SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 2000 Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

Yes X No

Number of shares of common stock outstanding on April 28, 2000: 114,628,514.

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	December 31, 1999	March 31, 2000
Current assets:		
Cash and cash equivalents	$ 174,982	$ 185,760
Accounts and other receivables	202,200	207,505
Refundable income taxes	5,146	1,696
Receivable from affiliates	14,606	15,670
Inventories	219,618	209,075
Prepaid expenses	7,221	6,667
Deferred income taxes	14,330	12,496
Total current assets	638,103	638,869
Other assets:		
Marketable securities	266,362	267,081
Investment in affiliates	256,982	248,532

Loans and notes receivable	83,268	83,156
Mining properties	17,035	15,242
Prepaid pension costs	23,271	22,373
Goodwill	356,523	351,796
Deferred income taxes	2,672	1,974
Other	22,467	22,817
Total other assets	1,028,580	1,012,971
Property and equipment:		
Land	25,952	25,044
Buildings	167,100	160,710
Equipment	550,145	533,229
Construction in progress	13,843	18,617
	757,040	737,600
Less accumulated depreciation	188,554	192,115
Net property and equipment	568,486	545,485
	$2,235,169	$2,197,325

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 1999	March 31, 2000
Current liabilities:		
Notes payable	$ 57,076	$ 54,075
Current maturities of long-term debt	27,846	43,210
Accounts payable	70,971	58,368
Accrued liabilities	163,556	170,941
Payable to affiliates	25,266	23,324
Income taxes	7,203	8,254
Deferred income taxes	326	777
Total current liabilities	352,244	358,949
Noncurrent liabilities:		
Long-term debt	609,339	622,710
Accrued OPEB costs	58,756	57,926
Accrued pension costs	39,612	34,700

Accrued environmental costs	73,062	66,212
Deferred income taxes	266,752	258,852
Other	45,164	44,276
Total noncurrent liabilities	1,092,685	1,084,676
Minority interest	200,826	167,026
Stockholders' equity:		
Common stock	1,256	1,257
Additional paid-in capital	43,444	43,868
Retained earnings	538,744	543,438
Accumulated other comprehensive income:		
Marketable securities	127,837	128,834
Currency translation	(40,833)	(50,376)
Pension liabilities	(5,775)	(4,834)
Treasury stock	(75,259)	(75,513)
Total stockholders' equity	589,414	586,674
	$ 2,235,169	$ 2,197,325

Commitments and contingencies (Note 1)

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Three months ended March 31, 1999 and 2000

(In thousands, except per share data)

	1999	2000
Revenues and other income:		
Net sales	$ 256,774	$ 301,728
Other, net	16,087	15,872
	272,861	317,600
Costs and expenses:		
Cost of sales	188,515	214,603
Selling, general and administrative	44,612	49,973
Interest	18,411	17,348

	251,538	281,924
	21,323	35,676
Equity in earnings of:		
Titanium Metals Corporation ("TIMET")	--	(4,321)
Other	--	276
Tremont Corporation*	(701)	--
Waste Control Specialists*	(5,224)	--
Income before income taxes	15,398	31,631
Provision for income taxes	5,111	14,772
Minority interest in after-tax earnings	7,924	6,374
Net income	$ 2,363	$ 10,485
Basic and diluted earnings per share	$ .02	$ .09
Cash dividends per share	$ .05	$ .05
Shares used in the calculation of per share amounts:		
Basic earnings per common share	114,982	115,090
Dilutive impact of outstanding stock options	1,202	1,106
Diluted earnings per share	116,184	116,196

*Prior to consolidation.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Three months ended March 31, 1999 and 2000

(In thousands)

	1999	2000
Net income	$ 2,363	$ 10,485
Other comprehensive income (loss), net of tax:		

Marketable securities adjustment:		
Unrealized gains arising during the period	1,784	997
Less reclassification for gains included in net income	(17)	--
	1,767	997
Currency translation adjustment	(9,942)	(9,543)
Pension liabilities adjustment	(3,568)	941
Total other comprehensive income (loss), net	(11,743)	(7,605)
Comprehensive income (loss)	$ (9,380)	$ 2,880

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31, 1999 and 2000

(In thousands)

	1999	2000
Cash flows from operating activities:		
Net income	$ 2,363	$ 10,485
Depreciation, depletion and amortization	16,157	18,620
Noncash interest expense	2,457	2,276
Deferred income taxes	4,120	5,939
Minority interest	7,924	6,374
Other, net	(2,569)	(1,434)
Equity in:		
TIMET	--	4,321
Other	--	(276)
Tremont Corporation	701	--
Waste Control Specialists	5,224	--
Distributions from:		
Manufacturing joint venture	6,500	3,500
Other	--	81
Tremont Corporation	216	--
	43,093	49,886
Change in assets and liabilities:		
Accounts and other receivables	(26,321)	(11,420)
Inventories	8,215	8,400
Accounts payable and accrued liabilities	(15,068)	(3,663)
Accounts with affiliates	(6,847)	(2,061)
Income taxes	(2,348)	4,712
Other, net	(3,318)	(1,320)

	1999	2000
Net cash provided (used) by operating activities	(2,594)	44,534
Cash flows from investing activities:		
Capital expenditures	(13,416)	(11,040)
Purchases of:		
Business units	(52,110)	(9,409)
Tremont common stock	--	(20,681)
NL common stock	--	(10,331)
CompX common stock	(624)	--
Investment in Waste Control Specialists (prior to consolidation)	(10,000)	--
Collection of loans to affiliates	6,000	--
Other, net	2,153	316
Net cash used by investing activities	(67,997)	(51,145)

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

Three months ended March 31, 1999 and 2000

(In thousands)

	1999	2000
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 76,271	$ 28,062
Principal payments	(60,791)	(643)
Loans from affiliate:		
Loans	17,300	11,180
Repayments	(6,800)	(12,482)
Valhi dividends paid	(5,784)	(5,791)
Distributions to minority interest	(759)	(2,482)
Other, net	247	802
Net cash provided by financing activities	19,684	18,646
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(50,907)	12,035
Currency translation	(1,609)	(1,507)
Business units acquired	4,157	250
Cash and equivalents at beginning of period	224,572	174,982
Cash and equivalents at end of period	$ 176,213	$ 185,760

Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 8,385	$ 7,520
Income taxes, net	9,264	6,409
Business unit acquired - net assets consolidated:		
Cash and cash equivalents	$ 4,157	$ 250
Goodwill and other intangible assets	14,826	2,514
Other non-cash assets	52,799	8,429
Liabilities	(19,672)	(1,784)
Cash paid	$ 52,110	$ 9,409

See accompanying notes to consolidated financial statements.

VALHI, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Three months ended March 31, 2000

(In thousands)

				Accumulated other comprehensive income				
	Common stock	Additional paid-in capital	Retained earnings	Marketable securities	Currency translation	Pension liabilities	Treasury stock	Total Stockholders' equity
Balance at December 31, 1999	$ 1,256	$ 43,444	$ 538,744	$ 127,837	$ (40,833)	$ (5,775)	$ (75,259)	$ 589,414
Net income	--	--	10,485	--	--	--	--	10,485
Dividends	--	--	(5,791)	--	--	--	--	(5,791)
Other comprehensive income, net	--	--	--	997	(9,543)	941	--	(7,605)
Other, net	1	424	--	--	--	--	(254)	171
Balance at March 31, 2000	$ 1,257	$ 43,868	$ 543,438	$ 128,834	$ (50,376)	$ (4,834)	$ (75,513)	$ 586,674

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of presentation:

The consolidated balance sheet of Valhi, Inc. and Subsidiaries (collectively, the "Company") at December 31, 1999 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at March 31, 2000, and the consolidated statements of income, comprehensive income (loss), stockholders' equity and cash flows for the interim periods ended March 31, 1999 and 2000, have been prepared by the Company, without audit. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position, results of operations and cash flows have been

made. The results of operations for the interim periods are not necessarily indicative of the operating results for a full year or of future operations. Certain prior year amounts have been reclassified to conform to the current year presentation, and certain information normally included in financial statements prepared in accordance with generally accepted accounting principles has been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1999 (the "1999 Annual Report").

Basic earnings per share of common stock is based upon the weighted average number of common shares actually outstanding during each period. Diluted earnings per share of common stock includes the impact of outstanding dilutive stock options.

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

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

The Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, no later than the first quarter of 2001. Under SFAS No. 133, all derivatives will be recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives will depend upon the intended use of the derivative. The impact on the Company of adopting SFAS No. 133, if any, has not yet been determined but will be dependent upon the extent to which the Company is a party to derivative contracts or hedging activities covered by SFAS No. 133 at the time of adoption, including derivatives embedded in non-derivative host contracts. As permitted by the transition requirements of SFAS No. 133, as amended, the Company will exempt from the scope of SFAS No. 133 all host contracts containing embedded derivatives which were issued or acquired prior to January 1, 1999.

Note 2 - Business segment information:

Operations	Principal entities	% owned at March 31, 2000
Chemicals	NL Industries, Inc.	60%*
Component products	CompX International Inc.	64%
Titanium metals	Tremont Corporation	61%*
Waste management	Waste Control Specialists	69%

* Tremont is a holding company which owns an additional 20% of NL and 39% of TIMET. NL owns an additional 9% of Tremont.

	Three months ended March 31, 1999	2000
	(In millions)	
Net sales:		

Chemicals	$201.6	$231.0
Component products	55.2	66.1
Waste management (after consolidation)	--	4.6
Total net sales	$256.8	$301.7
Operating income:		
Chemicals	$ 26.0	$ 39.8
Component products	9.5	10.9
Waste management (after consolidation)	--	(1.6)
Total operating income	35.5	49.1
General corporate items:		
Interest and dividend income	10.6	11.5
Expenses, net	(6.4)	(7.6)
Interest expense	(18.4)	(17.3)
	21.3	35.7
Equity in:		
TIMET	--	(4.3)
Other	--	.3
Tremont Corporation	(.7)	--
Waste Control Specialists	(5.2)	--
Income before income taxes	$ 15.4	$ 31.7

In January 2000, CompX acquired a lock producer for an aggregate of $9 million cash consideration. The Company accounted for this acquisition by the purchase method. During the first quarter of 2000, (i) NL purchased shares of its common stock in market transactions for an aggregate of $10.3 million and (ii) Valhi and NL each purchased shares of Tremont common stock in market transactions for an aggregate of $20.7 million. The Company accounted for such increases in its ownership of NL and Tremont by the purchase method (step acquisitions).

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

Note 3 - Marketable securities:

	December 31, 1999	March 31, 2000
	(In thousands)	
Noncurrent assets (available-for-sale):		
The Amalgamated Sugar Company LLC	$170,000	$170,000
Halliburton Company common stock	91,825	93,910
Other common stocks	4,537	3,171
	$266,362	$267,081

At March 31, 2000, Valhi held 2.7 million shares of Halliburton common stock (aggregate cost of $22 million) with a quoted market price of $41.13 per share, or an aggregate market value of $110 million. Valhi's LYONs are exchangeable at any time, at the option of the LYON holder, for such Halliburton

shares, and the carrying value of the Halliburton stock is limited to the accreted LYONs obligation. See Note 7. See the 1999 Annual Report for a discussion of the Company's investment in The Amalgamated Sugar Company LLC. The aggregate cost of other available-for-sale common stocks is approximately $8 million at March 31, 2000.

Note 4 - Inventories:

	December 31, 1999	March 31, 2000
	(In thousands)	
Raw materials:		
Chemicals	$ 54,861	$ 42,900
Component products	9,038	14,005
	63,899	56,905
In process products:		
Chemicals	8,065	7,328
Component products	8,669	8,993
	16,734	16,321
Finished products:		
Chemicals	100,973	98,342
Component products	9,898	11,323
	110,871	109,665
Supplies (primarily chemicals)	28,114	26,184
	$219,618	$209,075

Note 5 - Other noncurrent assets:

	December 31, 1999	March 31, 2000
	(In thousands)	
Investment in affiliates:		
TiO2 manufacturing joint venture	$157,552	$154,052
TIMET	85,772	80,627
Other	13,658	13,853
	$256,982	$248,532
Loans and notes receivable:		
Snake River Sugar Company	$ 80,000	$ 80,000
Other	7,259	5,938

	87,259	85,938
Less current portion	3,991	2,782
Noncurrent portion	$ 83,268	$ 83,156

Intangible assets	$ 6,979	$ 6,652
Deferred financing costs	3,668	3,481
Other	11,820	12,684
	$ 22,467	$ 22,817

At March 31, 1999, Tremont held 12.3 million shares of TIMET common stock with a quoted market price of $4.38 per share, or an aggregate of $53.7 million. At March 31, 2000, TIMET reported total assets and stockholders' equity of $818.8 million and $390.3 million, respectively. TIMET's total assets at such date include current assets of $291.4 million, property and equipment of $323.1 million and goodwill and other intangible assets of $69.1 million. TIMET's total liabilities at such date include current liabilities of $143.1 million, long-term debt of $35.5 million, accrued OPEB costs of $20.1 million and convertible preferred securities of $201.3 million. During the first quarter of 2000, TIMET reported net sales of $104.7 million, an operating loss of $18.4 million and a net loss of $15.1 million.

Note 6 - Accrued liabilities:

	December 31, 1999	March 31, 2000
	(In thousands)	
Current:		
Employee benefits	$ 45,674	$ 42,985
Environmental costs	48,891	55,845
Interest	7,210	14,774
Deferred income	7,924	6,962
Other	53,857	50,375
	$163,556	$170,941
Noncurrent:		
Insurance claims and expenses	$ 21,690	$ 21,990
Employee benefits	11,403	11,675
Deferred income	9,573	8,543
Other	2,498	2,068
	$ 45,164	$ 44,276

Note 7 - Notes payable and long-term debt:

	December 31, 1999	March 31, 2000
	(In thousands)	
Notes payable -		
Kronos - non-U.S. bank credit agreements	$ 57,076	$ 54,075
Long-term debt:		
Valhi:		
Snake River Sugar Company	$250,000	250,000
LYONs	91,825	93,910
Bank credit facility	21,000	37,000
	362,825	380,910
NL Industries:		
Senior Secured Notes	244,000	244,000
Other	478	369
	244,478	244,369
Other subsidiaries:		
CompX bank credit facility	20,000	32,000
Waste Control Specialists bank term loan	4,304	4,196
Valcor Senior Notes	2,431	2,431
Other	3,147	2,014
	29,882	40,641
	637,185	665,920
Less current maturities	27,846	43,210
	$609,339	$622,710

Note 8 - Accounts with affiliates:

	December 31, 1999	March 31, 2000
	(In thousands)	
Receivables from affiliates:		
Income taxes receivable from Contran	$13,124	$14,654
TIMET	907	693
Other	575	323
	$14,606	$15,670

	=======	=======
Payables to affiliates:		
Demand loan from Contran:		
Tremont	$13,743	$14,723
Valhi	2,282	--
Louisiana Pigment Company	8,381	7,566
Other, net	860	1,035
	-------	-------
	$25,266	$23,324
	=======	=======

Note 9 - Other income:

	Three months ended March 31, 1999	2000
	(In thousands)	
Securities earnings:		
Dividends and interest	$10,616	$11,482
Securities transactions	26	--
	-------	-------
	10,642	11,482
Noncompete agreement income	1,000	1,000
Currency transactions, net	1,395	1,325
Other, net	3,050	2,065
	-------	-------
	$16,087	$15,872
	=======	=======

Note 10 - Provision for income taxes:

	Three months ended March 31, 1999	2000
	(In millions)	
Expected tax expense	$ 5.4	$11.1
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	1.2	2.1
Change in NL's and Tremont's deferred income tax valuation allowance, net	(1.9)	.4
No tax benefit for goodwill amortization	1.0	1.3
U.S. state income taxes, net	.4	.4
Non-U.S. tax rates	(.3)	--
Other, net	(.7)	(.5)
	-----	-----
	$ 5.1	$14.8

Comprehensive provision (benefit) for income taxes allocated to:		
Net income	$ 5.1	$14.8
Other comprehensive income:		
Marketable securities	.4	.5
Currency translation	(4.5)	(6.9)
Pension liabilities	(2.2)	.6
	$(1.2)	$ 9.0

Note 11 - Minority interest:

	December 31, 1999	March 31, 2000
	(In thousands)	
Minority interest in net assets:		
NL Industries	$ 57,723	$ 52,988
Tremont Corporation	81,451	51,430
CompX International	53,487	54,395
Subsidiaries of NL	3,903	3,976
Subsidiaries of Tremont	4,159	4,237
Subsidiaries of CompX	103	--
	$200,826	$167,026

	Three months ended March 31, 1999	2000
	(In thousands)	
Minority interest in net earnings (losses):		
NL Industries	$ 5,835	$ 4,796
Tremont Corporation	--	(939)
CompX International	2,120	2,351
Subsidiaries of NL	11	91
Subsidiaries of Tremont	--	78
Subsidiaries of CompX	(42)	(3)
	$ 7,924	$ 6,374

As previously reported, all of Waste Control Specialists aggregate net losses to date have accrued to the Company for financial reporting purposes, and all of Waste Control Specialists future net income or net losses will also accrue to the Company until Waste Control Specialists reports positive equity attributable to its other owner. Accordingly, no minority interest in Waste Control Specialists' net assets or net losses is reported at March 31, 2000.

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

RESULTS OF OPERATIONS:

The Company reported net income of $10.5 million, or $.09 per diluted share, in the first quarter of 2000 compared to net income of $2.4 million, or $.02 per diluted share, in the first quarter of 1999. Total operating income in the first quarter of 2000 increased 38% to $49.1 million compared to the first quarter of 1999 due principally to higher chemicals earnings at NL.

As provided by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company cautions that the statements in this Quarterly Report on Form 10-Q relating to matters that are not historical facts, including, but not limited to, statements found in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "should," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results, and actual future results could differ materially from those described in such forward-looking statements. While it is not possible to identify all factors, the Company continues to face many risks and uncertainties. Among the factors that could cause actual future results to differ materially are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission including, but not limited to, future supply and demand for the Company's products, the extent of the dependence of certain of the Company's businesses on certain market sectors (such as the dependence of TIMET's titanium metals business on the aerospace industry), the cyclicality of certain of the Company's businesses (such as NL's TiO_2 operations and TIMET's titanium metals operations), the impact of certain long-term contracts on certain of the Company's businesses (such as the impact of TIMET's long-term contracts with certain of its customers and such customers' performance thereunder and the impact of TIMET's long-term contracts with certain of its vendors on its ability to reduce or increase supply or achieve lower costs), customer inventory levels, the possibility of labor disruptions, general global economic conditions, competitive products and substitute products, customer and competitor strategies, the impact of pricing and production decisions, competitive technology positions, potential difficulties in integrating completed acquisitions (such as CompX's acquisitions of two slide producers in 1999 and its acquisition of a lock producer in January 2000), environmental matters (such as those requiring emission and discharge standards for existing and new facilities), government regulations and possible changes therein, the ultimate resolution of pending litigation (such as NL's lead pigment litigation and litigation surrounding environmental matters of NL, Tremont and TIMET) and possible future litigation. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected. The Company disclaims any intention or obligation to update or revise any forward-looking statement whether as a result of new information, future events or otherwise.

Chemicals

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

	Three months ended March 31, 1999	2000	% Change
	(In millions)		
Net sales	$ 201.6	$ 231.0	+15%
Operating income	26.0	39.8	+53%

Kronos' sales and operating income in the first quarter of 2000 increased compared to the first quarter of 1999 due primarily to record first-quarter TiO2 sales volumes and strong TiO2 production volumes. Kronos' first quarter 2000 sales volumes increased 24% from the first quarter of 1999 and was even with the fourth quarter of last year, reflecting sustained strong demand in all major regions. Kronos' production volumes in the first quarter of 2000 were 16% higher than the comparable period in 1999, with utilization rates near full capacity versus 86% capacity utilization in the first quarter of 1999. Excluding the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices (in billing currencies) in the first quarter of 2000 were even with the first quarter of 1999, and were 3% higher than the fourth quarter of 1999. During the first quarter of 2000, Kronos announced additional price increases in Europe that are effective in the second quarter of this year. NL believes demand for TiO2 will remain strong in the near term as a result of seasonally high sales to the coatings industry, resulting in continued upward pressure on selling prices.

NL expects its TiO2 sales volumes in 2000 will be slightly higher than its sales volumes in 1999. If TiO2 demand remains robust in the second half of 2000, NL expects additional price increases could be announced later in 2000. The successful implementation of any such price increase will depend on market conditions. As a result of anticipated higher TiO2 average selling prices and production volumes and continued focus on controlling costs, NL expects its chemicals operating income in 2000 will be higher than 1999. The extent of the improvement will be determined primarily by the magnitude of realized price increases.

NL has substantial operations and assets located outside the United States (principally Germany, Belgium, Norway and Canada). A significant amount of NL's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, primarily the Euro, other major European currencies and the Canadian dollar. In addition, a portion of NL's sales generated from its non-U.S. operations are denominated in the U.S. dollar. Certain raw materials, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of NL's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Including the effect of fluctuations in the value of the U.S. dollar relative to other currencies, Kronos' average TiO2 selling prices (in billing currencies) in the first quarter of 2000 were approximately 6% lower than the first quarter of 1999. Overall, fluctuations in the value of the U.S. dollar relative to other currencies, primarily the Euro, decreased TiO2 sales in the first quarter of 2000 by a net $14 million compared to the first quarter of 1999. Fluctuations in the value of the U.S. dollar relative to other currencies similarly impacted NL's foreign currency-denominated operating expenses, and the net impact of

currency exchange rate fluctuations on NL's operating income comparisons was not significant during the first quarter of 2000 compared to the same period in 1999.

Chemicals operating income, as presented above, is stated net of amortization of Valhi's purchase accounting adjustments made in conjunction with its acquisitions of its interest in NL. Such adjustments result in additional depreciation, depletion and amortization expense beyond amounts separately reported by NL. Such additional non-cash expenses reduced chemicals operating income, as reported by Valhi, by approximately $5.0 million and $4.8 million in the first quarter of 1999 and 2000, respectively, as compared to amounts separately reported by NL. As discussed below, the Company commenced consolidating Tremont's results of operations effective January 1, 2000. Tremont owns 20% of NL and accounts for its interest in NL by the equity method. Tremont also has purchase accounting adjustments made in conjunction with the acquisitions of its interest in NL. Prior to the Company's consolidation of Tremont's results of operations effective January 1, 2000, amortization of such purchase accounting adjustments were included in the Company's equity in earnings of Tremont. In the first quarter of 2000, amortization of such Tremont purchase accounting adjustments further reduced chemicals operating income, as reported by Valhi, compared to amounts separately reported by NL by approximately $1.6 million. Had the Company consolidated Tremont's results of operations effective January 1, 1999, amortization of Tremont's purchase accounting adjustments related to NL would have further reduced chemicals operating income, as presented above, for the first quarter of 1999 by $1.7 million.

Component Products

	Three months ended March 31, 1999	2000	% Change
	(In millions)		
Net sales	$ 55.2	$ 66.1	+20%
Operating income	9.5	10.9	+14%

Component products sales and operating income increased in the first quarter of 2000 compared to the same period in 1999 due primarily to increased demand for CompX's office furniture products, market share gains for its slide products and the effect of acquisitions. Excluding the effect of acquisitions, component products net sales increased 7% in the first quarter of 2000 compared to the first quarter of 1999, with sales of slides increasing 13%, ergonomic products sales increasing 7% and sales of security products essentially flat. Component products operating income margins decreased in the first quarter of 2000 compared to the first quarter of 1999 due to lower-margin sales generated by the lock operations acquired in January 2000 and due to a change in product mix with increased sales of certain lower-margin slide products.

CompX has substantial operations and assets located outside the United States (principally Canada, The Netherlands and Taiwan). A portion of CompX's sales generated from its non-U.S. operations are denominated in currencies other than the U.S. dollar, principally the Canadian dollar, the Dutch Guilder and the Euro. In addition, a portion of CompX's sales generated from its non-U.S. operations (principally in Canada) are denominated in the U.S. dollar. Most raw materials, labor and other production costs for such non-U.S. operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar value of CompX's foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. During the first quarter of 2000, weakness in the Euro negatively impacted component products sales and operating income comparisons (principally

with respect to slide products). Excluding the effect of currency and acquisitions, component products sales increased 9% in the first quarter of 2000 compared to the first quarter of 1999, and operating income increased 16%.

Waste Management

As previously reported, the Company commenced consolidating Waste Control Specialists' results of operations in the third quarter of 1999. Prior to consolidation, the Company reported its interest in Waste Control Specialists by the equity method. During the first quarter of 1999, Waste Control Specialists reported sales of $3.6 million, an operating loss (net loss before interest expense) of $5.1 million and a net loss of $5.2 million. During the first quarter of 2000, Waste Control Specialists reported sales of $4.6 million and an operating loss of $1.6 million. The improvement in Waste Control Specialists' results of operations is due primarily to the favorable effect of certain cost control measures implemented during the second half of 1999.

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

The current state law in Texas (where Waste Control Specialists' disposal facility is located) prohibits the applicable Texas regulatory agency from issuing a permit for the disposal of low-level radioactive waste to a private enterprise. During the latest Texas legislative session which ended in May 1999, Waste Control Specialists was supporting a proposed change in state law which would allow the regulatory agency to issue a disposal permit to a private entity. While the legislative session ended without any change in state law, Waste Control Specialists has been pursuing other alternatives with respect to the disposal of low-level and mixed radioactive wastes, including obtaining certain modifications to its existing permits that would allow Waste Control Specialists to dispose of certain types of low-level and mixed radioactive wastes. Waste Control Specialists has obtained additional authority that allows Waste Control Specialists to dispose of certain categories of low-level radioactive materials, including naturally occurring radioactive material and exempt level materials (radioactive materials that do not exceed certain specified radioactive concentrations and are exempt from licensing). Although there are other categories of low-level and mixed radioactive wastes that continue to be ineligible for disposal under the increased authority, Waste Control Specialists will continue to pursue permit modifications to further expand its treatment and disposal capabilities for low-level and mixed radioactive wastes. In addition, Waste Control Specialists currently expects to continue to support a change in state law, as discussed above, during the next Texas legislative session which begins in January 2001. Expenditures associated with any additional permit modifications concerning the disposal of low-level and mixed radioactive wastes in the next few quarters are expected to be significantly lower than those incurred in connection with the Texas legislative session which ended in May 1999. There can be no assurance that Waste Control Specialists will be successful in obtaining any future permit modifications.

Waste Control Specialists has entered into an agreement with an independent contractor pursuant to which the contractor will operate certain indirect thermal desorption equipment owned by the contractor on behalf of Waste Control Specialists at its West Texas facility. This equipment and related technology is expected to allow Waste Control Specialists to process and dispose

of new hazardous waste streams (principally refinery wastes) beginning in the second quarter of 2000.

The completion of the Texas legislative session in May 1999 resulted in a significant reduction in the Company's expenditures for permitting during the last half of 1999 and first quarter of 2000 compared to the first half of 1999. Waste Control Specialists' program to improve operating efficiencies at its West Texas facility and to curtail certain of its corporate and administrative costs has also reduced operating costs in the last half of 1999 and the first quarter of 2000 compared to the first half of 1999. Waste Control Specialists is also refocusing its sales and marketing efforts to (i) emphasize opportunities where Waste Control Specialists believes it has unique permitting capabilities for the treatment and storage of mixed radioactive wastes that currently provide Waste Control Specialists with certain competitive advantages and (ii) capitalize on the recent permit modifications regarding disposal of certain types of low-level radioactive wastes. Realizing significant sales volumes from these types of waste streams may involve lengthy negotiations and due diligence processes necessary to satisfy potential customers of the adequacy of Waste Control Specialists' permitting ability for its facility and compliance with regulatory procedures. The ability of Waste Control Specialists to achieve increased volumes of these waste streams, together with improved operating efficiencies through further cost reductions and increased capacity utilization, are important factors in Waste Control Specialists' ability to achieve improved cash flows. The Company currently believes Waste Control Specialists can become a viable, profitable operation with its current operating permits. However, there can be no assurance that Waste Control Specialists' efforts will prove successful in improving its cash flows. In the event such efforts are not successful or Waste Control Specialists is not successful in expanding its disposal capabilities for low-level radioactive wastes, it is possible that Valhi will consider other strategic alternatives with respect to Waste Control Specialists.

Tremont Corporation and TIMET

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

Tremont accounts for its interests in both NL and TIMET by the equity method. NL's results of operations are discussed above. Tremont's equity in earnings of TIMET differs from the amounts that would be expected by applying Tremont's ownership percentage to TIMET's separately-reported earnings because of the effect of amortization of purchase accounting adjustments made by Tremont in conjunction with Tremont's acquisitions of its interests in TIMET. Amortization of such basis differences generally increases earnings (or reduces losses) attributable to TIMET as reported by Tremont compared to amounts separately-reported by TIMET.

During the first quarter of 2000, TIMET reported sales of $104.7 million, an operating loss of $18.4 million and a net loss of $15.1 million compared to sales of $134.1 million, an operating loss of $1.4 million and a net loss or $3.9 million in the first quarter of 1999. TIMET's results in the first quarter of 2000 were below those of the same period in 1999 due principally to a 11% decline in mill products sales volumes and a 6% decline in mill products average selling prices. In addition, TIMET's sales volumes of ingot and slab in the first quarter of 2000 decreased 30% compared to the first quarter of 1999, and average selling prices for ingot and slab declined 2%. Compared to the fourth quarter of last year, TIMET's mill products sales volumes decreased 4% in the first quarter of 2000, while average selling prices increased 4%. Sales volumes of ingot and slab in the first quarter of 2000 increased 38% from the relatively-weak sales volumes of the fourth quarter of 1999, and average selling prices increased slightly. TIMET's results in the first quarter of 2000 also include $9.2 million of special items, consisting of restructuring charges ($3.7 million), equipment-related impairment charges ($3.4 million) and environmental remediation charges ($3.3 million), offset by a $1.2 million gain from the sale of its castings joint venture. The restructuring charge relates to

previously-announced personnel reductions of about 250 employees, approximately two-thirds of which were accomplished as of March 31, 2000, with substantially all of the remainder expected to be accomplished by the end of June 2000.

TIMET's customers and end-users continue to indicate that a substantial titanium inventory overhang exists throughout the aerospace industry supply chain that, along with the competitive environment, continues to place downward pressure on TIMET's sales volumes and selling prices in selected products. It is very difficult for TIMET to predict what will happen for the balance of 2000. Early indications are that TIMET's production volumes and operating margins, exclusive of special charges, will be somewhat lower in the remaining three quarters of 2000 compared to the first quarter. TIMET is seeking to stem this potential deterioration through a stronger sales effort, selective price reductions and additional cost reductions. It is too early for TIMET to determine how successful these efforts will be. TIMET's backlog was approximately $185 million at March 31, 2000, compared to $195 million at December 31, 1999 and $350 million at December 31, 1998.

In March 2000, TIMET filed a lawsuit against Boeing in Colorado state court seeking damages for Boeing's repudiation and breach of TIMET's long-term sales agreement with Boeing. TIMET's complaint seeks damages from Boeing that TIMET believes are in excess of $600 million and a declaration from the court of TIMET's rights under the contract. Boeing has not yet filed a formal response to TIMET's complaint. TIMET and Boeing have begun discussions to determine if a settlement of this litigation can be reached. No assurance can be given that any settlement will be reached.

Tremont periodically evaluates the net carrying value of its long-term assets, principally its investments in NL and TIMET, to determine if there has been any decline in value below their net carrying amounts that is other than temporary and would, therefore, require a write-down which would be accounted for as a realized loss. At December 31, 1999, after considering what it believed to be all relevant factors, including, among other things, TIMET's operating results, financial position, estimated asset values and prospects, the Company recorded a non-cash charge to earnings to reduce the net carrying value of its investment in TIMET for an other than temporary impairment. In determining the amount of the impairment charge, Tremont considered, among other things, then-recent ranges of TIMET's NYSE market price and estimates of TIMET's future operating losses which would further reduce Tremont's carrying value of its investment in TIMET as it records additional equity in losses of TIMET. At March 31, 2000, Tremont's net carrying value of its investment in TIMET was $6.57 per share compared to a NYSE market price at that date of $4.38.

General corporate and other items

General corporate. General corporate interest and dividend income increased in the first quarter of 2000 compared to the first quarter of 1999 due primarily to a higher level of distributions received from The Amalgamated Sugar Company LLC. However, as discussed below, aggregate general corporate interest and dividend income is currently expected to be lower during the remainder of 2000 compared to the same periods in 1999 due primarily to a lower level of LLC distributions expected to be received.

Securities transactions in the first quarter of 1999 relate principally to the disposition of a portion of the shares of Halliburton Company common stock held by the Company when certain holders of the Company's LYONs debt obligations exercised their right to exchange their LYONs for such Halliburton shares. See Notes 3 and 7 to the Consolidated Financial Statements. Any additional exchanges in 2000 or thereafter would similarly result in additional securities transaction gains. Absent significant additional LYONs exchanges in 2000, the Company currently expects securities transactions in 2000 will be nominal.

Interest expense. Interest expense declined in the first quarter of 2000 compared to the first quarter of 1999 due primarily to a lower average level of outstanding indebtedness and lower average European borrowing rates at NL. Assuming interest rates do not increase significantly from current levels and that there is not a significant reduction in the amount of outstanding LYONs

indebtedness from exchanges, interest expense in 2000 is not expected to be significantly different from interest expense in 1999 due principally to the net effects of (i) lower expected levels of outstanding indebtedness and interest rates with respect to NL, (ii) higher levels of outstanding indebtedness with respect to CompX and (iii) the consolidation of Tremont's results of operations effective January 1, 2000.

Provision for income taxes. The principal reasons for the difference between the Company's effective income tax rates and the U.S. federal statutory income tax rates are explained in Note 10 to the Consolidated Financial Statements. Income tax rates vary by jurisdiction (country and/or state), and relative changes in the geographic mix of the Company's pre-tax earnings can result in fluctuations in the effective income tax rate. Certain subsidiaries, including NL, Tremont and CompX, are not members of the consolidated U.S. tax group and the Company provides incremental income taxes on such earnings.

During the first quarter of 2000, NL reduced its deferred income tax valuation allowance by $1.3 million primarily as a result of utilization of certain tax attributes for which the benefit had not been previously recognized under the "more-likely-than-not" recognition criteria. During the first quarter of 2000, Tremont increased its deferred income tax valuation allowance by $1.7 million primarily due to its equity in losses of TIMET for which recognition of a deferred tax benefit is not currently considered appropriate under the "more-likely-than-not" recognition criteria.

Minority interest., See Note 11 to the Consolidated Financial Statements. As discussed above, the Company commenced consolidating Tremont's results of operations beginning in 2000. Consequently, the Company commenced reporting minority interest in Tremont's net earnings or losses beginning in 2000. Minority interest in earnings of Tremont's subsidiaries in 2000 relates to TRECO L.L.C., a 75%-owned subsidiary of Tremont that holds Tremont's interests in certain joint ventures. Minority interest in earnings of NL's subsidiaries relates principally to NL's majority-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS").

LIQUIDITY AND CAPITAL RESOURCES:

Consolidated cash flows

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

Investing and financing activities. Approximately 55% of the Company's aggregate capital expenditures during the first quarter of 2000 relate to NL, and substantially all of the remainder relates to CompX.

During the first quarter of 2000, (i) CompX acquired a lock producer for $9 million using borrowings under its unsecured revolving bank credit facility, (ii) NL purchased $10.3 million of shares of its common stock and (iii) NL and Valhi purchased an aggregate of $20.7 million of shares of Tremont common stock.

During the first quarter of 2000, (i) CompX borrowed $12 million under its unsecured revolving bank credit facility, (ii) Valhi borrowed an aggregate of $16 million under its bank credit facility, (iii) Valhi repaid a net $2.3 million of short-term borrowings from Contran and (iv) Tremont increased its short-term borrowings from Contran by a net of $1 million.

At March 31, 2000, unused credit available under existing credit facilities approximated $91 million, which was comprised of $68 million available to CompX under its revolving senior credit facility discussed below, $11 million available to NL under non-U.S. credit facilities and $12 million available to Valhi under its revolving bank credit facility.

Chemicals - NL Industries

In November 1999, NL's board of directors authorized NL to purchase up to 1.5 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. Through March 31, 2000, NL had purchased 1.3 million of its shares pursuant to such authorization for an aggregate of $17.5 million, including $10.3 million purchased in the first quarter of 2000.

Certain of NL's U.S. and non-U.S. tax returns are being examined and tax authorities have or may propose tax deficiencies, including non-income related items and interest.

During 1997, NL received a tax assessment from the Norwegian tax authorities proposing tax deficiencies of NOK 51 million ($6 million at March 31, 2000) relating to 1994. NL appealed the 1994 assessment, and in February 2000 the Norwegian local court ruled in favor of the Norwegian tax authorities on the primary issue, but asserted such tax authorities' assessment was overstated by NOK 34 million ($4 million). In March 2000, the tax authorities agreed with the Norwegian local court and reduced the 1994 assessment to NOK 17 million ($2 million). The tax authorities recently issued a NOK 13 million ($2 million) assessment for 1996, which was computed on a basis similar to the revised 1994 assessment. NL has appealed the local court's decision on the primary issue related to the 1994 assessment to a higher court, and the outcome of the 1996 assessment is dependent upon the eventual outcome of the 1994 case. NL has granted a lien for the 1994 tax assessment on its Norwegian Ti02 plant in favor of the Norwegian tax authorities, and NL expects to grant an additional lien on the plant related to the 1996 assessment.

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

NL has been named as a defendant, PRP, or both, in a number of legal proceedings associated with environmental matters, including waste disposal sites, mining locations and facilities currently or previously owned, operated or used by NL, certain of which are on the U.S. EPA's Superfund National Priorities List or similar state lists. On a quarterly basis, NL evaluates the potential range of its liability at sites where it has been named as a PRP or defendant, including sites for which EMS has contractually assumed NL's obligation. NL believes it has provided adequate accruals ($110 million at March 31, 2000) for reasonably estimable costs of such matters, but NL's ultimate liability may be affected by a number of factors, including changes in remedial alternatives and costs and the allocation of such costs among PRPs. It is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to NL for sites for which it is possible to estimate costs is approximately $150 million. NL's estimates of such liabilities have not been discounted to present value, and NL has not recognized any potential insurance recoveries. No assurance can be given that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made and no assurance can be given that costs will not be incurred with respect to sites as to which no estimate presently can be made. NL is also a defendant in a number of legal proceedings seeking damages for personal injury, property damage and government expenditures allegedly arising from the sale of lead pigments and lead-based paints. NL has not accrued any amounts for the pending lead pigment and lead-based paint litigation. There is no assurance that NL will not incur future liability in respect of this pending litigation in view of the inherent uncertainties involved in court and jury rulings in pending and possible future cases. However, based on, among other things, the results of such litigation to date, NL believes that the pending lead pigment and lead-based paint litigation is without merit. Liability that may result, if any, cannot reasonably be estimated. In addition, various legislation and administrative regulations have, from time to time, been enacted or proposed that seek to impose various obligations on present and former

manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and to effectively overturn court decisions in which NL and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions currently barred by statutes of limitations. NL currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on its consolidated financial position, results of operations or liquidity. There can be no assurance that additional matters of these types will not arise in the future.

On May 3, 2000, a confederation of labor organizations in Norway implemented a work stoppage directed at various Norwegian employers, including NL's 30,000 metric ton TiO_2 facility and ilmenite mining operations. NL does not expect the work stoppage will be lengthy or to have a material adverse effect on NL's consolidated financial position, results of operations or liquidity.

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

Component products - CompX International

In January 2000, CompX acquired a lock producer for $9 million cash consideration using primarily borrowings under its bank credit facility.

Certain of CompX's sales generated by its Canadian operations are denominated in U.S. dollars. To manage a portion of the foreign exchange rate market risk associated with such receivables, at March 31, 2000 CompX had entered into a series of short-term forward exchange contracts maturing through June 2000 to exchange an aggregate of $9 million for an equivalent amount of Canadian dollars at exchange rates of approximately Cdn. $1.46 per U.S. dollar. Subsequent to March 31, 2000, to manage exchange rate risk associated with its future sales, CompX entered into additional forward exchange contracts to exchange an aggregate of $18 million for an equivalent amount of Canadian dollars at exchange rates between approximately Cdn. $1.46 and Cdn. $1.47. Such contracts mature through December 2000.

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

Tremont Corporation and Titanium Metals Corporation

Tremont. Tremont is primarily a holding company which, at March 31, 2000, owned approximately 39% of TIMET and 20% of NL. At March 31, 2000, the market value of the 12.3 million shares of TIMET and the 10.2 million shares of NL held by Tremont was approximately $54 million and $133 million, respectively.

In 1998, Tremont entered into a revolving advance agreement with Contran. Through March 31, 2000, Tremont had net borrowings of $14.7 million from Contran under such facility, primarily to fund Tremont's purchases of shares of NL and TIMET common stock. Tremont expects to begin to repay such loan from Contran in 2000 as the cash received from its dividends from NL, which increased its quarterly dividend rate to $.15 per share beginning in 2000, is expected to exceed its other cash requirements (including its dividends).

In 1997, Tremont's board of directors authorized Tremont to purchase up to 2 million shares of its common stock in open market or privately-negotiated transactions over an unspecified period of time. As of March 31, 2000, Tremont had acquired 1.2 million shares under such authorization. No such shares were acquired in 1999 or the first quarter of 2000. To the extent Tremont acquires additional shares of its common stock, the Company's ownership interest in Tremont would increase as a result of the fewer number of Tremont shares outstanding.

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

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

TIMET. At March 31, 2000, TIMET had net debt of approximately $73 million ($79 million of notes payable and long-term debt and $6 million of cash and equivalents). In February 2000, TIMET entered into a new $125 million U.S. revolving credit agreement which replaced its previous U.S. credit facility. Borrowings under the new facility are limited to a formula-determined borrowing base derived from the value of accounts receivable, inventories and equipment. The new facility limits additional indebtedness of TIMET, prohibits the payment of common stock dividends and contains other covenants customary in lending transactions of this type. In addition, in February 2000 TIMET also entered into a new U.K. credit facility denominated in Pound Sterling which replaced its prior U.K. credit facility. At March 31, 2000, TIMET had $95 million of borrowing availability, principally under these new facilities. TIMET believes these two new credit facilities will provide TIMET with the liquidity necessary for its current market and operating conditions.

At March 31, 2000, TIMET had $201.3 million outstanding of its 6.625% convertible preferred securities. Such convertible preferred securities do not require principal amortization, and TIMET has the right to defer dividend

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

In October 1998, TIMET purchased for cash $80 million of Special Metals Corporation 6.625% convertible preferred stock (the "SMC Preferred Stock"), in conjunction with, and concurrent with, SMC's acquisition of a business unit from Inco Limited. Dividends on the SMC Preferred Stock are being accrued but, through March 31, 2000, have not been paid due to limitations imposed by SMC's bank credit agreement. As a result, TIMET has classified its accrued dividends on the SMC preferred securities ($8 million at March 31, 2000) as a non-current asset. In April 2000, TIMET received a $1.3 million quarterly dividend payment on the SMC Preferred Stock. There can be no assurance that TIMET will receive additional dividends during the remainder of 2000. TIMET currently believes it will realize the carrying value of its investment in the SMC Preferred Stock.

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

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

General corporate - Valhi

Valhi's operations are conducted primarily through its subsidiaries (NL Industries, CompX, Tremont and Waste Control Specialists). Accordingly, Valhi's long-term ability to meet its parent company level corporate obligations is dependent in large measure on the receipt of dividends or other distributions from its subsidiaries. NL increased its quarterly dividend to from $.035 per share to $.15 per share in the first quarter of 2000. At the current $.15 per share quarterly rate, and based on the 30.1 million NL shares held by Valhi at March 31, 2000, Valhi would receive aggregate annual dividends from NL of approximately $18.1 million. Tremont's quarterly dividend is currently $.07 per share. At that rate, and based upon the 3.8 million Tremont shares owned by Valhi at March 31, 2000 (which includes Tremont shares purchased late in the first quarter of 2000), Valhi would receive aggregate annual dividends from Tremont of approximately $1 million. CompX commenced quarterly dividends of $.125 per share in the fourth quarter of 1999. At this current rate and based on the 10.4 million CompX shares held by Valhi and Valcor, Valhi/Valcor would receive annual dividends from CompX of $5.2 million. Various credit agreements

to which certain subsidiaries or affiliates are parties contain customary limitations on the payment of dividends, typically a percentage of net income or cash flow; however, such restrictions have not significantly impacted Valhi's ability to service its parent company level obligations. Valhi has not guaranteed any indebtedness of its subsidiaries or affiliates. At March 31, 2000, Valhi had $12 million of parent level cash and cash equivalents, including a portion held by Valcor which could be distributed to Valhi, and had $37 million of outstanding borrowings under its revolving bank credit agreement. In addition, Valhi had $12 million of borrowing availability under its bank credit facility.

Valhi's LYONs do not require current cash debt service. At March 31, 2000, Valhi held 2.7 million shares of Halliburton common stock, which shares are held in escrow for the benefit of holders of the LYONs. The LYONs are exchangeable at any time, at the option of the holder, for the Halliburton shares owned by Valhi. Exchanges of LYONs for Halliburton stock result in the Company reporting income related to the disposition of the Halliburton stock for both financial reporting and income tax purposes, although no cash proceeds are generated by such exchanges. Valhi's potential cash income tax liability that would have been triggered at March 31, 2000, assuming exchanges of all of the outstanding LYONs for Halliburton stock at such date, was approximately $28 million. Valhi continues to receive regular quarterly Halliburton dividends (currently $.125 per share) on the escrowed shares. At March 31, 2000, the LYONs had an accreted value equivalent to approximately $35.00 per Halliburton share, and the market price of the Halliburton common stock was $41.13 per share.

Valhi received approximately $73 million cash in early 1997 at the transfer of control of its refined sugar operations previously conducted by the Company's wholly-owned subsidiary, The Amalgamated Sugar Company, to Snake River Sugar Company, an agricultural cooperative formed by certain sugarbeet growers in Amalgamated's area of operation. Pursuant to the transaction, Amalgamated contributed substantially all of its net assets to The Amalgamated Sugar Company LLC, a limited liability company controlled by Snake River, on a tax-deferred basis in exchange for a non-voting ownership interest in the LLC. As part of the transaction, Snake River made certain loans to Valhi aggregating $250 million in January 1997. Such loans bear interest (which is paid monthly) at a weighted average fixed interest rate of 9.4%, are presently nonrecourse to Valhi and are collateralized by the Company's investment in the LLC ($170 million carrying value at March 31, 2000). Snake River's sources of funds for its loans to Valhi, as well as for the $14 million it contributed to The Amalgamated Sugar Company LLC for its voting interest in the LLC, included cash capital contributions by the grower members of Snake River and $192 million in debt financing provided by Valhi in January 1997, of which $100 million was subsequently prepaid in 1997 when Snake River obtained $100 million of third-party term loan financing. In addition, another $12 million of loans from Valhi were prepaid during 1997. After these prepayments, $80 million of Valhi's loans to Snake River Sugar Company remain outstanding. See Notes 3, 5 and 7 to the Consolidated Financial Statements.

The terms of the LLC provide for annual "base level" of cash dividend distributions (sometimes referred to distributable cash) by the LLC of $26.7 million, from which the Company is entitled to a 95% preferential share. Distributions from the LLC are dependent, in part, upon the operations of the LLC. Each month, the LLC estimates its distributable cash for the year and makes a distribution based on such estimated distributable cash. Revisions during the year of such estimated distributable cash result in adjustments to the amount of dividend distributions paid by the LLC in the month such revisions are made. The Company records dividend distributions from the LLC as income upon receipt, which is the same month in which they are declared by the LLC. To the extent the LLC's distributable cash is below this base level in any given year, the Company is entitled to an additional 95% preferential share of any future annual LLC distributable cash in excess of the base level until such shortfall is recovered.

The Company has the ability to temporarily take control of the LLC in the event the Company's cumulative distributions from the LLC fall below specified levels. Over the past year, the refined sugar industry has been experiencing, among other things, downward pressure on selling prices due

principally to relative supply/demand relationships. Snake River's board of directors are authorized to require the sugarbeet growers to make capital contributions to Snake River in the form of "unit retains." Such unit retain capital contributions are deducted from the payments made to the growers for supplying the LLC with sugarbeets, thereby decreasing the LLC's raw material costs. During each of 1998 and 1999, Snake River's board of directors authorized such unit retains in order to (i) increase the profitability and cash flows of the LLC and (ii) maintain the Company's cumulative distributions above the specified levels. Through March 31, 2000, the Company's cumulative distributions from the LLC had not fallen below such specified levels, in part because of the LLC's previous estimate of the amount it would ultimately pay the growers for supplying sugarbeets to the LLC during 2000, including the effect of unit retains.

Effective April 2000, the LLC increased its estimate of the amount it would pay the growers for supplying sugarbeets to the LLC during 2000, which reduced previous estimates of the LLC's distributable cash for 2000. Consequently, the LLC did not pay a distribution to the Company during April 2000. Although this resulted in the Company's cumulative distributions from the LLC becoming lower than the specified levels referred to above, to date the Company has not yet exercised its right to temporarily take control of the LLC. If the Company exercises such right, it would be required to escrow certain funds pursuant to an agreement with Snake River's third-party senior lender, unless the Company and Snake River's third-party lender otherwise mutually agree. While the Company did not receive a distribution from the LLC in April 2000, the Company did pay the April 2000 interest payment owed under its $250 million in loans from Snake River.

The LLC will continue to estimate its distributable cash each month for the remainder of 2000 and, if such estimates warrant, make additional dividend distributions at that time. The Company received $6.6 million of LLC distributions in the first quarter of 2000. If the LLC's actual distributable cash for 2000 (which will not be known until the first quarter of 2001 when the LLC's audited financial statements for 2000 are issued) is less than this $6.6 million plus the amount, if any, of LLC distributions received during the remainder of 2000, the Company would be required to refund such shortfall at the time such actual distributable cash for 2000 is determined.

Certain covenants contained in Snake River's third-party senior debt limit the amount of debt service payments (principal and interest) which Snake River is permitted to remit to Valhi under Valhi's $80 million loan to Snake River, and such loan is subordinated to Snake River's third-party senior debt. Due to these covenants, Snake River was limited in the amount of debt service it could pay on the $80 million loan to $3 million in 1998, $7.2 million in 1999 and $950,000 in the first quarter of 2000. At March 31, 2000, the accrued and unpaid interest on the $80 million loan to Snake River aggregated $14 million. The Company is presently uncertain whether it will receive additional payments for debt service on the $80 million loan during the remainder of 2000 due to the covenants contained in Snake River's third-party senior debt. The Company currently believes it will ultimately realize both the $80 million principal amount and the $14 million of accrued and unpaid interest, whether through cash generated from the future operations of Snake River and the LLC or otherwise (including any liquidation of Snake River/LLC).

Redemption of the Company's interest in the LLC would result in the Company reporting income related to the disposition of its LLC interest for both financial reporting and income tax purposes. The cash proceeds that would be generated from such a disposition would likely be less than the specified redemption price due to Snake River's ability to simultaneously call its $250 million loans to Valhi. As a result, the net cash proceeds generated by redemption of the Company's interest in the LLC could be less than the income taxes that would become payable as a result of the disposition.

The Company routinely compares its liquidity requirements and alternative uses of capital against the estimated future cash flows to be received from its subsidiaries, and the estimated sales value of those units. As a result of this process, the Company has in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, repurchase

indebtedness in the market or otherwise, modify its dividend policies, consider the sale of interests in subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of such steps or other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

The Company and related entities routinely evaluate acquisitions of interests in, or combinations with, companies, including related companies, perceived by management to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to the Company's current businesses. The Company intends to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing the indebtedness of the Company, its subsidiaries and related companies. From time to time, the Company and related entities also evaluate the restructuring of ownership interests among their respective subsidiaries and related companies. In this regard, the indentures governing the publicly-traded debt of NL contain provisions which limit the ability of NL and its subsidiaries to incur additional indebtedness or hold noncontrolling interests in business units.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

Reference is made to the 1999 Annual Report for descriptions of certain legal proceedings.

In April 2000, a complaint was filed in the United States District Court, District of Utah, Central Division against Waste Control Specialists LLC (Envirocare of Utah, Inc., et al. v. Waste Control Specialists LLC, et al., No. 2-00CV-0324J). The complaint alleges, among other things, that the defendants, individually and in concert, published defamatory and disparaging statements regarding plaintiffs and have engaged in other conduct causing injury to plaintiffs in Utah. The complaint seeks unspecified damages for defamation per se, defamation, false light invasion of privacy, injurious falsehood and tortious interference with current and prospective economic advantage. Waste Control Specialists believes the complaint is without merit and intends to deny all allegations of wrongdoing and to defend the action vigorously.

Brenner, et al. v. American Cyanamid, et al. (No. 12596-93). In March 2000, the Fourth Department intermediate appellate court denied plaintiffs' request to seek review.

Sweet, et al. v. Sheahan, et al. (No. 97-CV-1666/LEK-DNH), In March 2000, plaintiffs voluntarily dismissed all defendants other than the landlord without prejudice.

Cofield, et al. v. Lead Industries Association, et al. (No. 24-C-099-004491). In March 2000, the Federal trial court (No. MJG-99-3277) denied plaintiffs' motion to remand to State Court. In April 2000, defendants filed an additional motion to dismiss all claims for lack of product identification.

City of St. Louis v. Lead Industries Association, et al. (No. 002-245, Division 1). In March 2000, defendants removed the case to Missouri federal court. In April 2000, plaintiff filed a motion to remand to State Court and an amended complaint seeking to add additional Missouri defendant residents.

In April 2000, NL was served with a complaint in County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. CV788657). The County of Santa Clara seeks to represent a class of all public entities in California. The County seeks from defendants (eight present or former pigment or paint manufacturing

companies, including NL, and the Lead Industries Association) compensatory damages for funds the plaintiffs have expended for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profits and punitive damages. Plaintiff alleges causes of action for violations of the California Business and Professions Code, strict product liability, negligence, fraud and concealment, unjust enrichment and indemnity, and includes market share liability allegations. NL intends to deny all allegations of wrongdoing and liability and to defend the case vigorously.

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

(a) Exhibits

27.1 - Financial Data Schedule for the three-month period ended March 31, 2000.

(b) Reports on Form 8-K

Reports on Form 8-K for the quarter ended March 31, 2000.

February 10, 2000 - Reported Items 5 and 7.
February 15, 2000 - Reported Items 5 and 7.

SIGNATURES

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

VALHI, INC.
(Registrant)

Date May 12, 2000

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

Date May 12, 2000

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

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THE SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM VALHI, INC.'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2000, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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