VALHI INC /DE/
Form 10-Q
May 09, 2012

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2012

Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**87-0110150**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x **No** ¨

Whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x **No** ¨

Whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large accelerated filer	¨	**Accelerated filer**	x
Non-accelerated filer	¨	**Smaller reporting company**	¨

Whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ **No** x

Number of shares of the Registrant s common stock outstanding on May 4, 2012: 113,036,483.

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VALHI, INC. AND SUBSIDIARIES

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Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2011	March 31, 2012 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 96.4	**$ 57.7**
Restricted cash equivalents	5.3	**5.3**
Marketable securities	22.5	**.9**
Accounts and other receivables, net	316.0	**451.4**
Inventories, net	464.5	**605.5**
Other current assets	20.7	**21.2**
Deferred income taxes	18.8	**18.8**
Total current assets	944.2	**1,160.8**
Other assets:		
Marketable securities	354.1	**343.4**
Investment in affiliates	105.7	**124.5**
Note receivable from affiliate	11.2	**11.2**
Goodwill	400.1	**400.3**
Deferred income taxes	132.7	**114.9**
Other noncurrent assets	166.2	**165.1**
Total other assets	1,170.0	**1,159.4**
Property and equipment:		
Land	53.0	**54.6**
Buildings	276.8	**282.2**
Equipment	1,188.3	**1,217.4**
Mining properties	63.5	**61.8**
Construction in progress	111.2	**118.8**
	1,692.8	**1,734.8**
Less accumulated depreciation	969.0	**994.3**
Net property and equipment	723.8	**740.5**
Total assets	$ 2,838.0	**$ 3,060.7**

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2011	March 31, 2012 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 19.0	**$ 18.9**
Accounts payable and accrued liabilities	363.7	**335.5**
Income taxes	26.5	**39.8**
Deferred income taxes	6.4	**6.6**
Total current liabilities	415.6	**400.8**
Noncurrent liabilities:		
Long-term debt	717.4	**833.4**
Deferred income taxes	457.2	**457.2**
Accrued pension costs	144.4	**143.9**
Accrued environmental remediation and related costs	34.6	**45.4**
Accrued postretirement benefits costs	20.4	**20.6**
Other liabilities	55.4	**56.8**
Total noncurrent liabilities	1,429.4	**1,557.3**
Equity:		
Valhi stockholders equity:		
Preferred stock	667.3	**667.3**
Common stock	1.2	**1.2**
Additional paid-in capital	81.0	**81.0**
Retained earnings (deficit)	(19.4)	**55.4**
Accumulated other comprehensive loss	(23.3)	**(13.2)**
Treasury stock	(49.6)	**(49.6)**
Total Valhi stockholders equity	657.2	**742.1**
Noncontrolling interest in subsidiaries	335.8	**360.5**
Total equity	993.0	**1,102.6**
Total liabilities and equity	$ 2,838.0	**$ 3,060.7**

Commitments and contingencies (Notes 12 and 14)

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three months ended March 31, 2011	2012
	(unaudited)	
Revenues and other income:		
Net sales	$ 455.7	**$ 597.9**
Other income, net	16.8	**9.3**
Total revenues and other income	472.5	**607.2**
Costs and expenses:		
Cost of sales	306.8	**334.0**
Selling, general and administrative	61.3	**80.6**
Loss on prepayment of debt	3.3	
Interest	17.2	**13.5**
Total costs and expenses	388.6	**428.1**
Income before income taxes	83.9	**179.1**
Provision for income taxes	30.7	**59.6**
Net income	53.2	**119.5**
Noncontrolling interest in net income of subsidiaries	15.2	**30.6**
Net income attributable to Valhi stockholders	$ 38.0	**$ 88.9**
Amounts attributable to Valhi stockholders:		
Basic and diluted earnings per share	$ .33	**$ .78**
Cash dividends per share	$ .10	**$ .125**
Basic and diluted weighted average shares outstanding	114.2	**114.0**

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Three months ended March 31, 2011	Three months ended March 31, 2012
	(unaudited)	
Net income	$ 53.2	**$ 119.5**
Other comprehensive income (loss), net of tax:		
Currency translation	14.0	**18.3**
Marketable securities	7.7	**(11.1)**
Defined benefit pension plans	1.7	**2.0**
Other postretirement benefit plans	(.4)	**(.3)**
Total other comprehensive income, net	23.0	**8.9**
Comprehensive income	76.2	**128.4**
Comprehensive income attributable to noncontrolling interest	22.1	**29.4**
Comprehensive income attributable to Valhi stockholders	$ 54.1	**$ 99.0**

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Three months ended March 31, 2011	Three months ended March 31, 2012
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 53.2	**$ 119.5**
Depreciation and amortization	15.6	**15.7**
Loss on prepayment of debt	3.3	
Call premium paid	(2.5)	
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension expense	(2.1)	**.1**
Other postretirement benefit expense	(.5)	**(.5)**
Deferred income taxes	12.6	**25.2**
Net distributions from (contributions to) TiO_2 manufacturing joint venture	1.1	**(18.8)**
Other, net	.4	
Change in assets and liabilities:		
Accounts and other receivables, net	(56.7)	**(163.4)**
Inventories, net	(38.6)	**(126.1)**
Accounts payable and accrued liabilities	13.4	**(8.0)**
Accounts with affiliates	1.6	**29.0**
Income taxes	9.9	**11.6**
Other, net	(8.2)	**1.3**
Net cash provided by (used in) operating activities	2.5	**(114.4)**
Cash flows from investing activities:		
Capital expenditures	(24.0)	**(34.6)**
Capitalized permit costs	(1.4)	**(.9)**
Purchases of:		
Mutual funds	(197.8)	
Other marketable securities	(2.2)	**(.5)**
Titanium Metals Corporation (TIMET) common stock	(20.4)	
Proceeds from:		
Disposal of mutual funds	92.0	**21.1**
Disposal of other marketable securities	2.9	**2.8**
Sale of business	.3	
Change in restricted cash equivalents, net	2.6	**(2.3)**
Other, net	(.8)	**2.1**
Net cash used in investing activities	(148.8)	**(12.3)**

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Three months ended March 31, 2011	2012
	(unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 113.3	**$ 108.5**
Principal payments	(121.3)	**(2.1)**
Valhi cash dividends paid	(11.4)	**(14.1)**
Distributions to noncontrolling interest in subsidiaries	(15.4)	**(4.7)**
Treasury stock acquired	(3.7)	
Issuance of subsidiary common stock	.3	
Other, net	(.1)	
Net cash provided by (used in) financing activities	(38.3)	**87.6**
Cash and cash equivalents net change from:		
Operating, investing and financing activities	(184.6)	**(39.1)**
Effect of exchange rate on cash	2.7	**.4**
Cash and cash equivalents at beginning of period	325.1	**96.4**
Cash and cash equivalents at end of period	$ 143.2	**$ 57.7**
Supplemental disclosures:		
Cash paid for:		
Interest, net of capitalized interest (including call premium paid)	$ 13.9	**$ 7.4**
Income taxes, net	11.6	**23.9**
Noncash investing activities:		
Accrual for capital expenditures	10.4	**6.1**
Accrual for capitalized permit costs	.5	**3.5**

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Three months ended March 31, 2012

(In millions)

	Valhi Stockholders Equity							
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income(loss)	Treasury stock	Non-controlling interest	Total equity
Balance at December 31, 2011	$ 667.3	$ 1.2	$ 81.0	$ (19.4)	$ (23.3)	$ (49.6)	$ 335.8	$ 993.0
Net income				88.9			30.6	119.5
Other comprehensive income (loss), net					10.1		(1.2)	8.9
Cash dividends				(14.1)			(4.7)	(18.8)
Balance at March 31, 2012	$ 667.3	$ 1.2	$ 81.0	$ 55.4	$ (13.2)	$ (49.6)	$ 360.5	$ 1,102.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

(unaudited)

Note 1 Organization and basis of presentation:

Organization We are majority owned by Contran Corporation and its subsidiaries, which own approximately 95% of our outstanding common stock at March 31, 2012. 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 (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran and us.

Basis of Presentation Consolidated in this Quarterly Report are the results of our majority-owned and wholly-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc., Tremont LLC and Waste Control Specialists LLC (WCS). Kronos (NYSE: KRO), NL (NYSE: NL), and CompX (AMEX: CIX) each file periodic reports with the Securities and Exchange Commission (SEC).

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 that we filed with the SEC on March 7, 2012 (the 2011 Annual Report). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2011 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2011) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our results of operations for the interim period ended March 31, 2012 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2011 Consolidated Financial Statements contained in our 2011 Annual Report.

In March 2012, our board of directors approved a 3-for-1 split of our common stock to be effected in the form of a stock dividend. Holders of record of Valhi s common stock at the close of business on May 2, 2012 will receive two additional shares for each Valhi share held as of the close of business on that date. The distribution of the additional Valhi shares is subject to certain customary regulatory approvals, and is expected to occur on the close of business on May 10, 2012. Also in March 2012 our board of directors and the holders of a majority of our common stock approved an amendment to our certificate of incorporation to increase the authorized number of shares of our common stock to 500 million. The filing of the amendment with the Delaware Secretary of State is required in order to effectuate the stock split, which we filed on May 1, 2012.

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Once the stock split has been implemented, we will adjust all share and per-share disclosures for all periods presented in our consolidated financial statements to give effect to the split. On a pro forma basis and assuming the split had been implemented, our basic and diluted earnings per share for the first quarter of 2011 and 2012 would have been $.11 and $.26, respectively, based on 342.6 million and 342.0 million, respectively, basic and diluted weighted average shares outstanding during such periods, and our cash dividends per share would have been $.033 and $.042 per share, respectively.

Unless otherwise indicated, references in this report to we, us or our refer to Valhi, Inc and its subsidiaries (NYSE: VHI), taken as a whole.

Note 2 Business segment information:

Business segment	Entity	% controlled at March 31, 2012
Chemicals	Kronos	80%
Component products	CompX	87%
Waste management	WCS	100%

Our control of Kronos includes 50% we hold directly and 30% held directly by NL. We own 83% of NL. Our control of CompX is through NL.

	Three months ended March 31, 2011	2012
	(In millions)	
Net sales:		
Chemicals	$ 420.4	**$ 561.3**
Component products	34.8	**35.5**
Waste management	.5	**1.1**
Total net sales	$ 455.7	**$ 597.9**
Cost of sales:		
Chemicals	$ 274.6	**$ 300.4**
Component products	26.1	**26.0**
Waste management	6.1	**7.6**
Total cost of sales	$ 306.8	**$ 334.0**
Gross margin:		
Chemicals	$ 145.8	**$ 260.9**
Component products	8.7	**9.5**
Waste management	(5.6)	**(6.5)**
Total gross margin	$ 148.9	**$ 263.9**

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	Three months ended March 31, 2011	2012
	(In millions)	
Operating income (loss):		
Chemicals	$ 103.5	**$ 211.3**
Component products	8.8	**2.9**
Waste management	(9.0)	**(9.6)**
Total operating income	103.3	**204.6**
Equity in earnings of investee	(.1)	**.1**
General corporate items:		
Securities earnings	7.4	**7.1**
Insurance recoveries	.4	**1.1**
General expenses, net	(6.6)	**(20.3)**
Loss on prepayment of debt	(3.3)	
Interest expense	(17.2)	**(13.5)**
Income before income taxes	$ 83.9	**$ 179.1**

Segment results we report may differ from amounts separately reported by our various subsidiaries and affiliates due to purchase accounting adjustments and related amortization or differences in the way we define operating income. Intersegment sales are not material. We received approximately $7.5 million for a patent litigation settlement in the first quarter of 2011, which is included in the determination of Component Products operating income, see Note 11.

Note 3 Marketable securities:

	Market value	Cost basis	Unrealized gains/ (losses), net
		(In millions)	
December 31, 2011:			
Current assets:			
Mutual funds	**$ 20.9**	**$ 21.1**	**$ (.2)**
Other	**1.6**	**1.6**	
Total	**$ 22.5**	**$ 22.7**	**$ (.2)**
Noncurrent assets:			
The Amalgamated Sugar Company LLC	$ 250.0	$ 250.0	$
TIMET common stock	97.7	86.0	11.7
Other	6.4	6.5	(.1)
Total	$ 354.1	$ 342.5	$ 11.6

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March 31, 2012:			
Current assets	**$ .9**	**$ .9**	**$**
Noncurrent assets:			
The Amalgamated Sugar Company LLC	**$ 250.0**	**$ 250.0**	**$**
TIMET common stock	**88.4**	**86.0**	**2.4**
Other	**5.0**	**4.9**	**.1**
Total	**$ 343.4**	**$ 340.9**	**$ 2.5**

All of our marketable securities are accounted for as available-for-sale, which are carried at fair value, with any unrealized gains or losses recognized through accumulated other comprehensive income. Our marketable securities are carried at fair value using quoted market prices, primarily Level 1 inputs as defined by Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, except for our investment in The Amalgamated Sugar Company LLC (Amalgamated). Our investment in Amalgamated is measured using significant unobservable inputs, which are Level 3 inputs. Please refer to Note 4 in our 2011 Annual Report for a complete description of the valuation methodology for our investment in Amalgamated. There have been no changes to the carrying value of this investment during the periods presented. See Note 15.

At December 31, 2011 and March 31, 2012, we, Kronos and NL and its subsidiaries held an aggregate of 6.5 million shares of TIMET common stock, and the quoted per share market price of TIMET s common stock was $14.98 and $13.56, respectively. Contran, Mr. Harold Simmons and persons and other entities related to Mr. Simmons own a majority of TIMET s outstanding common stock. The TIMET common stock we own is subject to the restrictions on resale pursuant to certain provisions of SEC Rule 144.

At December 31, 2011, we held investments in various mutual funds which had a primary investment objective of holding corporate and government debt securities from U.S. and other markets. These funds were liquidated for cash proceeds in the first quarter of 2012.

Note 4 Accounts and other receivables, net:

	December 31, 2011	March 31, 2012
	(In millions)	
Accounts receivable	$ 283.6	**$ 447.1**
Notes receivable	2.4	**1.6**
Refundable income taxes	2.1	**2.7**
Receivable from affiliates:		
Contran - income taxes		1.6
LPC	29.6	
Other		**.1**
Allowance for doubtful accounts	(1.7)	**(1.7)**
Total	$ 316.0	**$ 451.4**

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Note 5 Inventories, net:

	December 31, 2011	March 31, 2012
	(In millions)	
Raw materials:		
Chemicals	$ 89.6	**$ 138.0**
Component products	6.7	**6.8**
Total raw materials	96.3	**144.8**
Work in process:		
Chemicals	17.3	**21.9**
Component products	7.4	**7.6**
Total in-process products	24.7	**29.5**
Finished products:		
Chemicals	281.5	**365.6**
Component products	5.4	**5.3**
Total finished products	286.9	**370.9**
Supplies (primarily chemicals)	56.6	**60.3**
Total	$ 464.5	**$ 605.5**

Note 6 Other noncurrent assets:

	December 31, 2011	March 31, 2012
	(In millions)	
Investment in affiliates:		
TiO_2 manufacturing joint venture, Louisiana Pigment Company, L.P. (LPC)	$ 89.2	**$ 108.0**
Other	16.5	**16.5**
Total	$ 105.7	**$ 124.5**
Other assets:		
Waste disposal site operating permits, net	$ 66.6	**$ 70.0**
Restricted cash	7.6	**10.1**
Assets held for sale	7.3	**7.3**
IBNR receivables	6.5	**6.7**
Capital lease deposit	6.2	**6.2**
Deferred financing costs	2.0	**1.7**
Other intangible assets	2.1	**1.9**
Other	67.9	**61.2**
Total	$ 166.2	**$ 165.1**

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Note 7 Accounts payable and accrued liabilities:

	December 31, 2011	March 31, 2012
	(In millions)	
Accounts payable	$ 196.3	**$ 171.2**
Payable to affiliates:		
Contran income taxes	.1	
Contran trade items	21.1	**22.4**
LPC		**2.8**
Other	.2	**.3**
Employee benefits	45.4	**38.1**
Accrued sales discounts and rebates	11.8	**10.2**
Environmental remediation and related costs	8.6	**9.9**
Interest	5.0	**11.3**
Deferred income	3.5	**1.8**
Other	71.7	**67.5**
Total	$ 363.7	**$ 335.5**

Note 8 Other noncurrent liabilities:

	December 31, 2011	March 31, 2012
	(In millions)	
Reserve for uncertain tax positions	$ 26.9	**$ 27.6**
Insurance claims and expenses	9.7	**9.7**
Employee benefits	10.3	**10.5**
Deferred income	1.1	**1.0**
Other	7.4	**8.0**
Total	$ 55.4	**$ 56.8**

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Note 9 Long-term debt:

	December 31, 2011	March 31, 2012
	(In millions)	
Valhi:		
Snake River Sugar Company	$ 250.0	**$ 250.0**
Subsidiary debt:		
Kronos International:		
6.5% Senior Secured Notes	360.6	**371.0**
European revolving credit facility		**106.4**
CompX promissory note payable to TIMET	22.2	**21.2**
CompX bank credit facility	2.0	**2.0**
NL promissory note	9.0	**9.0**
WCS financing capital lease	71.1	**70.8**
WCS 6% promissory notes	11.7	**11.7**
Other	9.8	**10.2**
Total subsidiary debt	486.4	**602.3**
Total debt	736.4	**852.3**
Less current maturities	19.0	**18.9**
Total long-term debt	$ 717.4	**$ 833.4**

Kronos Senior Secured Notes In March 2011, Kronos redeemed 80 million of its 400 million 6.5% Senior Secured Notes at 102.17% of the principal amount for an aggregate of $115.7 million, including a $2.5 million call premium. During the third and fourth quarters of 2011, Kronos repurchased in open market transactions an aggregate of 40.8 million principal amount of the Senior Notes for an aggregate of 40.6 million (an aggregate of $57.6 million when repurchased). Following such partial redemption and repurchases, 279.2 million principal amount of Senior Notes remain outstanding. We recognized a $3.3 million pre-tax interest charge related to the prepayment of the Senior Notes in the first quarter of 2011, consisting of the call premium and the write-off of unamortized deferred financing costs and original issue discount associated with the redeemed Senior Notes.

Revolving European credit facility During the first three months of 2012, Kronos borrowed 80 million ($107.4 million when borrowed) under its European credit facility. The average interest rate on these borrowings at March 31, 2012 was 1.94%.

Canada At March 31, 2012, an aggregate of Cdn. $7.3 million letters of credit were outstanding under Kronos Canadian subsidiary s loan agreement with the Bank of Montreal which provides solely for the issuance of up to Cdn. $10.0 million in letters of credit.

CompX The interest rate on the balance outstanding under the credit facility at March 31, 2012 was 3.4%. CompX prepaid $1.0 million of principal on the promissory note payable to affiliate during the first quarter of 2012. The interest rate on the promissory note at March 31, 2012 was 1.6%.

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Restrictions and Other Certain of the credit facilities with unrelated, third-party lenders described above require the respective borrowers to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. We are in compliance with all of our debt covenants at March 31, 2012. We believe we will be able to comply with the financial covenants contained in all of our credit facilities through the maturity of the respective facility; however, if future operating results differ materially from our expectations, we may be unable to maintain compliance.

Note 10 Employee benefit plans:

Defined benefit plans The components of our net periodic defined benefit pension cost are presented in the table below.

	Three months ended March 31,	
	2011	2012
	(In millions)	
Service cost	$ 2.7	**$ 2.6**
Interest cost	6.6	**6.4**
Expected return on plan assets	(5.6)	**(5.5)**
Amortization of unrecognized:		
Prior service cost	.4	**.4**
Net transition obligations	.1	**.1**
Recognized actuarial losses	1.8	**2.3**
Total	$ 6.0	**$ 6.3**

Other postretirement benefits The components of our net periodic other postretirement benefit cost are presented in the table below.

	Three months ended March 31,	
	2011	2012
	(In millions)	
Service cost	$ .1	**$ .1**
Interest cost	.2	**.2**
Amortization of prior service credit	(.6)	**(.5)**
Recognized actuarial losses	.1	
Total	$ (.2)	**$ (.2)**

Contributions We expect to contribute the equivalent of $29.1 million and $1.7 million, respectively, to all of our defined benefit pension plans and other postretirement benefit plans during 2012.

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Note 11 Other income, net:

	Three months ended March 31, 2011	2012
	(In millions)	
Securities earnings:		
Dividends and interest	$ 7.3	**$ 7.1**
Securities transactions, net	.1	
Total	7.4	**7.1**
Equity in earnings of investee	(.1)	**.1**
Currency transactions, net	1.4	
Insurance recoveries	.4	**1.1**
Patent litigation settlement gain	7.5	
Other, net	.2	**1.0**
Total	$ 16.8	**$ 9.3**

Insurance recoveries reflect, in part, amounts we received from certain of our former insurance carriers and relate to the recovery of prior lead pigment and asbestos litigation defense costs incurred by NL.

In March 2011, CompX entered into a confidential settlement agreement under which CompX s Canadian subsidiary received approximately $7.5 million in cash which was recognized as a patent litigation settlement gain.

In May 2012, we reached an agreement with the New Jersey governmental authority and the real estate developer pursuant to which NL received an aggregate of $15.6 million cash for the third and final closing contemplated by the October 2008 settlement agreement associated with certain real property NL owned in New Jersey, as more fully described in Note 15 in our 2011 Annual Report. Upon NL s receipt of these cash proceeds, NL s equitable lien on a portion of such property was released. We expect to recognize a pre-tax gain of approximately $14.9 million in the second quarter of 2012, based on the excess of the cash proceeds received over our carrying value of the property from which our equitable lien was released.

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Note 12 Income taxes:

	Three months ended March 31,	
	2011	2012
	(In millions)	
Expected tax expense, at U.S. federal statutory income tax rate of 35%	$ 29.4	**$ 62.7**
Incremental tax on earnings of non-U.S. companies	3.8	**4.4**
Non-U.S. tax rates	(3.7)	**(7.9)**
Adjustment to the reserve for uncertain tax positions, net	.4	**.5**
U.S. state income taxes, net	.4	**.4**
Other, net	.4	**(.5)**
Income tax expense	$ 30.7	**$ 59.6**

Tax authorities are examining certain of our non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. Because of the inherent uncertainties involved in settlement initiatives and court and tax proceedings, we cannot guarantee that these tax matters will be resolved in our favor, and therefore our potential exposure, if any, is also uncertain.

In 2011, our Chemicals Segment received notices of re-assessment from the Canadian federal and provincial tax authorities related to the years 2002 through 2004. We object to the re-assessments and believe the position is without merit. Accordingly, we are appealing the re-assessments and in connection with such appeal we were required to post letters of credit aggregating Cdn. $7.3 million (see Note 9). If the full amount of the proposed adjustment were ultimately to be assessed against us, the cash tax liability would be approximately $12.2 million.

We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate we will reverse $1.6 million of unrecognized tax benefits during the next twelve months.

In the first quarter of 2011, our Component Products Segment recognized a $2.1 million provision for deferred income taxes related to the undistributed earnings of its Canadian subsidiary attributable to the 2011 $7.5 million patent litigation settlement gain.

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Note 13 Noncontrolling interest in subsidiaries:

	December 31, 2011	March 31, 2012
	(In millions)	
Noncontrolling interest in net assets:		
Kronos	$ 240.2	**$ 265.9**
NL	84.6	**83.5**
CompX	11.0	**11.1**
Total	$ 335.8	**$ 360.5**

	Three months ended March 31,	
	2011	2012
	(In millions)	
Noncontrolling interest in net income of subsidiaries:		
Kronos	$ 11.8	**$ 26.8**
NL	2.9	**3.6**
CompX	.5	**.2**
Total	$ 15.2	**$ 30.6**

The changes in our ownership interest in our subsidiaries and the effect on our equity is as follows:

	Three months ended March 31,	
	2011	2012
	(In millions)	
Net income attributable to Valhi stockholders	$ 38.0	**$ 88.9**
Transfers from noncontrolling interest:		
Issuance of subsidiaries common stock	.3	
Net income attributable to Valhi stockholders and change from noncontrolling interest in subsidiaries	$ 38.3	**$ 88.9**

Note 14 Commitments and contingencies:

Lead pigment litigation NL

NL s former operations included the manufacture of lead pigments for use in paint and lead-based paint. NL, other former manufacturers of lead pigments for use in paint and lead-based paint (together, the former pigment manufacturers), and the Lead Industries Association (LIA), which discontinued business operations in 2002, have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of

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states, counties, cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share or risk contribution liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. To the extent the plaintiffs seek compensatory or punitive damages in these actions, such damages are generally unspecified. In some cases, the damages are unspecified pursuant to the requirements of applicable state law. A number of cases are inactive or have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of either the defendants or the plaintiffs. In addition, various other cases (in which we are not a defendant) are pending that seek recovery for injury allegedly caused by lead pigment and lead-based paint. Although NL is not a defendant in these other cases, the outcome of these cases may have an impact on cases that might be filed against NL in the future.

We believe that these actions are without merit, and we intend to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. We do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

- NL has never settled any of the market share, risk contribution, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases,
- no final, non-appealable adverse verdicts have ever been entered against NL, and
- NL has never ultimately been found liable with respect to any such litigation matters.

Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases. New cases may continue to be filed against us. We cannot assure you that we will not incur liability in the future in respect of any of the pending or possible litigation in view of the inherent uncertainties involved in court and jury rulings. The resolution of any of these cases could result in recognition of a loss contingency accrual that could have a material adverse impact on our net income for the interim or annual period during which such liability is recognized and a material adverse impact on our consolidated financial condition and liquidity.

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Environmental matters and related litigation

Our operations are governed by various environmental laws and regulations. Certain of our businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to maintain compliance with applicable environmental laws and regulations at all of our plants and to strive to improve environmental performance. From time to time, we may be subject to environmental regulatory enforcement under U.S. and non-U.S. statutes, the resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies, could adversely affect our production, handling, use, storage, transportation, sale or disposal of such substances. We believe that all of our facilities are in substantial compliance with applicable environmental laws.

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws and common law. Additionally, in connection with past operating practices, we are currently involved as a defendant, potentially responsible party (PRP) or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act (CERCLA), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities we or our predecessors, or our subsidiaries or their predecessors currently or previously owned, operated or used, certain of which are on the United States Environmental Protection Agency s (EPA) Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable, and among whom costs may be shared or allocated. In addition, we are also a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

Obligations associated with environmental remediation and related matters are difficult to assess and estimate for numerous reasons including the:

- complexity and differing interpretations of governmental regulations,
- number of PRPs and their ability or willingness to fund such allocation of costs,
- financial capabilities of the PRPs and the allocation of costs among them,
- solvency of other PRPs,
- multiplicity of possible solutions,

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number of years of investigatory, remedial and monitoring activity required,

uncertainty over the extent, if any, to which our former operations might have contributed to the conditions allegedly giving rise to such personal injury, property damage, natural resource and related claims, and

number of years between former operations and notice of claims and lack of information and documents about the former operations. In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or the allocation of costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites or a determination that we are potentially responsible for the release of hazardous substances at other sites, could cause our expenditures to exceed our current estimates. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental and related matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation and related matters when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available to us or as circumstances change. Unless the amounts and timing of such estimated future expenditures are fixed and reasonably determinable, we generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the pay out. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. At December 31, 2011 and March 31, 2012, we have not recognized any receivables for recoveries.

We do not know and cannot estimate the exact time frame over which we will make payments for our accrued environmental and related costs. The timing of payments depends upon a number of factors, including but not limited to the timing of the actual remediation process; which in turn depends on factors outside of our control. At each balance sheet date, we estimate the amount of our accrued environmental and related costs which we expect to pay within the next twelve months, and we classify this estimate as a current liability. We classify the remaining accrued environmental costs as a noncurrent liability.

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Changes in the accrued environmental remediation and related costs during the first three months of 2012 are presented in the table below.

	Amount (In millions)
Balance at the beginning of the year	$ 43.2
Additions charged to expense, net	12.8
Payments, net	(.7)
Balance at the end of period	$ 55.3
Amounts recognized in our Condensed Consolidated Balance Sheet at the end of the period:	
Current liabilities	$ 9.9
Noncurrent liabilities	45.4
Total	$ 55.3

NL On a quarterly basis, NL evaluates the potential range of its liability for environmental remediation and related costs at sites where it has been named as a PRP or defendant, including sites for which its wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc., (EMS), has contractually assumed its obligations. At March 31, 2012, NL had accrued approximately $42 million related to approximately 50 sites associated with remediation and related matters that it believes are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to NL for remediation and related matters for which we believe it is possible to estimate costs is approximately $86 million, including the amount currently accrued.

NL believes that it is not possible to estimate the range of costs for certain sites. At March 31, 2012, there were approximately 5 sites for which NL is not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and NL is unable to determine whether or not it actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of NL s control, such as when the party alleging liability provides information to NL. At certain of these previously inactive sites, NL has received general and special notices of liability from the EPA and/or state agencies alleging that NL, sometimes with other PRPs, is liable for past and future costs of remediating environmental contamination allegedly caused by former operations. These notifications may assert that we, along with any other alleged PRPs, are liable for past and/or future clean-up costs. As further information becomes available to us for any of these sites which would allow us to estimate a range of costs, we would at that time adjust our accruals. Any such adjustment could result in the recognition of an accrual that would have a material effect on our consolidated financial statements, results of operations and liquidity.

Other We have also accrued approximately $1.6 million at March 31, 2012 for other environmental cleanup matters. This accrual is near the upper end of the range of our estimate of reasonably possible costs for such matters.

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Insurance coverage claims

We are involved in certain legal proceedings with a number of our former insurance carriers regarding the nature and extent of the carriers obligations to us under insurance policies with respect to certain lead pigment and asbestos lawsuits. The issue of whether insurance coverage for defense costs or indemnity or both will be found to exist for our lead pigment and asbestos litigation depends upon a variety of factors and we cannot assure you that such insurance coverage will be available.

We have agreements with three former insurance carriers pursuant to which the carriers reimburse us for a portion of our future lead pigment litigation defense costs, and one such carrier reimburses us for a portion of our future asbestos litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. While we continue to seek additional insurance recoveries, we do not know if we will be successful in obtaining reimbursement for either defense costs or indemnity. Accordingly, we recognize insurance recoveries in income only when the receipt of the recovery is probable and we are able to reasonably estimate the amount of the recovery.

For a complete discussion of certain litigation involving NL and certain of its former insurance carriers, please refer to our 2011 Annual Report.

Other litigation

NL NL has been named as a defendant in various lawsuits in several jurisdictions, alleging personal injuries as a result of occupational exposure primarily to products manufactured by our former operations containing asbestos, silica and/or mixed dust. In addition, some plaintiffs allege exposure to asbestos from working in various facilities previously owned and/or operated by NL. There are 1,125 of these types of cases pending, involving a total of approximately 2,050 plaintiffs. In addition, the claims of approximately 8,075 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio, Indiana and Texas state courts. We do not expect these claims will be re-opened unless the plaintiffs meet the courts medical criteria for asbestos-related claims. We have not accrued any amounts for this litigation because of the uncertainty of liability and inability to reasonably estimate the liability, if any. To date, we have not been adjudicated liable in any of these matters. Based on information available to us, including:

- facts concerning historical operations,
- the rate of new claims,
- the number of claims from which we have been dismissed and
- our prior experience in the defense of these matters.

we believe that the range of reasonably possible outcomes of these matters will be consistent with our historical costs (which are not material). Furthermore, we do not expect any reasonably possible outcome would involve amounts material to our consolidated financial position, results of operations or liquidity. We have sought and will continue to vigorously seek, dismissal and/or a finding of no liability from each claim. In addition, from time to time, we have received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries, including notices provided to insurers with which we have entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from us.

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Other For a discussion of other legal proceedings to which we are a party, please refer to our 2011 Annual Report.

In addition to the litigation described above, we and our affiliates are also involved in various other environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our present and former businesses. In certain cases, we have insurance coverage for these items, although we do not expect any additional material insurance coverage for our environmental matters.

We currently believe that the disposition of all of these various other claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial position, results of operations or liquidity beyond the accruals already provided.

Note 15 Financial instruments:

The following table summarizes the valuation of our marketable securities and financial instruments recorded on a fair value basis as of:

		Fair Value Measurements		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In millions)		
December 31, 2011:				
Marketable securities:				
Current	$ 22.5	$ 20.9	$ 1.6	$
Noncurrent	354.1	100.3	3.8	250.0
Currency forward contracts	(.8)	(.8)		
March 31, 2012:				
Marketable securities:				
Current	**$ .9**	**$**	**$ .9**	**$**
Noncurrent	**343.4**	**88.4**	**5.0**	**250.0**
Currency forward contracts	**.5**	**.5**		

See Note 3 for information on how we determine fair value of our noncurrent marketable securities.

We periodically use currency forward contracts to manage a nominal portion of currency exchange rate market risk associated with trade receivables, or similar exchange rate risk associated with future sales, denominated in a currency other than the holder s functional currency. These contracts generally relate to our Chemicals and Component Products operations. We have not entered into these contracts for trading or speculative purposes in the past, nor do we currently anticipate entering into such contracts for trading or speculative purposes in the future. Some of the currency forward contracts we enter into meet the criteria for hedge accounting under GAAP and are designated as cash flow hedges. For these currency forward contracts, gains and losses representing the effective portion of our hedges are deferred as a component of accumulated other comprehensive income, and are subsequently recognized in earnings at the time the hedged item affects earnings. For the currency forward contracts we enter into which do not meet the criteria for hedge accounting, we mark-to-market the estimated fair value of such contracts at each balance sheet date, with any resulting gain or loss recognized in income currently as part of net currency transactions. The fair value of the currency forward contracts is determined using Level 1 inputs based on the currency spot forward rates quoted by banks or currency dealers.

At March 31, 2012, our Chemicals Segment had currency forward contracts to exchange an aggregate of $36 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. $1.0 to Cdn. $1.03 per U.S. dollar. These contracts with Wachovia Bank, National Association, mature from April 2012 through December 2012 at a rate of $4.0 million per month, subject to early redemption provisions at our option. The estimated fair value of our currency forward contracts at March 31, 2012 was a $.2 million net asset, of which $.3 million is recognized as part of accounts and other receivables and $.1 million is recognized as part of accounts payable and accrued liabilities. There is also a corresponding $.2 million currency transaction gain recognized in our Condensed Consolidated Statement of Income. Our Chemicals Segment is not currently using hedge accounting for our outstanding currency forward contracts at March 31, 2012, and it did not use hedge accounting for any of such contracts it previously held in 2011.

At March 31, 2012, our Component Products Segment held a series of contracts to exchange an aggregate of U.S. $13.3 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. $1.03 to Cdn. $0.99. per U.S. dollar. These contracts qualified for hedge accounting and mature through December 2012. The exchange rate was Cdn. $1.00 per U.S. dollar at March 31, 2012. The estimated fair value of the contracts based on quoted market prices was an asset of approximately $.3 million at March 31, 2012.

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The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure:

	December 31, 2011		March 31,2012	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In millions)			
Cash, cash equivalents and restricted cash equivalents	$ 109.3	$ 109.3	**$ 73.1**	**$ 73.1**
Note receivable from Contran	11.2	11.2	**11.2**	**11.2**
Long-term debt (excluding capitalized leases):				
Publicly-traded fixed rate debt - KII Senior Secured Notes	$ 360.6	$ 362.6	**$ 371.0**	**$ 375.6**
Snake River Sugar Company fixed rate loans	250.0	250.0	**250.0**	**250.0**
Kronos variable rate bank credit facility			**106.4**	**106.4**
WCS fixed rate debt	82.8	82.8	**82.5**	**82.5**
CompX variable rate bank credit facility	2.0	2.0	**2.0**	**2.0**
CompX variable rate promissory note	22.2	22.2	**21.2**	**21.2**
NL variable rate promissory note	9.0	9.0	**9.0**	**9.0**
Noncontrolling interest in:				
Kronos common stock	$ 240.2	$ 409.4	**$ 265.9**	**$ 566.0**
NL common stock	84.6	107.3	**83.5**	**123.3**
CompX common stock	11.0	23.9	**11.1**	**22.6**
Valhi stockholders equity	$ 657.2	$ 6,835.3	**$ 742.1**	**$ 5,996.6**

The fair value of our publicly-traded marketable securities, noncontrolling interest in NL, Kronos and CompX and our common stockholders equity are all based upon quoted market prices, Level 1 inputs at each balance sheet date. The fair value of our KII Senior Secured 6.5% Notes are also based on quoted market prices at each balance sheet date; however, these quoted market prices represent Level 2 inputs because the markets in which the Notes trade are not active. At December 31, 2011 and March 31, 2012, the estimated market price of the 6.5% Notes was approximately 1,004 and 1,011, respectively, per 1,000 principal amount. The fair value of our fixed-rate nonrecourse loans from Snake River Sugar Company is based upon the $250 million redemption price of our investment in Amalgamated, which collateralizes the nonrecourse loans (this is a Level 3 input). Fair values of the variable interest rate note receivable and variable interest debt and other fixed-rate debt are deemed to approximate book value. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. See Notes 4 and 7.

Note 16 Recent accounting pronouncements:

In June 2011 the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option of presenting comprehensive income as a component of the Consolidated Statement of Stockholders Equity and instead requires comprehensive income to be presented as a component of the Consolidated Statement of Income or in a separate Consolidated Statement of Comprehensive Income immediately following the Consolidated Statement of Income. In accordance with ASU 2011-05, we now present our comprehensive income in a separate Condensed Consolidated Statement of Comprehensive Income. Additionally, ASU 2011-05 would have required us to present on the face of our financial statements the effect of reclassifications out of accumulative other comprehensive income on the components of net income and other comprehensive

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income. However, in December 2011 the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 defers the effective date of the requirement to present on the face of our financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. Adoption of ASU 2011-05, as amended by ASU 2011-12, did not have a material effect on our Condensed Consolidated Financial Statements.

In December 2011 the FASB issued ASU 2011-11 *Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. This standard will be effective for annual and interim periods beginning with our first quarter 2013 report. We do not believe the adoption of this standard will have a material effect on our Condensed Consolidated Financial Statements.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Business Overview

We are primarily a holding company. We operate through our wholly-owned and majority-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc., Tremont LLC and Waste Control Specialists LLC (WCS). Kronos (NYSE: KRO), NL (NYSE: NL) and CompX (AMEX: CIX) each file periodic reports with the U.S. Securities and Exchange Commission (SEC).

We have three consolidated operating segments:

Chemicals Our chemicals segment is operated through our majority control of Kronos. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments (TiO_2), a base industrial product used in a diverse range of customer applications and end-use markets, including coatings, plastics, paper, food, cosmetics, inks, textile fibers, rubber, pharmaceuticals, glass, ceramics and other industrial and consumer markets.

Component Products We operate in the component products industry through our majority control of CompX. CompX is a leading manufacturer of engineered components utilized in a variety of applications and industries. CompX manufactures engineered components that are sold to a variety of industries including office furniture, recreational transportation (including boats), mailboxes, toolboxes, home appliances, banking equipment, vending equipment and computer related equipment. CompX has production facilities in North America and Asia.

Waste Management WCS is our subsidiary which operates a West Texas facility for the processing, treatment, storage and disposal of a broad range of low-level radioactive, hazardous, toxic and other wastes. WCS obtained a byproduct disposal license in 2008 and began disposal operations at this facility in October 2009. In January 2009 WCS received a low-level and mixed low-level radioactive waste (LLRW) disposal license, which was signed in September 2009. Construction of the Compact and Federal LLRW disposal facilities began in January 2011. Construction of the Compact LLRW facility was substantially complete in November 2011, and the Federal LLRW disposal facility was substantially complete in February 2012. The Compact LLRW disposal facility was fully certified and operational in April 2012, and we expect with the Federal LLRW site will be fully certified and operational later in 2012.

General

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Quarterly Report that are not historical facts are forward-looking in nature and represent management s beliefs and assumptions based on currently available information. In some cases, you can

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identify forward-looking statements by the use of words such as believes, intends, may, should, could, anticipates, expects or compara terminology, or by discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. The factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in our other filings with the SEC include, but are not limited to, the following:

- Future supply and demand for our products;
- The extent of the dependence of certain of our businesses on certain market sectors;
- The cyclicality of certain of our businesses (such as Kronos titanium dioxide pigment (TiO_2) operations);
- Customer inventory levels;
- Changes in raw material and other operating costs (such as energy, ore and steel costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs;
- Changes in the availability of raw materials (such as ore);
- 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_2 and component products);
- Competitive products and prices, including increased competition from low-cost manufacturing sources (such as China);
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts;
- Customer and competitor strategies;
- The impact of pricing and production decisions;
- Competitive technology positions;
- The introduction of trade barriers;
- The ability of our subsidiaries to pay us dividends;

The impact of current or future government regulations (including employee healthcare benefit related regulations);