experience

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with the preparation of fairness opinions. Morgan Joseph had no previous relationship with Tremont or Valhi or any of their respective affiliates.

On September 13, 2002, Valhi retained McDonald Investments Inc. as its financial advisor with respect to the proposed merger. Also on September 13, 2002, Locke Liddell & Sapp LLP, Valhi's legal advisor, sent a preliminary draft of a merger agreement to Piper Rudnick for review and comment.

From September 5 until November 1, 2002, Morgan Joseph and Piper Rudnick conducted extensive due diligence investigations of Tremont and Valhi. On September 18, 2002, representatives of Morgan Joseph and Piper Rudnick met with senior management of Tremont and TIMET at the offices of Tremont to conduct due diligence. On October 2, 2002, representatives of Morgan Joseph and Piper Rudnick met with senior management of Valhi, Tremont, NL, TIMET, CompX and Waste

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Control Specialists to conduct due diligence. Representatives of McDonald Investments were also present at the October 2 meeting.

On October 8, 2002, representatives of Morgan Joseph and representatives of McDonald Investment had a telephone conference during which they discussed McDonald Investment's valuation methodologies and rationale for the proposed exchange ratio. Later that day, discussions were held between members of Valhi management and representatives of McDonald Investments during which McDonald Investments reviewed and described preliminary valuation material regarding the proposed exchange ratio.

On October 16, 2002, the special committee and representatives of Morgan Joseph and Piper Rudnick had a telephone conference to discuss the preliminary findings of Morgan Joseph with respect to the fairness to the stockholders of Tremont of the proposed exchange ratio, as well as to discuss the approach that the special committee would take in negotiating with Valhi.

On October 22, 2002, at a regularly scheduled meeting of the board of directors of Tremont, the members of the Tremont special committee gave a report on the proposed merger to the Tremont board of directors. The members of the Tremont special committee discussed the engagement of Morgan Joseph and Piper Rudnick, and reviewed the activities, discussions and due diligence conducted to date by the special committee and its financial and legal advisors.

On October 30, 2002, at a regularly scheduled meeting of the board of directors of Valhi, certain executive officers of Valhi gave a report on the proposed merger to the Valhi board of directors. The executive officers discussed the engagement of McDonald Investments and Locke Liddell & Sapp, and reviewed the activities, discussions and due diligence conducted to date by the executive officers and Valhi's financial and legal advisors. The Valhi board of directors authorized Valhi's management to continue these discussions and to enter into negotiations on the terms of the proposed merger with the Tremont special committee and its financial and legal advisors, subject to approval by the Valhi board of directors of the substantive terms of the final negotiated proposed merger. The Valhi board of directors also authorized Valhi's management to prepare the registration statement of which this proxy statement/prospectus is a part.

On the morning of October 31, 2002, the special committee and its financial and legal advisors met at the Dallas office of Piper Rudnick to discuss the findings of Morgan Joseph that had been revised based on further due diligence and to discuss the upcoming meeting with Valhi and its advisors.

Later that day, certain officers of Valhi and Valhi's legal and financial advisors met at the Dallas office of Piper Rudnick with the Tremont special committee and its legal and financial advisors to negotiate various elements of a possible merger, primarily the exchange ratio. Valhi presented its analysis of the proposed transaction. The special committee and its legal and financial advisors also presented their analyses of the proposed transaction and their reasoning as to why the exchange ratio should be higher than the one proposed in the July 26, 2002 letter. The parties did not reach agreement on an exchange ratio at this meeting. The parties did, however, determine that clarification of information relating to Tremont's environmental liabilities and reserves that was pertinent to their respective analyses could further the negotiations and that the parties should reconvene as promptly as practical following such clarification. That evening, after the meeting had adjourned, representatives of Valhi and Valhi's legal advisor called the special committee's legal advisor to suggest that the parties attempt to obtain the necessary



clarifications early the next day and after analyzing such information reconvene the meeting to see if they could make progress in the negotiations.

On the morning of November 1, 2002, the special committee's financial and legal advisors obtained the clarifications requested and based on this information refined their analyses of the transaction. Thereafter, the special committee and its financial and legal advisors had a telephone conference to discuss the clarifications and the refined analyses. Valhi's financial advisor also refined its analyses. Later that same day, discussions resumed among the same principal participants who participated in the October 31 discussions with respect to the exchange ratio. At this meeting, the special committee and the Valhi representatives eventually agreed to recommend to their respective boards of directors a proposal for a 3.4 to 1 exchange ratio, with respect to which Morgan Joseph indicated it expected that it would be able to issue a fairness opinion. The exchange ratio of 3.4 to 1 was the equivalent of \$36.04 per Tremont share based on the market price of Valhi common stock on November 4, 2002, or a premium of 3.4% to the market price of Tremont common stock on such date.

Later that day, a special meeting of the Tremont board was held to consider the transaction with Valhi as negotiated by the special committee and its legal and financial advisors. All of the members of the Tremont board were present at this meeting, other than Mr. Harold Simmons. Representatives of each of Piper Rudnick and Morgan Joseph also participated in the meeting. Certain Valhi officers were present at the outset of the meeting to address questions that might arise. These officers withdrew from the meeting once the board of directors began its deliberations. Members of Tremont's senior management and representatives of Piper Rudnick and Morgan Joseph reviewed the activities, discussions and negotiations leading up to this meeting, and presented a summary of the proposed transaction terms as reflected in the draft merger agreement, the business reasons that supported entering into the merger agreement and the benefits to the Tremont minority stockholders that could result from the proposed merger. Representatives of Piper Rudnick presented in more detail the terms of the proposed merger. Representatives of Morgan Joseph presented a detailed analysis of the financial terms of the proposed merger agreement. Representatives of Morgan Joseph also confirmed its oral opinion, subsequently confirmed by delivery of its written opinion dated November 4, 2002 that is attached to this proxy statement/prospectus as Appendix B, that as of that date and subject to the factors and assumptions set forth in the opinion, the proposed merger was fair, from a financial point of view, to the holders of Tremont common stock (other than Valhi and its affiliates). The members of the special committee then confirmed the special committee's recommendation with respect to the proposed transaction. A discussion ensued during which the actual or potential conflict of interest of each director was reviewed. After consideration of a number of factors, the most significant ones of which are described below under "Tremont's Reasons for the Merger; Recommendation of the Special Committee and the Board of Directors" and following further discussion, the Tremont board members present, based upon the unanimous recommendation of the special committee, approved the definitive merger agreement and the transactions contemplated by the merger agreement and authorized the officers of Tremont to execute and deliver the definitive merger agreement.

On November 4, 2002, the board of directors of Valhi held a special meeting to discuss in detail the proposed merger with Tremont. Certain executive

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officers reviewed the activities, discussions and negotiations leading up to this meeting, including the activities of Valhi's financial and legal advisors, and presented a summary of the proposed transaction terms as reflected in the draft merger agreement, the business reasons that supported entering into the merger agreement and the benefits to Valhi that could result from the proposed merger. After consideration of a number of factors, the most significant ones of which are described below under "Valhi's Reasons for the Merger" and following further discussion, during which the directors asked numerous questions that were responded to by certain executive officers of Valhi, the Valhi board, with Messrs. Harold and Glenn Simmons and Watson abstaining, unanimously approved the definitive merger agreement and the transactions contemplated by the merger agreement and authorized the officers of Valhi to execute and deliver the definitive merger agreement.

In the evening of November 4, 2002, officers of Valhi, Valhi Acquisition and Tremont executed and delivered the merger agreement.

On November 5, 2002, Valhi and Tremont issued a joint press release announcing the signing of the definitive merger agreement.

On November 12, 2002, Valhi, Valhi Acquisition and Tremont executed and delivered an amendment to the merger agreement that made certain technical amendments to reflect the intent of the parties. A copy of the merger agreement, as amended, is attached to this proxy statement/prospectus as Appendix A.

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### TREMONT'S REASONS FOR THE MERGER; RECOMMENDATION OF THE SPECIAL COMMITTEE AND THE BOARD OF DIRECTORS

The board of directors of Tremont, acting on the unanimous recommendation of the special committee, approved the merger and the merger agreement and recommended that holders of Tremont common stock vote FOR the proposal to adopt the merger agreement. The board of directors and the special committee believe that the merger is fair to, and in the best interests of, Tremont's stockholders, other than Valhi and its affiliates.

In considering the recommendation of the special committee and the board with respect to the merger, you should be aware that some of Tremont's directors have interests in the merger that may conflict with the interests of Tremont stockholders generally. The board and the special committee were aware of these interests and considered them, among other matters, in approving the merger agreement and the merger. See "Conflicts of Interest and Certain Relationships and Transactions."

The factors considered by the special committee and the board in their deliberations with respect to the merger include those enumerated below. While all of these factors were considered by the special committee or the board, neither the special committee nor the board made determinations with respect to each of these factors. Rather, the special committee and the board each made its respective judgment with respect to the merger and the merger agreement based on the total mix of information available to it, and the judgments of individual directors may have been influenced by a greater or lesser degree by their individual views with respect to different factors.

In making its decision to approve the merger and the merger agreement, the special committee and the board considered the following factors, which were all of the material factors considered by the special committee and the board:

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1. The board's and the special committee's knowledge of the business, financial condition, results of operations and prospects of Tremont and their general familiarity with and knowledge about Tremont's affairs, including the present and possible future economic and competitive environment in which Tremont's operating subsidiaries operate their respective businesses. Such information is generally available in the Tremont documents incorporated by reference into this proxy statement/prospectus. Copies of some of these documents accompany this proxy statement/prospectus and copies of all of these documents may be obtained by contacting Tremont as set forth under "Where You Can Find More Information." In particular, the board and the special committee noted that the merger:
  - o should provide the opportunity to achieve cost efficiencies through the combination of corporate functions and the elimination of expenses associated with Tremont's public reporting requirements;
  - o provides the opportunity for Tremont stockholders to achieve diversification of their holdings through indirect ownership of interest's in Valhi's businesses and assets;
  - o provides the opportunity for Tremont stockholders to have an ownership interest in a company with a relatively larger asset base and enhanced capital structure with potentially improved access to capital and financing sources;
  - o provides the opportunity for Tremont stockholders to own shares in a larger, publicly-traded company with relatively higher historical trading volumes and public market float; and
  - o provides for the consolidation of Tremont's and Valhi's ownership interests in NL.
2. The board and the special committee considered the possibility that another company might be willing to acquire all, or the minority shares, of Tremont and concluded that no one was likely to provide an alternative to the merger with Valhi that would be acceptable to Valhi on terms and conditions that would be as favorable to Tremont's public stockholders as those available through the merger.
3. The board and the special committee reviewed and took into consideration the opinion of Morgan Joseph that the exchange ratio was fair, from a financial point of view, to holders of Tremont common stock, other than Valhi and its affiliates, and

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the analyses presented to the board and the special committee by such firm. These analyses supported and helped to provide the basis for the board's and special committee's belief that the merger with Valhi should result in maximizing stockholder value.

4. The negotiations conducted by the special committee and its financial and legal advisors with Valhi and its financial and legal advisors.
5. The board and the special committee believed that the terms of the merger agreement were fair to Tremont. Specifically, the board and the special committee considered:
  - o the nature of the parties' representations and warranties, including the limited number of representations and warranties made by Tremont and the degree and scope of Valhi's representations;
  - o the covenants and agreement of the parties and the effect of these provisions to allow Tremont to entertain competing business combination proposals prior to the closing and terminate the merger agreement without making any payment to Valhi; and
  - o the limited number of conditions to consummation of the merger, thus making consummation of the transaction more likely than one in which the agreement imposed more significant conditions to consummation.
6. The special committee believed that the merger is procedurally fair because:
  - o the special committee consisted of Tremont directors who were not employees of Tremont and not employees or directors of Valhi or any other affiliate of Valhi, nor holders of significant amounts of Tremont or Valhi securities, and could, without question of self-dealing, negotiate on an arm's-length basis with representatives of Valhi on your behalf;
  - o the special committee had unrestricted access to information concerning Valhi's and Tremont's and their businesses, thereby acquiring significant information to consider and reach an informed business decision on Valhi's proposal; and
  - o the special committee retained, and was advised by, its own independent legal counsel and financial advisor to assist it in analyzing and negotiating a transaction in the Tremont stockholders' best interests.
7. The fact that the merger will not generally be a taxable transaction to Tremont and its stockholders.

The board and the special committee also considered a number of negative factors, including those discussed below, in its deliberations concerning the merger:

1. The potential or actual conflicts of interest of our directors

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and officers in connection with the merger.

2. The risk that the per share value of the consideration actually received by Tremont stockholders might be less than the per share price implied by the exchange ratio prior to the announcement of the merger proposal because the exchange ratio will not be adjusted for changes in market prices of Tremont or Valhi common stock.
3. The risk that some or all of the benefits sought in the merger might not be achieved.

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### VALHI'S REASONS FOR THE MERGER

By completing these transactions, Tremont will become a wholly-owned subsidiary of Valhi and Valhi's corporate structure will be simplified. Tremont is currently a public company incurring significant legal and accounting costs. After the merger, Tremont will no longer be required to make filings as a separate entity with the SEC. As a result, there should be savings in legal, accounting and stockholder relations costs. The merger will also result in 65% increase in the public market float of Valhi common stock from approximately 6.6 million shares to approximately 10.9 million shares.

### OPINION OF TREMONT'S FINANCIAL ADVISOR

At a meeting Tremont's board of directors convened on Friday, November 1, 2002, Morgan Joseph delivered to the special committee its oral opinion that, as of such date, and based upon the assumptions made and matters considered that the consideration to be received by Tremont stockholders (other than Valhi and its affiliates) at the closing of the merger transaction was fair from a financial point of view. Morgan Joseph subsequently confirmed its oral opinion by delivering to the special committee of the board of directors on November 4, 2002, its written opinion dated such date, to such effect. In furnishing its written opinion, Morgan Joseph was advised by Tremont that, in accordance with the terms and subject to the conditions of the merger agreement, Valhi proposed to issue 3.4 shares of its common stock for each share of Tremont common stock (the "Consideration") not held by Valhi and its affiliates.

The complete text of Morgan Joseph's opinion is attached to this proxy statement/prospectus as Appendix B and is incorporated into this proxy statement/prospectus by reference. The description of this opinion set forth herein is qualified in its entirety by such reference to the full text of Morgan Joseph's opinion. Morgan Joseph's opinion should be read carefully and in its entirety for a complete description of the assumptions made, matters considered and qualifications and limitations on the review undertaken by Morgan Joseph in furnishing its opinion to the board of directors. Morgan Joseph has consented to the inclusion of its opinion in this proxy statement/prospectus.

Morgan Joseph's opinion was requested by and addressed and delivered to the special committee solely for the special committee's use in connection with its consideration of the merger and addresses only the fairness, from a financial point of view, of the Consideration. It does not address the relative merits or risks of the underlying business decision of the special committee of the board of directors to agree to the Consideration or to undertake the merger transaction and does not constitute a recommendation to any stockholder as to whether or how to vote at the stockholders' meeting with respect to the merger

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transaction or any other matter presented at the stockholders' meeting. Accordingly, none of Tremont stockholders may rely on Morgan Joseph's opinion in connection with their consideration of the merger or any other such matter.

In arriving at its opinion, Morgan Joseph reviewed, among other things, the following:

- (1) a letter dated July 26, 2002 from Valhi to the board of directors of Tremont;
- (2) the merger agreement;
- (3) the certificate of incorporation of each of Tremont and Valhi;
- (4) Tremont's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and the Tremont's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (including, without limitation, information relating to TIMET and NL included therein);

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- (5) Tremont's Proxy Statement dated March 29, 2002 with respect to the Annual Meeting of Stockholders of Tremont held on May 7, 2002;
- (6) Valhi's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, and Valhi's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (including, without limitation, information regarding Tremont, TIMET, NL and CompX included therein);
- (7) Valhi's Proxy Statement dated April 1, 2002 with respect to the Annual Meeting of the Stockholders of Valhi held on May 13, 2002;
- (8) certain other publicly available information concerning Tremont, Valhi, TIMET, NL and CompX and the trading market for the common stock of each;
- (9) certain internal information and other data relating to Tremont, Valhi, TIMET, NL and CompX, and other affiliates of each, and each of their respective business and prospects, including forecasts and projections, provided to Morgan Joseph by management of Tremont, Valhi, TIMET, NL and CompX, and other affiliates of each;
- (10) certain publicly available information regarding other companies engaged in businesses which Morgan Joseph believed to be generally comparable to Tremont and the trading markets for certain of such other companies' securities; and
- (11) the financial terms of certain recent business combinations which Morgan Joseph believed to be relevant.

In addition, Morgan Joseph conducted such other inquiries, analyses and investigations and reviewed and considered such other, industry, market and general economic data as it deemed appropriate in arriving at its opinion.

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Morgan Joseph also participated in conferences and discussions with certain officers and employees of Tremont, Valhi, TIMET, NL, CompX and Waste Control Specialists, and other affiliates of each, concerning each of their respective business and operations, assets, present condition and prospects.

In conducting its review and analyses, and as a basis for arriving at its opinion, Morgan Joseph utilized such accepted financial, investment banking and valuation methodologies, procedures and considerations as it deemed relevant and customary under the circumstances. Morgan Joseph also took into account its assessment of general economic, market and financial conditions, which may or may not prove to be accurate, as well as its experience in similar transactions and in securities valuation in general.

In performing its analyses, numerous assumptions were made by Morgan Joseph with respect to industry performance, general business, economic, market and financial conditions, and other matters, many of which are beyond Morgan Joseph's and Tremont's control. Any estimates contained in the analyses performed by Morgan Joseph for purposes of arriving at its opinion are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Moreover, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which those businesses or securities might actually trade or be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty.

In arriving at its opinion, Morgan Joseph assumed and relied upon the accuracy and completeness of the financial and other information provided to it and it did not attempt to independently investigate or verify such information, nor did it assume any responsibility to do so. Morgan Joseph further assumed that there have been no material changes in the assets, liabilities, financial condition, results of operations, cash flows or prospects of the businesses subsequent to the dates of public filings referred to in clauses (4) and (6) above and the dates of forecasts and projections referred to in clause (9) above. Morgan Joseph assumed that the forecasts and projections prepared by management and provided to and reviewed by Morgan Joseph were the most recent forecasts and projections prepared by management and were reasonably prepared by management on the basis of the best currently available estimates and judgments of management as to the future financial condition, results of operations and cash flows of the respective businesses.

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Morgan Joseph has not made, and its opinion does not address, any legal, tax, accounting, financial reporting, business operation, capitalization, creditor, stockholder or management matters, rights, obligations, effects or consequences with respect to, the business, the merger or the Consideration.

Morgan Joseph assumed that the merger will be consummated in accordance with the terms and subject to the conditions set forth in the merger agreement, without any material amendments or modifications thereto following the date of this proxy statement/prospectus and without waiver by any party of any of the conditions to its obligations thereunder. Furthermore, Morgan Joseph assumed that all requisite regulatory approvals and consents required in connection with the merger will be timely obtained in a manner that will not affect the Consideration, and that the merger will be consummated in full compliance with the applicable provisions of the federal securities laws and all other laws applicable to the merger.

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Morgan Joseph was retained by Tremont to provide advice to the special committee of the board of directors regarding the structure and terms of the transaction and to participate in the negotiations as requested. Morgan Joseph has not been requested to opine as to, and its opinion therefore does not address, any business strategies or transactional alternatives that might be available to Tremont, nor does it address the likelihood of consummation of the merger or the timing thereof.

In arriving at its opinion, Morgan Joseph has not made or conducted any physical inspection, evaluation or appraisal of any of Tremont's specific properties or assets. Morgan Joseph's opinion does not address Tremont's or any of its affiliates' liquidation value or financial solvency. Moreover, Morgan Joseph did not take into account for any purpose of its opinion, and its opinion, therefore, does not address, the effects of a potential adverse decision related to lead paint litigation brought against NL or additional environmental claims that may be brought against Tremont or Valhi or any of their respective affiliates. Additionally, Morgan Joseph has not undertaken any independent analysis or investigation of any other pending or threatened litigation, possible unasserted claims or other contingent liabilities, whether or not reserved, to which Tremont or any of its affiliates are a party or may be subject, and Morgan Joseph's opinion makes no assumption concerning and, therefore, does not address or consider the possible assertion of any such claims, outcomes or damages arising out of or in connection with any such matters.

Morgan Joseph's opinion necessarily is based upon economic, market, financial and other conditions as they existed on November 4, 2002 and to the extent they could be evaluated on such date, and it assumes no responsibility to update or revise its opinion based upon any events or circumstances occurring after November 4, 2002. Morgan Joseph does, however, reserve the right to modify its opinion based upon additional information which may become publicly available, or which may be provided to or obtained by Morgan Joseph, which suggests in Morgan Joseph's judgment a material change in the assumptions upon which Morgan Joseph's opinion is based, or which otherwise could affect any of the conclusions expressed in its opinion.

In connection with the preparation and delivery to the special committee of the Tremont board of directors of its opinion, Morgan Joseph performed a variety of financial analyses. These analyses were presented to the special committee of the Tremont board of directors at a meeting of the board of directors convened on November 1, 2002. The summary set forth below does not purport to be a complete description of the analyses performed by Morgan Joseph in this regard. The preparation of a fairness opinion is a complex process not involving mathematical certainty, and involves various determinations as to the most appropriate and relevant methods of financial analyses and the applications of these methods to fact-specific circumstances and, therefore, such an opinion is not readily susceptible to a partial analysis or summary description. Accordingly, notwithstanding the separate analyses summarized below, Morgan Joseph believes that its analyses must be considered in their entirety and that selecting portions of its analyses and factors considered by it, without considering all of its analyses and factors, or attempting to ascribe relative weight or ranking to some or all of its analyses and factors, could create a misleading view of its evaluation process.

No limitations were imposed by Tremont on the scope of Morgan Joseph's investigation or the procedures to be followed by Morgan Joseph in arriving at its opinion. Morgan Joseph did not appraise or ascribe a specific



range of values to Tremont, but rather made its determination as to the fairness, from a financial point of view, of the consideration to be received by Tremont stockholders (other than Valhi and its affiliates) at closing of the merger in part on the basis of the financial and comparative analyses described below.

Set forth below is a summary of the material financial and comparative analyses performed by Morgan Joseph and presented to the special committee of the Tremont board of directors at the meeting of the board of directors convened on November 1, 2002.

**Historical Exchange Ratio Analysis.** Morgan Joseph compared the trading prices of Tremont's common stock with Valhi's common stock over the past two years. Morgan Joseph found that the two-year average ratio of Valhi's share price to Tremont's share price was 2.649 and the one-year average ratio was 2.453. The ratio as of November 1, 2002 was 3.236.

**Asset Value Analysis.** Morgan Joseph analyzed the assets and liabilities of each of Tremont and Valhi, relying on quoted market prices to determine the value of investments in TIMET, NL and CompX, and on the public valuations of companies Morgan Joseph generally deemed comparable to and which compete in similar, although not identical, businesses to analyze the value of these and certain other assets. On the basis of these analyses, Morgan Joseph estimated the asset value of Tremont was \$20.98-23.61 per share and the asset value of Valhi was \$5.56-7.20 per share as of November 1, 2002. Morgan Joseph calculated the ratio of Tremont's asset value to Valhi's asset value within a range of 3.279 to 3.773.

The multiples used by Morgan Joseph in the asset value and other analyses were derived by dividing the public valuations of the companies which Morgan Joseph deemed comparable, by certain U.S. GAAP and non-U.S. GAAP measures of operating performance, such as earnings before interest, taxes, depreciation and amortization ("EBITDA") and earnings before interest and taxes ("EBIT"). EBITDA and EBIT multiples are based on total enterprise value divided by each financial measure, respectively. Total enterprise value is defined as the aggregate market capitalization of the relevant company's publicly traded common stock, plus total debt, less cash and cash equivalents. Therefore, total enterprise value is essentially the value of a company assuming an unleveraged capital structure.

In identifying and selecting companies whose business and operations were deemed generally comparable to Tremont, Valhi and its affiliates, Morgan Joseph examined manufacturers of titanium, specialty metals, and certain aerospace products; manufacturers of titanium dioxide, paints, coatings and specialty chemicals; and companies engaged in the treatment and disposal of hazardous and radioactive waste.

Using publicly available information, Morgan Joseph reviewed the closing stock prices, as of November 1, 2002, and the selected market trading multiples of the following companies for inclusion in its analysis of the merger proposal:

- o Allegheny Technologies Inc.
- o Carpenter Technology Corp.
- o Ladish Company Inc.

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- o Precision Castparts Corp.
- o RTI International Metals Inc.
- o DuPont (E.I.) de Nemours & Co.
- o Kerr-McGee Corp.
- o Millenium Chemicals Inc.
- o RPM Inc.
- o Sherwin-Williams Co.
- o Valspar Corp.
- o American Ecology Corp.
- o Duratek Inc.
- o Perma-Fix Environmental Services, Inc.

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Discounted Cash Flow Analysis. Morgan Joseph performed a discounted cash flow analysis for TIMET, NL and CompX. For TIMET, Morgan Joseph assumed a terminal value of 4.0-6.0 times 2007 projected EBITDA and a 15.0-20.0% discount rate. For NL and CompX, Morgan Joseph assumed a terminal value EBITDA multiple of 5.0-7.0 times 2007 projected EBITDA and a 10.0-12.5% discount rate. Morgan Joseph determined a discounted cash flow value for TIMET within a range of \$1.54-8.56 per share; for NL, \$13.75-19.95 per share; and for CompX, \$11.38-16.72 per share. Morgan Joseph added to these values certain other assets, and subtracted from these values certain other liabilities of Valhi and Tremont. Morgan Joseph determined that the value of Valhi, based on the discounted cash flow analysis, was within a range of \$5.19-9.90 per share and the value of Tremont between \$18.62 and \$44.55 per share, and calculated the ratio of Tremont's discounted cash flow value to Valhi's discounted cash flow value between 3.588 and 4.500.

Contribution ("Has/Gets") Analysis. Under a contribution analysis, Morgan Joseph determined that the merger between Tremont and Valhi would provide Valhi with additional assets, less additional liabilities, of \$26.9-30.3 million. Based on the assumptions used in this analysis, Morgan Joseph calculated the post-merger asset value of Valhi at \$674.9-868.8 million. Morgan Joseph noted that the assets net of liabilities contributed by Tremont in the merger would represent 3.49-3.99% of the post-merger asset value of Valhi, and that degree of ownership in Valhi equated to an exchange ratio within a range of 3.3-3.9 shares of Valhi for each share of Tremont not owned by Valhi.

Premiums Analysis. Using publicly available information, Morgan Joseph reviewed the respective purchase prices and premiums paid over pre-announcement share prices in selected mergers and acquisitions involving a controlling shareholder (defined as owning at least 50% of the shares of the target before announcement) acquiring all of the shares not owned by it. For purposes of its analysis, Morgan Joseph analyzed 30 such comparable mergers and acquisitions since 1999 in which the value of the shares to be acquired by the controlling shareholder was between \$10 million and \$100 million.

The following selected transactions were reviewed by Morgan Joseph:

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| ACQUIROR<br>-----           | TARGET<br>-----              | DATE ANNOUNCED<br>----- |
|-----------------------------|------------------------------|-------------------------|
| Ernest C. Garcia            | Ugly Duckling Corp.          | November 16, 2001       |
| Liberty Media Corp.         | Liberty Digital              | October 12, 2001        |
| MRV Communications Inc.     | Luminent Inc.                | September 13, 2001      |
| Thermo Electron Corp.       | Spectra Physics Inc.         | August 21, 2001         |
| Seneca Investments LLC      | Agency.com Ltd.              | May 14, 2001            |
| Investor Group              | Leslie Fay Co. Inc.          | January 16, 2001        |
| O. Gene Bicknell            | NPC International Inc.       | December 14, 2000       |
| HCH Acquisition Corp.       | Holt's Cigar Holding Inc.    | November 10, 2000       |
| Investor Group              | Uno Restaurant Corp.         | October 25, 2000        |
| Minolta Investments Co.     | Minolta-QMS Inc.             | September 1, 2000       |
| Kennametal Inc.             | JLK Direct Distribution Inc. | July 20, 2000           |
| Thermo Instrument Systems   | Metrika Systems Corp.        | January 31, 2000        |
| Thermo Instrument Systems   | ONIX Systems Inc.            | January 31, 2000        |
| Thermo Electron Corp.       | Thermedics Detection Inc.    | January 31, 2000        |
| Thermo Instrument Systems   | Thermo Optek Corp.           | January 31, 2000        |
| Thermo Electron Corp.       | Thermo Sentron Inc.          | January 31, 2000        |
| Thermo Instrument Systems   | ThermoQuest Corp.            | January 31, 2000        |
| Metropolitan Life Insurance | Conning Corp.                | January 19, 2000        |
| Thermo Electron Corp.       | ThermoTrex Corp.             | December 17, 1999       |
| Thermo Electron Corp.       | ThermoLase Corp.             | December 15, 1999       |
| Heico Companies LLC         | Robertson-Ceco Corp.         | December 8, 1999        |
| Thermo Electron Corp.       | Thermo TerraTech Inc.        | November 16, 1999       |
| Thermo Electron Corp.       | Thermoretec Inc.             | October 20, 1999        |
| Thermo Instrument Systems   | Thermo Vision                | July 13, 1999           |
| Thermo Instrument Systems   | ThermoSpectra                | May 21, 1999            |
| Thermo Electron Corp.       | Thermo Power Corp.           | May 5, 1999             |
| Investor Group              | Meadowcraft Inc.             | April 12, 1999          |
| Kerr-McGee Corp.            | Sun Energy Partners LP       | March 9, 1999           |
| Investor Group              | ENStar Inc.                  | March 8, 1999           |
| Investor Group              | Industrial Scientific        | February 24, 1999       |

Morgan Joseph found that the median premium paid over the target's share price one day prior to announcement was 30.6%; the median premium paid over the target's share price one week prior to announcement was 39.4%; and the median premium paid over the target's share price one month prior to announcement was 44.4%. The mean premium paid over the target's share price one day prior to announcement was 30.4%; the mean premium paid over the target's share price one week prior to announcement was 32.9%; and the mean premium paid over the target's share price one month prior to announcement was 43.3%.

Because the reasons for and the circumstances surrounding each of the selected transactions reviewed by Morgan Joseph were specific to each such transaction, and because of the inherent differences between the business, operations, financial condition and prospects of Tremont's business and the businesses, operations, financial condition and prospects of the acquired companies included in the selected transactions, Morgan Joseph did not rely solely on the quantitative results of the foregoing premiums analysis. Accordingly, Morgan Joseph made non-mathematical, qualitative and subjective judgments concerning the differences between the characteristics of these

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transactions and the merger between Tremont and Valhi that would, in its opinion, affect the premium paid in the merger between Valhi and Tremont. The non-mathematical, qualitative and subjective judgments made by Morgan Joseph include an evaluation of (1) the different stages in various industry cycles at the time in which those comparable transactions were consummated; (2) the differences in the macroeconomic factors at the time in which those comparable transactions were consummated; and (3) relative financial and market positions of the companies involved.

Tremont engaged Morgan Joseph to furnish its opinion because of Morgan Joseph's experience in transactions similar to the merger and its experience with the preparation of fairness opinions in general. Morgan Joseph has regularly been engaged in the valuation of businesses and securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities, and private placements. In the ordinary course of its business, Morgan Joseph actively trades securities on a proprietary basis and for the accounts of its customers and, accordingly, may at any time and from time to time hold a "long" or "short" position in the debt or equity securities or derivative products in respect of such securities of Tremont, Valhi or its affiliates. As of the date of this proxy statement/prospectus, Morgan Joseph does not hold, for its own account, a position in any of Tremont's, Valhi's or its affiliates' securities.

As described elsewhere in this proxy statement, Morgan Joseph's opinion and presentation to Tremont's board of directors was but one of a number of factors considered by the board of directors in making its determination to approve the merger and Tremont's board of directors' decision to recommend the merger to Tremont stockholders.

Tremont and Morgan Joseph entered into a letter agreement dated September 6, 2002 relating to the preparation and delivery of a written opinion relating to the consideration proposed to be received by Tremont stockholders (other than Valhi and its affiliates) at closing of the merger. Tremont agreed to pay Morgan Joseph \$325,000 upon delivery of Morgan Joseph's opinion to the special committee. Tremont also agreed to reimburse Morgan Joseph for its out-of-pocket expenses incurred in connection with its review, analyses and related work performed in connection with such opinion, including the fees and disbursements of its counsel, and to indemnify Morgan Joseph against liabilities relating to or arising out of the merger, including liabilities under the U.S. federal securities laws. Neither the fee for Morgan Joseph's opinion nor the reimbursement of its out-of-pocket expenses is contingent on consummation of the merger.

In accordance with the engagement letter, Morgan Joseph's opinion is addressed solely to the special committee for use by the directors in their capacity as such in connection with their review and evaluation of the merger agreement, the Consideration and the merger. Neither Morgan Joseph's opinion nor its underlying financial analyses may be relied upon by any person other than Tremont directors in their capacity as such, without the prior written consent of Morgan Joseph. Accordingly, under the terms of the engagement letter and Morgan Joseph's opinion, no stockholder of Tremont or such other person may rely or allege any reliance on Morgan Joseph's opinion or analysis in connection with the stockholder's or any other person's consideration of the relative merits and risks of the merger.

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No director or executive officer of Valhi or Tremont has or will receive any payment relating to the completion of the merger. However, in considering the recommendations of the board of directors and the special committee, you should be aware that some of our members of management and directors have interests in the merger that are different from, or in addition to, the interests of Tremont stockholders generally. These conflicts of interest are described below.

### SPECIAL COMMITTEE FEES

On July 30, 2002, the Tremont board of directors created a special committee to evaluate the proposed merger with Valhi. The members of the special committee are W. Hayden McIlroy and Terry Neal Worrell. For services rendered as a member of the special committee, each of Messrs. McIlroy and Worrell received, pursuant to Tremont's standard policy, an attendance fee of \$750 per day for each day on which he attended in person a meeting of the special committee, plus reimbursement of reasonable out-of-pocket expenses.

### RELATIONSHIPS OF AFFILIATES, DIRECTORS AND EXECUTIVE OFFICERS

Tremont Group currently owns 80% of the outstanding shares of common stock of Tremont. Valhi currently owns 80% of the outstanding shares of Tremont Group common stock and NL, a majority-owned subsidiary of Valhi, currently owns the remaining 20%.

Contran Corporation owns, directly or through subsidiaries, approximately 93% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons, Chairman of the Board of each of Contran, Valhi, NL and Tremont Group and a director of Tremont, may be deemed to control each of Contran, Valhi, NL, Tremont, Tremont Group and certain other entities related to Contran. Mr. Simmons is a brother of Glenn R. Simmons.

Glenn R. Simmons is Vice Chairman of the Board of each of Contran, Valhi and Tremont Group and is also a director of Tremont and TIMET. Mr. Simmons is Chairman of the Board of each of CompX and Keystone Consolidated Industries, an affiliate of Contran. Mr. Simmons is a brother of Harold C. Simmons.

Steven L. Watson is President and a director of each of Contran and Tremont Group and is also President, Chief Executive Officer and a director of Valhi. Mr. Watson is also a director of each of Tremont, TIMET, NL, CompX and Keystone.

J. Landis Martin is Chairman of the Board, President and Chief Executive Officer of Tremont. Mr. Martin is also President and Chief Executive Officer and a director of NL, Chairman of the Board, President and Chief Executive Officer of TIMET and a director of Tremont Group.

General Thomas P. Stafford (Retired) is a director of Tremont and also a director of each of TIMET and NL.

### TRANSACTIONS WITH AFFILIATES

As described above, Valhi and Tremont may be deemed to be controlled by Harold C. Simmons. Valhi and Tremont and other entities that may be deemed to be

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controlled by or related to Mr. Simmons sometimes engage in (a) intercorporate transactions with related companies such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties, and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions that resulted in the acquisition by one related party of a publicly held, minority equity interest in another related party.

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Intercorporate Services Agreements. Valhi, Tremont and certain related corporations have entered into certain intercorporate services agreements, or "ISAs." Pursuant to each agreement, employees of one company provide certain management, tax planning, financial, administrative or similar services to the other company on a fee basis. Such services may include executive officer services rendered to one party by employees of the other. The fees paid pursuant to these agreements are generally based upon the estimated percentage of time individual employees devote to the affairs of the recipient, and the compensation of such persons. In general, the agreements 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.

Contran and Tremont are parties to an ISA that includes the services rendered by Harold C. Simmons. ISA fees charged to Tremont by Contran were approximately \$1.2 million during 2000, \$1.3 million during 2001 and \$1.4 million during 2002. Tremont also pays directors' fees and expenses separately to Messrs. Glenn and Harold Simmons and Watson.

Contran and Valhi are parties to an ISA that, among other things, includes the services of all of Valhi's executive officers beginning in 2000. The net ISA fee charged to Valhi by Contran was approximately \$700,000 during 2000, \$4.0 million during 2001 and \$4.2 million during 2002.

NL and Tremont are parties to an ISA whereby NL makes available to Tremont certain services with respect to Tremont's tax compliance and consulting needs and use of NL's corporate aircraft. Tremont paid NL fees of approximately \$0.1 million for services pursuant to this ISA during each of 2000, 2001 and 2002.

Contran is also a party to ISAs with certain other subsidiaries of Valhi (including NL, CompX and Waste Control Specialists). The net ISA fees charged to these entities by Contran were approximately \$1.0 million during 2000, \$3.1 million during 2001 and \$4.0 million during 2002. NL also pays directors' fees and expenses directly to Messrs. Glenn and Harold Simmons and Watson, and CompX also pays directors' fees and expenses directly to Messrs. Glenn Simmons and Watson. Certain other subsidiaries and affiliates of Valhi and Tremont are also parties to ISAs among themselves (including Tremont and TIMET).

Tax Sharing Agreements. Beginning in 2001, Tremont and NL are included in the consolidated United States federal income tax return of Contran (the "Contran Tax Group"), of which Valhi is also a member. As a member of the

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Contran Tax Group, Tremont is a party to a tax sharing agreement with Valhi that provides that Tremont will compute its provision for U.S. income taxes on a separate company basis using the tax elections made by Contran. Pursuant to this agreement, and using the tax elections made by Contran, Tremont will make payments to or receive payments from Valhi in amounts it would have paid to or received from the Internal Revenue Service had it not been a member of the Contran Tax Group. Refunds are limited to amounts previously paid under this agreement unless Tremont was entitled to a refund from the U.S. Internal Revenue Service on a separate company basis. Other than a \$380,000 payment Valhi made to Tremont in December 2002, Tremont has neither made any payments to nor received any payments from Valhi under this agreement.

NL and some other subsidiaries of Valhi are also parties to similar tax sharing agreements with Valhi, and Valhi is a party to a similar tax sharing agreement with Contran.

Affiliate Loan Agreement. During 1999, 2000 and through February 2001, Tremont borrowed a net amount of \$13.4 million from Contran, primarily to finance Tremont's purchases of shares of NL and TIMET common stock and for other general corporate purposes of Tremont. These advances, which were payable upon demand, bore interest at the prime rate from time to time, less 0.5% (an effective rate of 9.0% at December 31, 2000). The outstanding balance of this loan (\$13.4 million plus accrued interest) was repaid in February 2001 with the proceeds of Tremont's new \$13.4 million revolving loan from a majority-owned subsidiary of NL, NL Environmental Management Services, Inc., or "NL EMS." The maturity date of the loan from NL EMS was March 31, 2003 and the amount available for borrowing decreased by \$250,000 at the end of each quarter until maturity. The loan from NL EMS bore interest at 2% above the prime rate. In addition, Tremont was required to pay a commitment fee of one-half of 1% per annum of the average unused line. The loan from NL EMS was collateralized by the 10.2 million shares of NL common stock owned by Tremont, and the maximum amount Tremont could have outstanding

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under the loan from NL EMS was limited to 20% of the market value of such NL shares. At December 31, 2001 and September 30, 2002, the loan balance was \$12.7 million and \$11.9 million, respectively. In October 2002, Tremont prepaid and terminated the loan from NL EMS using the proceeds of a new \$15 million revolving loan from NL. The loan from NL bears interest at 2% above the prime rate and matures on December 31, 2004 (with no required principal payments or reductions before such date). Tremont is also required to pay a commitment fee of one-half of 1% per annum of the average unused line. The loan from NL is collateralized by the 10.2 million shares of NL common stock owned by Tremont, and the maximum amount Tremont can have outstanding under the loan from NL is limited to 20% of the market value of such NL shares. During December 2002, Tremont repaid the outstanding balance of its loan from NL, and at December 31, 2002 Tremont had \$15 million of borrowing availability under such loan.

In May 2001, NL EMS loaned \$20 million to one of the Contran family trusts, the Harold C. Simmons Family Trust No. 2 ("Family Trust No. 2"), under a \$25 million revolving credit agreement. The loan bears interest at the prime

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rate (6% at December 31, 2001 and 4.25% at December 31, 2002), is due on demand with 60 days notice and is collateralized by 13,749 shares, or approximately 37%, of Contran's outstanding Class A voting common stock and 5,000 shares, or 100%, of Contran's outstanding 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. The outstanding loan balance was \$20 million at December 31, 2001 and was \$18 million at December 31, 2002. Amounts available for additional borrowing by the Family Trust No. 2 were \$5 million at December 31, 2001 and \$7 million at December 31, 2002.

Insurance Matters. Tall Pines, Valmont Insurance Company and EWI RE, Inc. ("EWI Inc.") provide for or broker certain insurance policies for Contran and certain related entities, including Valhi and Tremont. 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, approximately 58% and 42%, 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"). In January 2002, NL purchased EWI from its previous owners for an aggregate purchase price of \$9 million, and EWI became a wholly-owned subsidiary of NL. Consistent with insurance industry practices, Tall Pines, Valmont and EWI receive commissions from the insurance and reinsurance underwriters for the policies that they provide or broker. In Valhi's and Tremont's opinion, the amounts that Tremont paid for these insurance policies are reasonable and similar to those it could have obtained through unrelated insurance companies and/or brokers.

Through December 31, 2000, a son-in-law of Harold C. Simmons managed the operations of EWI. Subsequent to December 31, 2000, and pursuant to an agreement that, as amended, is effective until terminated by either party with 90 days' notice, 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.

Tall Pines has assumed the obligations of the issuer of certain reinsurance contracts that relate to primary insurance policies issued by a third-party insurance company in favor of Tremont and NL. Tall Pines and NL are parties to an insurance sharing agreement with respect to such reinsurance contracts. Under the terms of the insurance sharing agreement, NL will reimburse Tall Pines with respect to certain loss payments made by Tall Pines that (a) arise out of claims against NL and its subsidiaries (the "NL Liabilities"), and (b) are subject to payment by Tall Pines under its reinsurance contracts with the third-party insurance company. Also pursuant to the insurance sharing agreement, Tall Pines is to credit NL with respect to certain underwriting profits or recoveries that Tall Pines receives from independent reinsurers that relate to the NL Liabilities.

Valhi and Tremont, together with other companies related to Contran, purchase certain of their insurance coverages as a group, with the costs of the jointly owned policies being apportioned among the participating companies. With respect to certain of these policies, it is possible that losses incurred by one or more insureds during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of such policy period or dictate that such other companies purchase replacement coverage.



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### OWNERSHIP INTERESTS IN VALHI COMMON STOCK AFTER THE MERGER

Based on the number of shares of Valhi common stock outstanding on the record date and assuming the delivery of approximately 4,318,918 shares of Valhi common stock in connection with the merger to Tremont stockholders other than NL, and assuming no exercise of outstanding Valhi stock options between the record date and the effective time of the merger, at the effective time of the merger, there will be approximately 119,437,835 shares of Valhi common stock outstanding under Delaware corporate law, which will be owned as follows:

- o former stockholders of Tremont (other than Tremont Group, Valhi, NL and certain directors and officers of Valhi) will own approximately 3.6%;
- o Contran directly, or indirectly through its subsidiaries, will own approximately 89.2%;
- o other entities related to Mr. Harold C. Simmons will own approximately 1.4%;
- o the directors and executive officers of Valhi will own approximately .3%; and
- o the current public stockholders of Valhi will own approximately 5.5%.

### MANAGEMENT AND OPERATIONS AFTER THE MERGER

The merger will not change the current directors and officers of Valhi. After the merger, the following persons will be the directors and officers of Tremont:

| NAME                  | TITLE  |
|-----------------------|--|
| ----                  | -----  |
| Harold C. Simmons     | Chairman of the Board                              |
| Glenn R. Simmons      | Vice Chairman of the Board                         |
| Steven L. Watson      | President and Director                             |
| William J. Lindquist  | Senior Vice President and Director                 |
| Bobby D. O'Brien      | Vice President, Chief Financial Officer, Treasurer |
| Gregory M. Swalwell   | Vice President and Controller                      |
| J. Mark Hollingsworth | Vice President and General Counsel                 |
| Robert D. Graham      | Vice President                                     |
| Eugene K. Anderson    | Vice President and Assistant Treasurer             |
| A. Andrew R. Louis    | Secretary and Associate General Counsel            |
| Kelly D. Luttmer      | Tax Director                                       |

### MATERIAL FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER

The following discussion constitutes the opinions of Locke Liddell & Sapp LLP, counsel to Valhi, and Piper Rudnick LLP, counsel to the special committee of the board of directors of Tremont, regarding the material U.S. federal income tax consequences of the merger to holders of Tremont common stock who exchange their Tremont common stock for Valhi common stock in the merger. This discussion is based on the Internal Revenue Code (the "Code"), applicable U.S. Treasury Regulations, judicial authority, and administrative rulings and practice, all as of the date of this proxy statement/prospectus, all of which

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are subject to change, possibly with retroactive effect. This discussion does not purport to be a complete discussion of all U.S. federal income tax consequences of the merger. This discussion does not address any state, local or foreign tax consequences of the merger. Your tax treatment may vary depending on your particular situation. For example, this discussion may not apply, in whole or in part, to you if you acquired Tremont common stock under a compensatory or other employment-related arrangement or if you are an insurance company, a tax-exempt organization, a financial institution or broker-dealer, a person who is neither a citizen nor a resident of the United States, a trader in securities that elects to mark-to-market, or a person who holds Tremont common stock as part of a hedge, straddle or conversion transaction. This discussion assumes that you will hold your Tremont common stock as a capital asset at the effective time of the merger and only summarizes the consequences of receiving Valhi common stock in exchange for Tremont common stock. This discussion does not describe the consequences of receiving Valhi common stock for other reasons, such as in consideration for the performance of services.

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You are urged to consult your tax advisor as to the particular tax consequences of the merger to you, including the applicability and effect of any U.S. federal, state, local or foreign laws, and the effect of possible changes in applicable tax laws.

Tremont's obligation to consummate the merger is conditioned upon the receipt of a tax opinion by Tremont from Piper Rudnick LLP, counsel to the special committee of the board of directors of Tremont, and Valhi's obligation to consummate the merger is conditioned upon receipt by Valhi of a tax opinion from Locke Liddell & Sapp LLP, its counsel, each to the effect that, for U.S. federal income tax purposes and with respect to the holders of Tremont common stock who exchange their Tremont common stock for Valhi common stock, the merger followed by the merger of Tremont into a limited liability company wholly-owned by Valhi will qualify as a tax-free reorganization under Section 368(a) of the Code. If Tremont waives the condition to its obligation to consummate the merger relating to the receipt of the tax opinion from Piper Rudnick LLP, Tremont will resolicit proxies from its stockholders with respect to the merger.

Neither Tremont nor Valhi has requested nor will request an advance ruling from the Internal Revenue Service as to the tax consequences of the merger to you, and there can be no assurance that the Internal Revenue Service will agree with the conclusions set forth in this proxy statement/prospectus or the opinions of counsel. Moreover, the tax opinions will be based upon certain facts, representations and assumptions set forth or referred to in the opinions and the continued accuracy and completeness of such facts, representations and assumptions. Provided that the merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, the merger will result in the following U.S. federal income tax consequences to you:

- o you will recognize no gain or loss upon your receipt of Valhi common stock solely in exchange for the shares of Tremont common stock you surrender in the merger;
- o your aggregate tax basis for the shares of Valhi common stock you receive pursuant to the merger will equal your aggregate tax basis in the shares of Tremont common stock you surrender in the merger, reduced by any amount of basis allocable to fractional share interests for which you receive cash;

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- o your holding period for the shares of Valhi common stock you receive pursuant to the merger will include the period during which you held your shares of Tremont common stock;
- o your receipt of cash in lieu of a fractional share of Valhi common stock pursuant to the merger will generally result in taxable gain or loss to you for U.S. federal income tax purposes based upon the difference between the amount of cash you receive and your basis allocable to the fractional share; and
- o neither Tremont nor Valhi will recognize gain or loss as a result of the merger.

THE PRECEDING DISCUSSION DOES NOT PURPORT TO BE A COMPLETE ANALYSIS OR DISCUSSION OF ALL POTENTIAL RELEVANT TAX EFFECTS TO YOU. THUS, YOU ARE URGED TO CONSULT YOUR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO YOU OF THE MERGER, INCLUDING TAX RETURN REPORTING REQUIREMENTS, THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, AND OTHER APPLICABLE TAX LAWS AND THE EFFECT OF ANY PROPOSED CHANGES IN THE TAX LAWS.

### ACCOUNTING TREATMENT OF THE MERGER

The merger of Tremont and Valhi will be accounted for using the purchase method of accounting (step acquisitions of Tremont) in accordance with GAAP.

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### REGULATORY APPROVALS RELATING TO THE MERGER

Neither Valhi nor Tremont is required to make filings with or obtain approvals from any regulatory authority in connection with the merger, other than the filing of the certificate of merger with the Secretary of State of the State of Delaware.

### RESALES OF VALHI COMMON STOCK

The Valhi common stock to be issued to stockholders of Tremont in the merger will be registered under the Securities Act of 1933 and listed on the New York Stock Exchange. As a result, all shares of Valhi common stock received by stockholders of Tremont in the merger will be freely transferable after the merger by those stockholders of Tremont who are not considered to be "affiliates" of Tremont for purposes of Rule 145 under the Securities Act of 1933. Rule 145 restricts the sale of Valhi common stock received in the merger by such affiliates of Tremont and certain of their family members and related entities.

### NO APPRAISAL RIGHTS

Holders of Tremont common stock are not entitled to stockholders' appraisal rights or similar rights under the Delaware General Corporation Law and will be bound by the terms of the merger agreement. Delaware law does not provide appraisal rights or other similar rights to stockholders of a corporation in connection with a merger if their shares are listed on a national securities exchange, such as the New York Stock Exchange, at the effective time of the merger, and the shares to be received in the merger are also listed on a national securities exchange. All of the shares of Tremont common stock

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outstanding at the effective time of the merger, and all shares of Valhi common stock to be received by such stockholders in the merger, will be listed on the New York Stock Exchange.

### LITIGATION RELATING TO THE MERGER

In late July 2002, shortly after the announcement of a merger proposal, four separate complaints were filed in the Court of Chancery of the State of Delaware, New Castle County, against Tremont, Valhi and members of Tremont's board of directors (Crandon Capital Partners, et al. v. J. Landis Martin, et al., Andrew Neyman v. J. Landis Martin, et al., Herman M. Weisman Revocable Trust v. J. Landis Martin, et al. and Alice Middleton v. J. Landis Martin, et al.). The complaints, purported class actions, generally allege, among other things, that the terms of the proposed merger of Valhi and Tremont are unfair and that defendants have violated their fiduciary duties. The complaints seek, among other things, an order enjoining consummation of the proposed merger and the award of unspecified damages, including attorneys' fees and other costs. At the request of the parties, the court ordered that these actions be consolidated under the caption In re Tremont Corporation Shareholders Litigation and directed the filing of a consolidated complaint. Valhi and Tremont believe, and understand that each of the other defendants believes, that the complaints are without merit, and Valhi and Tremont intend, and understand that each of the other defendants intends, to defend against the actions vigorously.

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### RELATED TRANSACTIONS TO BE COMPLETED IMMEDIATELY PRIOR TO AND AS SOON AS POSSIBLE FOLLOWING THE COMPLETION OF THE MERGER

Immediately prior to the effective time of the merger of Valhi Acquisition and Tremont, Valhi Acquisition Corp. II, a newly formed Delaware corporation and a wholly-owned subsidiary of Valhi, will merge into Tremont Group. Tremont Group will be the surviving corporation in this merger. As a result of this merger:

- o Valhi will issue 3,495,200 shares of Valhi common stock in exchange for NL's 20% ownership interest in Tremont Group; and
- o Tremont Group will become a wholly-owned subsidiary of Valhi.

Tremont Group has no assets other than its holdings of Tremont common stock. The number of shares of Valhi common stock to be issued to NL in this merger is equal to NL's 20% pro rata interest in the 5,141,421 shares of Tremont common stock currently owned by Tremont Group, adjusted for the same 3.4 exchange ratio in the merger of Valhi Acquisition and Tremont.

As soon as possible following the effective time of the merger of Valhi Acquisition and Tremont, Valhi will merge Tremont Group and Tremont into a newly formed limited liability company, which will be wholly-owned by Valhi and which will be the surviving entity in this merger.

These transactions will be tax-free to Tremont, Tremont Group, Valhi and NL.

VALHI, INC. UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Unaudited Pro Forma Condensed Consolidated Balance Sheet of Valhi as of September 30, 2002 gives effect to the merger, as well as Valhi's acquisition of the shares of Tremont Group common stock currently held by NL, as if they had occurred on such date. The Unaudited Pro Forma Condensed Consolidated Statements of Operations for the year ended December 31, 2001 and the nine months ended September 30, 2002 give effect to such transactions as if they had occurred on January 1, 2001. You should read this information in conjunction with the following:

- o the accompanying notes to the Unaudited Pro Forma Condensed Consolidated Financial Statements;
- o the audited consolidated financial statements of Valhi included in its Current Report on Form 8-K dated November 15, 2002 and the unaudited consolidated financial statements of Valhi included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, each of which accompanies this proxy statement/prospectus; and
- o the audited consolidated financial statements of Tremont included in its Current Report on Form 8-K dated November 15, 2002 and the unaudited consolidated financial statements of Tremont included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, each of which accompanies this proxy statement/prospectus.

The unaudited pro forma condensed consolidated financial statements presented below are for informational purposes only and to aid you in your analysis of the financial aspects of the merger. The pro forma condensed consolidated financial statements are not necessarily indicative of what Valhi's financial position or results of operations actually would have been had we completed these transactions at the dates indicated. In addition, the unaudited pro forma condensed consolidated financial statements do not purport to project the future financial position or operating results of Valhi following the completion of the merger.

The merger, as well as Valhi's acquisition of the shares of Tremont Group common stock currently held by NL, will be accounted for by the purchase method (step acquisitions of Tremont). Valhi's cost to acquire Tremont will be allocated to the assets acquired and liabilities assumed based upon their estimated fair values as of the date of acquisition. The final allocation will be dependent upon certain valuations and other studies that have not yet been completed. Accordingly, the purchase price allocation pro forma adjustments are preliminary and have been made solely for the purpose of providing the unaudited pro forma condensed consolidated financial statements.

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VALHI, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET  
 SEPTEMBER 30, 2002  
 (IN MILLIONS)

|                                   | VALHI<br>HISTORICAL<br>----- | PRO FORMA<br>ADJUSTMENTS<br>----- | VALHI<br>PRO FORMA<br>----- |
|-----------------------------------|------------------------------|-----------------------------------|-----------------------------|
| ASSETS                            |                              |                                   |                             |
| Current assets:                   |                              |                                   |                             |
| Cash and cash equivalents .....   | \$ 189.7                     | \$ (.5)                           | \$ 189.2                    |
| Restricted cash equivalents ..... | 52.8                         | --                                | 52.8                        |
| Marketable securities .....       | 17.8                         | --                                | 17.8                        |
| Receivables .....                 | 203.3                        | --                                | 203.3                       |
| Inventories .....                 | 202.6                        | --                                | 202.6                       |
| Prepaid expense .....             | 19.2                         | --                                | 19.2                        |
| Deferred income taxes .....       | 14.0                         | --                                | 14.0                        |
|                                   | -----                        | -----                             | -----                       |
| Total current assets .....        | 699.4                        | (.5)                              | 698.9                       |
|                                   | -----                        | -----                             | -----                       |
| Other assets:                     |                              |                                   |                             |
| Marketable securities .....       | 177.6                        | --                                | 177.6                       |
| Investment in affiliates .....    | 172.1                        | --                                | 172.1                       |
| Loans and other receivables ..... | 129.9                        | --                                | 129.9                       |
| Goodwill .....                    | 360.0                        | 9.9                               | 369.9                       |
| Mining properties .....           | 13.6                         | .4                                | 14.0                        |
| Other assets .....                | 72.7                         | --                                | 72.7                        |
|                                   | -----                        | -----                             | -----                       |
| Total other assets .....          | 925.9                        | 10.3                              | 936.2                       |
|                                   | -----                        | -----                             | -----                       |
| Property and equipment, net ..... | 541.7                        | 7.7                               | 549.4                       |
|                                   | -----                        | -----                             | -----                       |
|                                   | \$ 2,167.0                   | \$ 17.5                           | \$ 2,184.5                  |
|                                   | =====                        | =====                             | =====                       |

VALHI, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)  
 SEPTEMBER 30, 2002  
 (IN MILLIONS)

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|   | VALHI<br>HISTORICAL | PRO FORMA<br>ADJUSTMENTS | VALHI<br>PRO FORMA |
|---|---------------------|--------------------------|--------------------|
|   | -----               | -----                    | -----              |
| LIABILITIES AND STOCKHOLDERS' EQUITY        |                     |                          |                    |
| Current liabilities:                        |                     |                          |                    |
| Current long-term debt .....                | \$ 35.5             | \$ --                    | \$ 35.5            |
| Payables and accruals .....                 | 272.2               | --                       | 272.2              |
| Income taxes .....                          | 9.8                 | --                       | 9.8                |
| Deferred income taxes .....                 | 2.2                 | --                       | 2.2                |
|   | -----               | -----                    | -----              |
| Total current liabilities .....             | 319.7               | --                       | 319.7              |
|   | -----               | -----                    | -----              |
| Noncurrent liabilities:                     |                     |                          |                    |
| Long-term debt .....                        | 621.4               | --                       | 621.4              |
| Accrued OPEB costs .....                    | 47.0                | (6.2)                    | 40.8               |
| Accrued pension costs .....                 | 32.3                | --                       | 32.3               |
| Accrued environmental costs .....           | 53.4                | --                       | 53.4               |
| Deferred income taxes .....                 | 280.7               | (8.4)                    | 272.3              |
| Other .....                                 | 31.0                | --                       | 31.0               |
|   | -----               | -----                    | -----              |
| Total noncurrent liabilities .....          | 1,065.8             | (14.6)                   | 1,051.2            |
|   | -----               | -----                    | -----              |
| Minority interest .....                     | 148.6               | (27.4)                   | 121.2              |
|   | -----               | -----                    | -----              |
| Stockholders' equity:                       |                     |                          |                    |
| Common stock .....                          | 1.3                 | .1                       | 1.4                |
| Additional paid-in capital .....            | 47.6                | 82.2                     | 129.8              |
| Retained earnings .....                     | 631.1               | --                       | 631.1              |
| Accumulated other comprehensive income .... | 28.5                | --                       | 28.5               |
| Treasury stock .....                        | (75.6)              | (22.8)                   | (98.4)             |
|   | -----               | -----                    | -----              |
| Total stockholders' equity .....            | 632.9               | 59.5                     | 692.4              |
|   | -----               | -----                    | -----              |
|   | \$ 2,167.0          | \$ 17.5                  | \$ 2,184.5         |
|   | =====               | =====                    | =====              |

See accompanying notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

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## VALHI, INC. AND SUBSIDIARIES

### UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS YEAR ENDED DECEMBER 31, 2001 (IN MILLIONS, EXCEPT PER SHARE DATA)

|  | VALHI<br>HISTORICAL | PRO FORMA<br>ADJUSTMENTS | V<br>PRO |
|--|---------------------|--------------------------|----------|
|  | -----               | -----                    | -----    |
| Revenues and other income:                           |                     |                          |          |
| Net sales .....                                      | \$ 1,059.5          | \$ --                    | \$       |
| Other, net .....                                     | 154.0               | --                       |          |
|  | -----               | -----                    |          |
|  | 1,213.5             | --                       |          |
|  | -----               | -----                    |          |
| Costs and expenses:                                  |                     |                          |          |
| Cost of goods sold .....                             | 775.0               | .7                       |          |
| Selling, general and administrative .....            | 195.1               | .7                       |          |
| Interest .....                                       | 62.3                | --                       |          |
|  | -----               | -----                    |          |
|  | 1,032.4             | 1.4                      |          |
|  | -----               | -----                    |          |
|  | 181.1               | (1.4)                    |          |
| Equity in earnings (losses) of:                      |                     |                          |          |
| TIMET .....  | (9.2)               | --                       |          |
| Other .....  | 0.6                 | --                       |          |
|  | -----               | -----                    |          |
| Income before income taxes .....                     | 172.5               | (1.4)                    |          |
| Provision for income taxes (benefit) .....           | 53.2                | (5.3)                    |          |
| Minority interest .....                              | 26.1                | .2                       |          |
|  | -----               | -----                    |          |
| Net income .....                                     | \$ 93.2             | \$ 3.7                   | \$       |
|  | =====               | =====                    | =====    |
| Net income per share:                                |                     |                          |          |
| Basic .....  | \$ .81              |                          | \$       |
| Diluted .....  | \$ .80              |                          | \$       |
| Shares used in the calculation of per share amounts: |                     |                          |          |
| Basic earnings per share .....                       | 115.2               | 5.7                      |          |
| Dilutive impact of stock options .....               | 0.9                 | --                       |          |
|  | -----               | -----                    |          |
| Diluted earnings per share .....                     | 116.1               | 5.7                      |          |
|  | =====               | =====                    | =====    |

See accompanying notes to Unaudited Pro Forma Condensed



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Consolidated Financial Statements

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VALHI, INC. AND SUBSIDIARIES

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED  
STATEMENT OF OPERATIONS NINE MONTHS ENDED  
SEPTEMBER 30, 2002 (IN MILLIONS, EXCEPT  
PER SHARE DATA)

|   | VALHI<br>HISTORICAL | PRO FORMA<br>ADJUSTMENTS | P     |
|---|---------------------|--------------------------|-------|
|   | -----               | -----                    | ----- |
| Revenues and other income:                |                     |                          |       |
| Net sales .....                           | \$ 816.9            | \$ --                    | \$    |
| Other, net .....                          | 44.1                | --                       |       |
|   | -----               | -----                    | ----- |
|   | 861.0               | --                       |       |
|   | -----               | -----                    | ----- |
| Costs and expenses:                       |                     |                          |       |
| Cost of goods sold .....                  | 648.2               | .5                       |       |
| Selling, general and administrative ..... | 141.2               | .6                       |       |
| Interest .....                            | 45.4                | --                       |       |
|   | -----               | -----                    | ----- |
|   | 834.8               | 1.1                      |       |
|   | -----               | -----                    | ----- |
|   | 26.2                | (1.1)                    |       |
| Equity in earnings (losses) of:           |                     |                          |       |
| TIMET .....                               | (31.7)              | --                       |       |
| Other .....                               | 0.3                 | --                       |       |
|   | -----               | -----                    | ----- |
| Income (loss) before income taxes .....   | (5.2)               | (1.1)                    |       |
| Income tax benefit .....                  | (1.7)               | (2.6)                    |       |
| Minority interest .....                   | .9                  | 6.0                      |       |
|   | -----               | -----                    | ----- |
| Net income (loss) .....                   | \$ (4.4)            | \$ (4.5)                 | \$    |
|   | =====               | =====                    | ===== |
| Net income (loss) per share:              |                     |                          |       |
| Basic .....                               | \$ (.04)            |                          | \$    |
| Diluted .....                             | \$ (.04)            |                          | \$    |

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|  |       |       |
|--|-------|-------|
| Shares used in the calculation of per share amounts: |       |       |
| Basic earnings per share .....                       | 115.4 | 5.7   |
| Dilutive impact of stock options .....               | --    | --    |
|  | ----- | ----- |
| Diluted earnings per share .....                     | 115.4 | 5.7   |
|  | ===== | ===== |

See accompanying notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

VALHI, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- BASIS OF PRESENTATION:

The unaudited pro forma condensed consolidated balance sheet reflects adjustments necessary to reflect the merger, as well as Valhi's acquisition of the shares of Tremont Group currently held by NL, as if they had occurred on September 30, 2002. The unaudited pro forma condensed consolidated statements of operations reflect adjustments necessary to reflect such transactions as if they had occurred on January 1, 2001. These transactions will be accounted for by the purchase method (step acquisitions of Tremont) under accounting principles generally accepted in the United States of America.

The merger agreement provides that each outstanding share of Tremont common stock will be exchanged for 3.4 shares of Valhi common stock in a tax-free transaction. Prior to the merger, Valhi will also issue 3,495,200 shares of its common stock to NL in exchange for NL's 20% ownership interest in Tremont Group in a tax-free transaction. The following table presents the number of Valhi common shares that would be issued pursuant to these transactions assuming they were completed as of September 30, 2002:

|   |              |
|---|--------------|
|   | TREMONT SHAR |
|   | -----        |
| Valhi shares issued to NL in exchange for NL's interest in Tremont Group:                     |              |
| Valhi shares issued to NL (2) .....   |              |
| Less shares deemed Valhi has issued to itself based on Valhi's ownership interest in NL ..... |              |
| Valhi shares issued pursuant to the merger:   |              |
| Total number of Tremont shares outstanding .....  | 6,424,8      |

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|   |         |
|---|---------|
| Less Tremont shares held by Tremont Group and Valhi (3) .....                                     | 5,146,4 |
|   | -----   |
|   | 1,278,4 |
| Less shares deemed Valhi has issued to itself based on Valhi's ownership interest in NL (4) ..... | 5,0     |
|   | -----   |
|   | 1,273,3 |
|   | =====   |

- (1) Based on the 3.4 exchange ratio.
- (2) Represents the 5,141,421 shares of Tremont currently held by Tremont Group, multiplied by NL's 20% ownership interest in Tremont Group, adjusted for the 3.4 exchange ratio in the merger.
- (3) The merger agreement provides that the shares of Tremont common stock currently held by Tremont Group (5,141,421 shares) and Valhi (5,000 shares) will be canceled in the merger.
- (4) Represents the 8,167 shares of Tremont currently held directly by NL, multiplied by Valhi's ownership interest in NL.

Under Delaware General Corporation Law, Valhi common shares held by NL, a majority-owned subsidiary, are considered issued, but are also considered to be treasury stock. For financial reporting purposes, such shares are also considered issued, but are considered treasury stock only to the extent of Valhi's ownership interest in NL. Accordingly, the number of shares of Valhi common stock to be issued in the merger as well as the number of shares of Valhi common stock to be issued by Valhi in exchange for NL's 20% ownership interest in Tremont Group will be different for Delaware General Corporation Law purposes and for financial reporting purposes.

For financial reporting purposes, the Tremont shares currently held by NL (either directly or indirectly through NL's ownership interest in Tremont Group) are considered as being part of the Valhi consolidated group's ownership of Tremont to the extent of Valhi's ownership interest in NL. Therefore, that portion of such Tremont shares is not considered as being owned by the Tremont minority stockholders. As a result, the Valhi shares to be

issued to NL in the merger, as well as the Valhi shares issued to NL in exchange for NL's ownership interest in Tremont Group, will be deemed to have been issued in exchange for the Tremont shares held by the Tremont minority interest only to the extent that Valhi does not have an ownership interest in NL. To the extent of Valhi's ownership interest in NL, the Valhi shares issued to NL will be considered as being issued but held in treasury, and such Valhi shares will not be deemed to have been issued in exchange for Tremont shares since they represent shares issued to "acquire" the portion of the Tremont shares held directly or indirectly by NL that are already considered as being part of the Valhi consolidated group's ownership of Tremont.

Valhi will not issue fractional shares in the merger. As a result, the total number of shares of Valhi common stock that each Tremont stockholder will receive in the merger will be rounded down to the nearest whole number, and each

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Tremont stockholder will receive a cash payment for the remaining fraction of a share of Valhi common stock that such stockholder would otherwise receive, if any, based on the average closing prices of Valhi common stock during the ten trading days ending on the business day that immediately precedes the closing date of the merger. The pro forma condensed consolidated financial statements assume no cash in lieu of fractional shares will be paid.

NOTE 2 -- PURCHASE PRICE:

The following is a preliminary estimate of the purchase price for the step acquisitions of Tremont:

|   |       |
|---|-------|
| Valhi shares issued to NL in exchange for NL's ownership interest in Tremont Group:                         |       |
| Valhi shares issued to NL .....   | ..... |
| Less shares deemed Valhi has issued to itself based on Valhi's ownership interest in NL .....               | ..... |
| Valhi shares issued pursuant to the merger:   |       |
| Total number of Tremont shares outstanding, other than Tremont shares held by Tremont Group and Valhi ..... | ..... |
| Less impact of Tremont shares held directly by NL .....   | ..... |
| Plus estimated fees and expenses .....  | ..... |
| Estimated purchase price .....  | ..... |

- (1) The assigned value is equal to the number of Valhi shares issued, multiplied by Valhi's average stock price for the period two trading days before through two trading days after the November 5, 2002 announcement of the execution of the merger agreement, or \$10.49 per share.

NOTE 3 -- UNAUDITED CONDENSED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET - PRO FORMA ADJUSTMENTS:

For purposes of the pro forma analysis, the estimated purchase price (see Note 2) has been allocated based upon a preliminary estimate of the fair value of the net assets acquired as follows:

PURCHASE PRICE ALLOCATION

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(IN MILLIONS)

|  |    |       |
|--|----|-------|
| Book value of historical minority interest in Tremont's net assets acquired .... | \$ | 27    |
| Remaining purchase price allocation:   |    |       |
| Increase property and equipment to fair value .....                              |    | 7     |
| Increase mining properties to fair value .....                                   |    | 6     |
| Reduce Tremont's accrued OPEB costs to accumulated benefit obligation .....      |    | 8     |
| Adjust deferred income taxes .....   |    | 9     |
| Goodwill .....   |    | 9     |
|  |    | ----- |
| Estimated purchase price .....   | \$ | 60    |
|  |    | ===== |

The adjustment to increase property and equipment and mining properties relates to such assets of NL, and gives recognition to the effect that Valhi's acquisition of the minority interest in Tremont results in an increase in Valhi's effective ownership of NL due to Tremont's 21% ownership of NL. The reduction in Tremont's accrued OPEB costs to an amount equal to the accumulated benefit obligation eliminates the unrecognized prior service credit and the unrecognized actuarial gains. The adjustment to deferred income taxes includes (i) the deferred income tax effect of the estimated purchase price allocated to property and equipment, mining properties and accrued OPEB costs and (ii) the effect of adjusting the deferred income taxes separately-recognized by Tremont (principally an elimination of a deferred income tax asset valuation allowance separately-recognized by Tremont which Valhi does not believe is required to be recognized at the Valhi consolidated level under the "more-likely-than-not" recognition criteria).

The pro forma adjustment for minority interest represents the elimination of the actual amount of minority interest in Tremont's net assets as of September 30, 2002, as reflected in Valhi's consolidated balance sheet as of that date.

NOTE 4 -- UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - PRO FORMA ADJUSTMENTS:

|  |    |       |
|--|----|-------|
| Amortization of purchase price allocated to: |    |       |
| Property and equipment .....                 | \$ |       |
| Mining properties .....                      |    |       |
| Accrued OPEB costs .....                     |    |       |
| Goodwill .....                               |    |       |
|  |    | ----- |
|  | \$ |       |

YEAR EN  
DECEMBER  
2001  
-----

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Reported as a component of:

|   |    |
|---|----|
| Cost of goods sold .....                  | \$ |
| Selling, general and administrative ..... |    |

\$

Pro forma tax adjustments - related to:

|  |    |
|--|----|
| Amortization of the purchase price allocated to property and equipment, mining properties and accrued OPEB costs ..... | \$ |
| Adjustment to the deferred income tax provision separately-recognized by Tremont .....                                 |    |

\$

The estimated purchase price allocated to property and equipment and mining properties is amortized over the weighted average estimated remaining useful lives for such assets (approximately 26 years for buildings, six years for machinery and equipment and seven years for mining properties). The estimated purchase price allocated to accrued OPEB costs is amortized over the estimated weighted average remaining life expectancy of ten years for all plan participants (who are all fully eligible for benefits) as of January 1, 2001.

As noted in the above table, the pro forma adjustments do not reflect amortization of the assumed allocation of the purchase price assigned to goodwill. Under SFAS No. 142, goodwill arising on or after July 1, 2001 is not periodically amortized. Accordingly, and in accordance with guidance provided by the SEC, there is no

pro forma adjustment to reflect goodwill amortization for the year ended December 31, 2001 or the nine months ended September 30, 2002. Under SFAS No. 142, the actual amount of goodwill allocated in the final purchase price allocation will not be periodically amortized from the date of completion of the merger.

The pro forma adjustment to the provision for income taxes includes the deferred income tax effect of amortization of the purchase price allocated to property and equipment, mining properties and accrued OPEB costs at the applicable statutory rate. The overall effective tax rate differs from the United States statutory income tax rate of 35% because a portion of the purchase price allocated to NL's property and equipment and mining properties relates to such assets located outside the United States for which different statutory income tax rates are applicable. The pro forma adjustment to the provision for income taxes also includes an adjustment to Tremont's separately-reported provision for income taxes, principally to reverse a portion of the increase in Tremont's deferred income tax asset valuation allowance which Valhi does not believe is required to be recognized at the Valhi consolidated level.

The pro forma adjustment for minority interest represents the elimination of the actual amount of minority interest in Tremont's net earnings (losses), as reflected in Valhi's consolidated statement of operations for the year ended December 31, 2001 and the nine months ended September 30, 2002.

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### NOTE 5 -- PRO FORMA PER SHARE AMOUNTS:

The pro forma basic and diluted earnings per share amounts are based upon Valhi's historical basic and diluted weighted average shares outstanding for the year ended December 31, 2001 and the nine months ended September 30, 2002, adjusted to give pro forma effect to the assumed issuance of an aggregate of 5.7 million shares of Valhi common stock pursuant to the merger agreement and Valhi's issuance of shares of its common stock in exchange for NL's 20% ownership interest in Tremont Group. See Note 1.

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### THE MERGER AGREEMENT

The following is a summary of the material provisions of the merger agreement. A copy of the merger agreement, as amended, is attached as Appendix A to this proxy statement/prospectus. This summary is not complete. For more detailed information, you should review the merger agreement, which is incorporated by reference into this proxy statement/prospectus.

#### THE MERGER

The merger agreement provides for the acquisition of Tremont by Valhi pursuant to the merger of Valhi Acquisition, a wholly-owned subsidiary of Valhi, with and into Tremont. Tremont will be the surviving corporation resulting from the merger and will become a wholly-owned subsidiary of Valhi. Each share of Tremont common stock that is owned by Tremont Group or Valhi or is held by Tremont as treasury stock will be canceled. Each share of common stock of Valhi Acquisition will cease to be outstanding and will be converted into one share of the common stock of the surviving corporation. TREMONT GROUP CURRENTLY OWNS 80% OF THE TOTAL OUTSTANDING COMMON STOCK OF TREMONT AND HAS INDICATED ITS INTENT TO VOTE ITS SHARES IN FAVOR OF THE PROPOSAL TO ADOPT THE MERGER AGREEMENT.

#### WHAT YOU WILL RECEIVE IN THE MERGER

When we complete the merger, you will receive 3.4 shares of Valhi common stock for each share of Tremont common stock that you own.

Valhi will not issue any fractional shares of common stock in the merger. Instead, Valhi will pay cash for any fractional share interest any Tremont stockholder otherwise would have received in the merger. The cash payment will be in an amount equal to the fraction multiplied by the average closing price per share of shares of Valhi common stock during the ten trading days ending on the business day that immediately precedes the closing date of the merger.

#### DISTRIBUTION OF VALHI STOCK CERTIFICATES

Computershare Investor Services LLC has been selected to act as exchange agent under the merger agreement. Promptly after the effective time of the merger, the exchange agent will send you a letter of transmittal and instructions for the exchange of the certificates representing shares of Tremont common stock for certificates representing shares of Valhi common stock.

YOU SHOULD NOT SEND IN YOUR CERTIFICATES UNTIL YOU RECEIVE A LETTER OF TRANSMITTAL AND INSTRUCTIONS.

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After you surrender to the exchange agent your certificates formerly representing Tremont common stock with a properly completed letter of transmittal, the exchange agent will mail you a certificate or certificates representing the number of shares of Valhi common stock to which you are entitled and a check for the amount to be paid in lieu of any fractional share, if any, without interest. Valhi will not be obligated to deliver the consideration to you, as a former Tremont stockholder, until you have surrendered your Tremont common stock certificates and have provided the exchange agent with all required documentation.

If any Tremont stockholder's stock certificate has been lost, stolen or destroyed, the exchange agent will issue the shares of Valhi common stock and any cash in lieu of fractional shares upon such stockholder's submission of an affidavit claiming the certificate to be lost, stolen or destroyed by the stockholder of record, the posting of a bond in such amount as Valhi may reasonably direct as indemnity against any claim that may be made against Valhi with respect to the certificate, and submission of any other documents necessary to effect the exchange of the shares represented by the certificate.

At the time the merger is completed, the stock transfer books of Tremont will be closed and no transfer of shares of Tremont common stock by any stockholder will thereafter be made or recognized. If certificates for shares of Tremont common stock are presented for transfer after the merger is completed, they will be canceled and

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exchanged for shares of Valhi common stock, a check for the amount due in lieu of fractional shares, if any, and any undelivered dividends on the Valhi common stock.

### REPRESENTATIONS AND WARRANTIES

The merger agreement contains customary mutual representations and warranties by each of Valhi, Valhi Acquisition and Tremont relating to, among other things, as applicable:

- o its organization, good standing, qualification, corporate power and similar corporate matters;
- o its capitalization;
- o the authorization, execution, delivery, performance and enforceability of the merger agreement;
- o the absence of conflicts, violations and defaults under charter documents and certain other agreements and documents;
- o the documents and reports filed by it with the SEC and the accuracy and completeness of the financial and other information contained in such documents and reports;
- o the absence of material changes since the latest SEC report;
- o the accuracy and completeness of the information contained in the registration statement and this proxy statement/prospectus, which is part of the registration statement;



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- o the absence of restrictions on or impediments to the merger as a result of state anti-takeover statutes;
- o brokers' and finders' fees;
- o compliance with laws;
- o the absence of litigation;
- o employee matters;
- o environmental matters; and
- o certain tax matters.

In addition, the merger agreement contains additional representations and warranties of Tremont relating to, among other things:

- o intellectual property;
- o the required vote of Tremont stockholders; and
- o compliance with certain contracts.

### CONDUCT OF BUSINESS PENDING THE MERGER

The merger agreement obligates Valhi and Tremont, during the period prior to the effective time of the merger, to conduct their respective businesses only in the usual, regular and ordinary course in substantially the same manner as previously conducted and to use commercially reasonable efforts to preserve intact their respective

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business organizations, goodwill and ongoing businesses. Specifically, each of Valhi and Tremont has agreed that, during the same period, it will not, except as expressly permitted or contemplated by the merger agreement or consented to by the other company, take certain actions as specified in the merger agreement.

### CONDITIONS TO COMPLETION OF THE MERGER

The respective obligations of Valhi, Tremont and Valhi Acquisition to effect the merger are subject to the fulfillment or waiver of the following conditions:

- o the SEC having declared the registration statement of which this proxy statement/prospectus is a part effective under the Securities Act;
- o the holders of a majority of the outstanding shares of Tremont common stock having approved the adoption of the merger agreement;
- o the parties having received all required consents and approvals from any governmental authority necessary to complete the transactions contemplated by the merger agreement;
- o the New York Stock Exchange having approved the listing of the

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Valhi common stock issued in the merger; and

- o Valhi having received all state securities or "blue sky" permits and other authorizations necessary to issue the Valhi common stock in the merger.

The obligations of Valhi and Valhi Acquisition to effect the merger are also subject to the fulfillment or waiver of additional conditions, including the following:

- o the representations and warranties of Tremont being true and correct on the closing date, which condition will be deemed satisfied unless any or all breaches of Tremont's representations and warranties, without giving effect to any materiality qualification or limitation, is reasonably expected to result in a material adverse effect on Tremont or is reasonably expected to prevent or materially to burden or impair Tremont's ability to consummate the transactions contemplated by the merger agreement;
- o Tremont having complied in all material respects with its obligations under the merger agreement;
- o Valhi and Valhi Acquisition having received a tax opinion from their counsel to the effect that the merger of Valhi Acquisition into Tremont followed by the merger of Tremont into a limited liability company wholly-owned by Valhi will constitute a reorganization within the meaning of Section 368(a) of the Code with respect to the holders of Tremont common stock other than Valhi and Tremont Group and a complete liquidation of Tremont under Section 332 of the Code with respect to Valhi; and
- o no change that could reasonably be expected to result in a material adverse effect on Tremont having occurred.

The obligations of Tremont to effect the merger are also subject to the fulfillment or waiver of additional conditions, including the following:

- o the representations and warranties of Valhi being true and correct on the closing date, which condition will be deemed satisfied unless any or all breaches of Valhi's representations and warranties, without giving effect to any materiality qualification or limitation, is reasonably expected to result in a material adverse effect on Valhi or is reasonably expected to prevent or materially to burden or impair Valhi's ability to consummate the transactions contemplated by the merger agreement;

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- o Valhi and Valhi Acquisition having complied in all material respects their obligations under the merger agreement;
- o Tremont having received a tax opinion from counsel to the special committee of the board of directors of Tremont to the effect that the merger followed by the merger of Tremont into a limited liability company wholly-owned by Valhi will constitute a reorganization within the meaning of Section

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368(a) of the Internal Revenue Code with respect to stockholders of Tremont other than Valhi or Tremont Group;

- o no change that could reasonably be expected to result in a material adverse effect on Valhi having occurred; and
- o the merger of Valhi Acquisition Corp. II into Tremont Group having become effective.

### AMENDMENT, WAIVER AND TERMINATION

The merger agreement provides that, subject to compliance with applicable law, Valhi, Valhi Acquisition and Tremont may agree in writing to amend the merger agreement at any time. However, after the time of approval of the merger agreement by Tremont's stockholders, there may not be any amendment of the merger agreement that changes the amount or the form of the consideration to be delivered to the holders of Tremont common stock or which by law otherwise expressly requires the further approval of such stockholders. In addition, any party may waive any provision under the merger agreement. To be effective, an amendment or a waiver must be in writing.

The merger agreement also provides that, at any time before the merger becomes effective, the merger agreement may be terminated by:

- o the mutual consent of Valhi and Tremont;
- o either Valhi or Tremont, if any court order or other action restraining, enjoining or otherwise prohibiting the merger has become final and nonappealable;
- o either Valhi or Tremont, if Tremont's stockholders do not approve the merger agreement at the special meeting;
- o either Valhi or Tremont if Morgan Joseph has withdrawn, modified or changed its fairness opinion in a manner adverse to Tremont stockholders; or
- o either Valhi or Tremont, if the merger has not been completed by February 28, 2003.

The merger agreement further provides that Valhi may terminate the merger agreement at any time prior to the effective time if:

- o Tremont has failed to comply in any material respects with any of the covenants or agreements contained in the merger agreement to be complied with by Tremont;
- o Tremont breaches any of its representations or warranties such that the closing conditions to the merger cannot be satisfied, provided that with respect to this item and the item set forth above, if such failure or breach is capable of being cured, such failure or breach shall not have been cured within 15 days of delivery to Tremont of written notice of such failure or breach; or
- o the board of directors of Tremont has withdrawn, modified or changed its recommendation of the merger agreement or the merger in a manner adverse to Valhi or has failed to recommend, authorize or issue a neutral recommendation with respect to any proposal in respect to an alternative acquisition proposal with any person other than Valhi or an affiliate of Valhi (or the Tremont board of directors or any

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committee of the board has resolved to do any of the foregoing).

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The merger agreement additionally provides that Tremont may terminate the merger agreement at any time prior to the effective time if:

- o Valhi or Valhi Acquisition has failed to comply in any material respect with any of the covenants or agreements contained in the merger agreement to be complied with by Valhi or Valhi Acquisition;
- o Valhi or Valhi Acquisition breaches any of its representations or warranties such that the closing conditions to the merger cannot be satisfied, provided that with respect to this item and the item set forth above, if such failure or breach is capable of being cured, such failure or breach shall not have been cured within 15 days of delivery to Valhi or Valhi Acquisition of written notice of such failure or breach; or
- o the board of directors of Tremont has failed to recommend, withdrawn, modified or changed its recommendation of, the merger agreement or the merger in a manner adverse to Valhi or has recommended, or issued a neutral recommendation with respect to any proposal in respect to an alternative acquisition proposal with any person other than Valhi or an affiliate of Valhi (or the Tremont board of directors or any committee of the board has resolved to do any of the foregoing), in each case in order to permit Tremont to execute a definitive agreement for a transaction contemplated by an acquisition proposal from a third party that the board of directors of Tremont determines in its good faith judgment (based on, among other things, the written advice of an independent financial advisor) to be no less favorable to its stockholders than the merger with Valhi, taking into account all relevant factors.

If the merger is terminated, the merger agreement will become void and have no effect, except that provisions of the merger agreement relating to confidentiality, public announcements and the payment of expenses will survive.

### FEES AND EXPENSES

Pursuant to the merger agreement, Valhi and Tremont will each pay their own expenses in connection with the merger, except that Valhi and Tremont will each pay one-half of the expenses incurred in connection with the printing and mailing of this proxy statement/prospectus and the registration statement of which this proxy statement/prospectus is a part.

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### THE COMPANIES

TREMONT

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Tremont Corporation is principally a holding company with operations conducted through 39%-owned TIMET and through 21%-owned NL. Valhi owns an additional 63% of NL.

TIMET is one of the world's largest producers of titanium sponge, melted products (ingot and slab) and mill products. TIMET had an estimated 24% share of worldwide industry shipments of titanium mill products in 2001. TIMET has production facilities in the U.S. and Europe. TIMET is continuing its efforts to develop new applications for titanium in the automotive and other emerging markets.

NL is the world's fifth-largest producer, and Europe's second-largest producer, of titanium dioxide pigments or "TiO(2)," which are used for imparting whiteness, brightness and opacity to a wide range of products including paints, plastics, paper, fibers and other "quality-of-life" products. NL had an estimated 11% share of worldwide TiO(2) sales volume in 2001. NL has production facilities throughout Europe and North America.

Tremont has an insurance operation through wholly-owned Tall Pines. Tremont also owns certain real estate interests through wholly-owned TRECO L.L.C.

Each of TIMET and NL files periodic reports with the SEC pursuant to the Securities Exchange Act of 1934.

### VALHI

Valhi is principally a holding company with operations conducted through majority-owned subsidiaries or less than majority-owned affiliates in the chemicals (through its 63% ownership of NL), component products (through its 69% ownership of CompX), waste management (through its 90% ownership of Waste Control Specialists) and titanium metals (through its ownership of Tremont, as described in this proxy statement/prospectus) industries.

CompX is a leading manufacturer of ergonomic computer support systems, precision ball bearing slides and security products for office furniture, computer-related applications and a variety of other products. CompX has production facilities in North America, Europe and Asia. CompX files periodic reports with the SEC pursuant to the Securities Exchange Act of 1934.

Waste Control Specialists owns and operates a facility in West Texas for the processing, treatment, storage and disposal of hazardous, toxic and certain types of low-level radioactive wastes. Waste Control Specialists is seeking additional regulatory authorizations to expand its treatment and disposal capabilities for low-level and mixed radioactive wastes.

Valhi has other investments and joint ventures, including The Amalgamated Sugar Company LLC, a manufacturer of refined sugar.

### EFFECT OF THE MERGER ON RIGHTS OF STOCKHOLDERS

When the merger is completed, you will automatically become a Valhi stockholder. Your rights as a stockholder will cease to be governed by Tremont's certificate of incorporation and bylaws and will be governed instead by Valhi's

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certificate of incorporation and bylaws. Your rights as a Valhi stockholder will differ from your rights as a Tremont stockholder in certain respects due to provisions in Valhi's certificate of incorporation and bylaws that differ from those in Tremont's certificate of incorporation and bylaws, which are summarized below:

VALHI  
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TREMONT  
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### REMOVAL OF DIRECTORS

Valhi's certificate of incorporation provides that a director may be removed by stockholders only for cause at a meeting of stockholders called for this purpose by the affirmative vote of a majority of the shares entitled to vote at such meeting.

Tremont's certificate of incorporation provides that any director may be removed by stockholders, with or without cause, by the affirmative vote of a majority of the shares entitled to vote for the election of directors.

### CALLING OF SPECIAL MEETINGS OF STOCKHOLDERS

Valhi's bylaws provide that special meetings of stockholders may be called by the chairman of the board, the president, the board of directors or the holders of at least 10% of the Valhi shares that would be entitled to vote at such meeting. Valhi's bylaws also provide that if a special meeting is called by any person other than the board of directors, the request must be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and must be delivered personally or sent by registered mail or by facsimile transmission to the chairman of the board, the president or the secretary of Valhi.

Tremont's bylaws are identical to Valhi's bylaws with respect to who may call a special meeting of stockholders. Tremont's bylaws do not contain any provisions relating to the form of stockholder

### BUSINESS TO BE TRANSACTED AT STOCKHOLDER MEETINGS

Valhi's bylaws provide that at a meeting of stockholders, only such business shall be conducted as has been properly brought before the meeting. To be properly brought before a special meeting, such business must be specified in the notice of the meeting (or any supplement thereto).

Tremont's bylaws provide that at an annual or special meeting of stockholders, only such business will be conducted as has been properly brought before the meeting by or at the direction of the board of directors or a stockholder of Tremont who is entitled to vote with respect thereto.

To be properly brought before an annual meeting, such business must be:

Tremont's bylaws do not contain any provisions relating to how Tremont's stockholders must properly bring business before a stockholder meeting.

- o specified in the notice of the meeting (or any supplement thereto) given by or at the direction of the board of directors;
- o otherwise properly brought before the meeting by or at the direction of the board of directors; or

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- o otherwise properly brought before the meeting by a stockholder.

Valhi's bylaws also provide that for business to be properly brought before an annual meeting by a

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VALHI  
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TREMONT  
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stockholder, the stockholder must, in addition to any requirements imposed by federal securities law or other applicable laws, have given timely notice thereof in writing to the secretary of Valhi. To be timely for an annual meeting, a stockholder's notice must be delivered to or mailed and received at Valhi's principal executive offices, no later than:

- o if Valhi mailed notice of the last annual meeting or publicly disclosed the date of such meeting and the annual meeting for the current year has not changed more than 30 days from such date (as if in the current year), 45 days before the earlier of the date (as if in the current year) of such mailing or public disclosure; or
- o otherwise 90 days prior to the annual meeting.

Valhi's bylaws require that a stockholder's notice to the secretary with regard to an annual meeting must set forth as to each order of business that the stockholder proposes to bring before the meeting:

- o a brief description of such business desired to be brought before the meeting and the reasons for conducting such business at the annual meeting;
- o the name and address, as they appear on Valhi's books, of the stockholder proposing such business;
- o the class and number of shares of