VALHI INC /DE/
Form 10-Q
May 05, 2011

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, 2011 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 (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 No

* The registrant has not yet been phased into the interactive data requirements.

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 Non-accelerated filer X 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 April 29, 2011: 113,149,932.

VALHI, INC. AND SUBSIDIARIES

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

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

| ASSETS | December 31, 2010 | March 31, 2011 (unaudited) |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $325.1 | $143.2 |
| Restricted cash equivalents | 9.4 | 6.9 |
| Marketable securities | 1.7 | 107.4 |
| Accounts and other receivables, net | 262.7 | 328.4 |
| Inventories, net | 294.9 | 347.4 |
| Other current assets | 14.1 | 22.3 |
| Deferred income taxes | 13.9 | 13.8 |
| Total current assets | 921.8 | 969.4 |
| Other assets: | | |
| Marketable securities | 340.4 | 366.0 |
| Investment in affiliates | 113.2 | 112.1 |
| Goodwill | 397.4 | 397.4 |
| Deferred income taxes | 192.0 | 191.9 |
| Other noncurrent assets | 103.4 | 108.8 |
| Total other assets | 1,146.4 | 1,176.2 |
| Property and equipment: | | |
| Land | 54.9 | 57.1 |
| Buildings | 287.4 | 298.1 |
| Equipment | 1,170.3 | 1,216.7 |
| Mining properties | 69.1 | 67.4 |
| Construction in progress | 20.2 | 38.6 |
| | 1,601.9 | 1,677.9 |
| Less accumulated depreciation | 955.8 | 997.6 |
| Net property and equipment | 646.1 | 680.3 |
| Total assets | $2,714.3 | $2,825.9 |

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

| LIABILITIES AND EQUITY | December 31, 2010 | March 31, 2011 (unaudited) |
|---|---|---|
| Current liabilities: | | |
| Current maturities of long-term debt | $17.4 | $17.5 |
| Accounts payable and accrued liabilities | 275.6 | 296.9 |
| Income taxes | 7.9 | 18.0 |
| Deferred income taxes | 5.0 | 5.3 |
| Total current liabilities | 305.9 | 337.7 |
| Noncurrent liabilities: | | |
| Long-term debt | 922.9 | 945.7 |
| Deferred income taxes | 417.6 | 426.1 |
| Accrued pension costs | 128.1 | 130.0 |
| Accrued environmental costs | 32.6 | 31.7 |
| Accrued postretirement benefits costs | 19.5 | 19.7 |
| Other liabilities | 69.5 | 70.7 |
| Total noncurrent liabilities | 1,590.2 | 1,623.9 |
| Equity: | | |
| Valhi stockholders’ equity: | | |
| Preferred stock | 667.3 | 667.3 |
| Common stock | 1.2 | 1.2 |
| Additional paid-in capital | 76.2 | 76.3 |
| Accumulated deficit | (183.2) | (156.6) |
| Accumulated other comprehensive income | 21.2 | 37.3 |
| Treasury stock | (40.9) | (44.6) |
| Total Valhi stockholders' equity | 541.8 | 580.9 |
| Noncontrolling interest in subsidiaries | 276.4 | 283.4 |
| Total equity | 818.2 | 864.3 |
| Total liabilities and equity | $2,714.3 | $2,825.9 |

Commitments and contingencies (Notes 12 and 14)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

| | Three months ended March 31, 2010 | Three months ended March 31, 2011 |
|---|---|---|
| | (unaudited) | |
| Revenues and other income: | | |
| Net sales | $356.8 | $455.7 |
| Other income, net | 28.0 | 16.8 |
| Total revenues and other income | 384.8 | 472.5 |
| Costs and expenses: | | |
| Cost of sales | 290.7 | 306.8 |
| Selling, general and administrative | 58.3 | 61.3 |
| Loss on prepayment of debt | - | 3.3 |
| Litigation settlement and contract termination | 33.3 | - |
| Interest | 17.4 | 17.2 |
| Total costs and expenses | 399.7 | 388.6 |
| Income (loss) before income taxes | (14.9) | 83.9 |
| Provision for income taxes (benefit) | (30.0) | 30.7 |
| Net income | 15.1 | 53.2 |
| Noncontrolling interest in net income of subsidiaries | 1.5 | 15.2 |
| Net income attributable to Valhi stockholders | $13.6 | $38.0 |
| Amounts attributable to Valhi stockholders: | | |
| Basic and diluted earnings per share | $.10 | $.33 |
| Cash dividends per share | $.10 | $.10 |
| Basic and diluted weighted average shares outstanding | 114.3 | 114.2 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

| | Three months ended March 31, 2010 (unaudited) | Three months ended March 31, 2011 (unaudited) |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $15.1 | $53.2 |
| Depreciation and amortization | 16.3 | 15.6 |
| Loss on prepayment of debt | - | 3.3 |
| Call premium paid | - | (2.5) |
| Accrued litigation settlement and contract termination | 33.3 | - |
| Benefit plan expense greater (less) than cash funding requirements: | | |
| Defined benefit pension expense | 1.3 | (2.1) |
| Other postretirement benefit expense | .1 | (.5) |
| Deferred income taxes | (30.0) | 12.6 |
| Net distributions from Ti02 manufacturing joint venture | .8 | 1.1 |
| Other, net | .3 | .4 |
| Change in assets and liabilities: | | |
| Accounts and other receivables, net | (63.2) | (56.7) |
| Inventories, net | 6.1 | (38.6) |
| Accounts payable and accrued liabilities | (9.3) | 13.4 |
| Accounts with affiliates | 16.5 | 1.6 |
| Income taxes | (1.0) | 9.9 |
| Other, net | (3.3) | (8.2) |
| Net cash provided by (used in) operating activities | (17.0) | 2.5 |
| Cash flows from investing activities: | | |
| Capital expenditures | (8.9) | (24.0) |
| Capitalized permit costs | (.6) | (1.4) |
| Purchases of: | | |
| Marketable securities | (4.5) | (200.0) |
| Titanium Metals Corporation (“TIMET”) common stock | - | (20.4) |
| Proceeds from: | | |
| Disposal of marketable securities | 2.1 | 94.9 |
| Sale of business | .5 | .3 |
| Change in restricted cash equivalents, net | 4.3 | 2.6 |
| Other, net | - | (.8) |
| Net cash used in investing activities | (7.1) | (148.8) |

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

| | Three months ended March 31, 2010 | 2011 |
|---|---|---|
| | (unaudited) | |
| Cash flows from financing activities: | | |
| Indebtedness: | | |
| Borrowings | $112.3 | $113.3 |
| Principal payments | (96.3) | (121.3) |
| Valhi cash dividends paid | (11.4) | (11.4) |
| Distributions to noncontrolling interest in subsidiaries | (1.2) | (15.4) |
| Treasury stock acquired | - | (3.7) |
| Issuance of subsidiary common stock | - | .3 |
| Issuance of common stock and other, net | .1 | (.1) |
| Net cash provided by (used in) financing activities | 3.5 | (38.3) |
| Cash and cash equivalents – net change from: | | |
| Operating, investing and financing activities | (20.6) | (184.6) |
| Currency translation | (1.8) | 2.7 |
| Cash and cash equivalents at beginning of period | 68.7 | 325.1 |
| Cash and cash equivalents at end of period | $46.3 | $143.2 |
| Supplemental disclosures: | | |
| Cash paid for: | | |
| Interest, net of capitalized interest (including call premium paid) | $7.3 | $13.9 |
| Income taxes paid (refunded), net | (15.1) | 11.6 |
| Noncash investing activities: | | |
| Accrual for capital expenditures | 2.4 | 10.4 |
| Accrual for capitalized permit costs | .1 | .5 |
| Noncash financing activities: | | |
| Promissory notes payable incurred in connection with litigation settlement and contract termination | 30.0 | - |

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY AND COMPREHENSIVE INCOME

Three months ended March 31, 2011

(In millions)

| | Valhi Stockholders' Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Preferred stock | Common stock | Additional paid-in capital | Accumulated deficit | Accumulated other comprehensive income (unaudited) | Treasury stock | Non-controlling interest | Total equity | Comprehensive income |
| Balance at December 31, 2010 | $667.3 | $1.2 | $76.2 | $(183.2) | $21.2 | $(40.9) | $276.4 | $818.2 | |
| Net income | - | - | - | 38.0 | - | - | 15.2 | 53.2 | $53.2 |
| Other comprehensive income, net | - | - | - | - | 16.1 | - | 6.9 | 23.0 | 23.0 |
| Equity transaction with noncontrolling interest, net | - | - | .1 | - | - | - | .3 | .4 | - |
| Cash dividends | - | - | - | (11.4) | - | - | (15.4) | (26.8) | - |
| Treasury stock acquired | - | - | - | - | - | (3.7) | - | (3.7) | - |
| Balance at March 31, 2011 | $667.3 | $1.2 | $76.3 | $(156.6) | $37.3 | $(44.6) | $283.4 | $864.3 | |
| Comprehensive income | | | | | | | | | $76.2 |

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority owned by Contran Corporation, which directly and through its subsidiaries owns approximately 94% of our outstanding common stock at March 31, 2011. 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”). Our controlling interest in Kronos decreased from 95% in the first quarter of 2010 to 80% as a result of Kronos’ secondary stock offering completed in November 2010. 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, 2010 that we filed with the SEC on March 9, 2011 (the “2010 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, 2010 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, 2010) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Certain reclassifications have been made to conform the prior year’s Consolidated Financial Statements to the current year’s classifications. Our results of operations for the interim periods ended March 31, 2011 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 2010 Consolidated Financial Statements contained in our 2010 Annual Report.

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, 2011 |
|---|---|---|
| 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. See Note 12. We own 83% of NL. Our control of CompX is through NL.

| | Three months ended March 31, | |
|---|---|---|
| | 2010 | 2011 |
| | (In millions) | |
| Net sales: | | |
| Chemicals | $319.7 | $420.4 |
| Component products | 32.8 | 34.8 |
| Waste management | 4.3 | .5 |
| Total net sales | $356.8 | $455.7 |
| Cost of sales: | | |
| Chemicals | $260.0 | $274.6 |
| Component products | 23.7 | 26.1 |
| Waste management | 7.0 | 6.1 |
| Total cost of sales | $290.7 | $306.8 |
| Gross margin: | | |
| Chemicals | $59.7 | $145.8 |
| Component products | 9.1 | 8.7 |
| Waste management | (2.7) | (5.6) |
| Total gross margin | $66.1 | $148.9 |
| Operating income (loss): | | |
| Chemicals | $22.6 | $103.5 |
| Component products | 1.7 | 8.8 |
| Waste management | (6.7) | (9.0) |
| Total operating income | 17.6 | 103.3 |
| Equity in earnings of investee | .1 | (.1) |
| General corporate items: | | |
| Securities earnings | 6.5 | 7.4 |

| | | |
|---|---|---|
| Insurance recoveries | 18.2 | .4 |
| Litigation settlement expense | (32.2) | - |
| General expenses, net | (7.7) | (6.6) |
| Loss on prepayment of debt | - | (3.3) |
| Interest expense | (17.4) | (17.2) |
| Income (loss) before income taxes | $(14.9) | $83.9 |

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 an approximately $7.5 million patent litigation settlement in the first quarter of 2011 related to CompX which is included in the determination of its operating income. See Notes 11 and 14. Of the $33.3 million aggregate litigation settlement and contract termination expense we recognized in the first quarter of 2010, $1.1 million relates to WCS and is included in the determination of its operating loss, and the remaining $32.2 million relates to NL. Please refer to Notes 9 and 17 in our 2010 Annual Report.

Note 3 – Marketable securities:

| Marketable securities | Market value | Cost basis | Unrealized gains, net |
|---|---|---|---|
| December 31, 2010: | | | |
| Current assets - | | | |
| Other | $1.7 | $1.7 | $- |
| | | | |
| Noncurrent assets: | | | |
| The Amalgamated Sugar Company LLC | $250.0 | $250.0 | $- |
| TIMET common stock | 86.1 | 59.0 | 27.1 |
| Other | 4.3 | 4.3 | - |
| | | | |
| Total | $340.4 | $313.3 | $27.1 |
| | | | |
| March 31, 2011: | | | |
| Current assets - | | | |
| Mutual funds | $106.1 | $105.8 | $.3 |
| Other | 1.3 | 1.3 | - |
| | | | |
| Total | $107.4 | $107.1 | $.3 |
| | | | |
| Noncurrent assets: | | | |
| The Amalgamated Sugar Company LLC | $250.0 | $250.0 | $- |
| TIMET common stock | 111.9 | 76.7 | 35.2 |
| Other | 4.1 | 4.1 | - |
| | | | |
| Total | $366.0 | $330.8 | $35.2 |

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 2010 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, 2010, we, Kronos and NL and its subsidiaries held an aggregate of 5.0 million shares of TIMET common stock and the quoted per share market price was $17.18. At March 31, 2011 we held an aggregate of 6.0 million shares of TIMET common stock and the quoted per share market price was $18.58. During the first quarter of 2011, Kronos purchased an aggregate of 1.0 million shares of TIMET common stock for an aggregate of $17.7 million. Contran, Mr. Harold Simmons and persons and other entities related to Mr. Simmons own a majority of TIMET's outstanding common stock.

At March 31, 2011, we held investments in various mutual funds which have a primary investment objective of holding corporate and government debt securities from U.S. and other markets. These funds have daily liquidity and are held for the temporary investment of cash available for our current operations in order to generate a higher return than would be available if such funds were invested in an asset qualifying for classification as a cash equivalent, and accordingly we have classified our investments in these mutual funds as a current asset.

Note 4 – Accounts and other receivables, net:

| | December 31, 2010 | March 31, 2011 |
|---|---|---|
| | (In millions) | |
| Accounts receivable | $246.1 | $312.3 |
| Real-estate related note receivable | 15.0 | 15.0 |
| Notes receivable | 2.9 | 1.7 |
| Refundable income taxes | 1.3 | 1.5 |
| Receivable from affiliates | .1 | - |
| Accrued interest and dividend receivable | .1 | - |
| Allowance for doubtful accounts | (2.8 ) | (2.1 ) |
| Total | $262.7 | $328.4 |

Note 5 - Inventories, net:

| | December 31, 2010 | March 31, 2011 |
|---|---|---|
| | (In millions) | |
| Raw materials: | | |
| Chemicals | $52.1 | $67.2 |
| Component products | 6.3 | 6.6 |
| Total raw materials | 58.4 | 73.8 |
| Work in process: | | |
| Chemicals | 13.6 | 17.4 |
| Component products | 6.7 | 7.6 |
| Total in-process products | 20.3 | 25.0 |
| Finished products: | | |
| Chemicals | 155.3 | 184.5 |
| Component products | 5.4 | 5.2 |
| Total finished products | 160.7 | 189.7 |
| Supplies (primarily chemicals) | 55.5 | 58.9 |

| | | |
|---|---|---|
| Total | $294.9 | $347.4 |

Note 6 - Other noncurrent assets:

| | December 31, 2010 | March 31, 2011 |
|---|---|---|
| | (In millions) | |
| Investment in affiliates: | | |
| TiO2 manufacturing joint venture, Louisiana Pigment Company, L.P. (“LPC”) | $96.2 | $95.2 |
| Other | 17.0 | 16.9 |
| Total | $113.2 | $112.1 |
| Other assets: | | |
| Waste disposal site operating permits, net | $58.8 | $60.2 |
| IBNR receivables | 6.6 | 6.7 |
| Capital lease deposit | 6.2 | 6.2 |
| Deferred financing costs | 4.5 | 3.5 |
| Assets held for sale | 3.0 | 3.0 |
| Other intangible assets | .8 | .7 |
| Pension asset | .3 | .5 |
| Other | 23.2 | 28.0 |
| Total | $103.4 | $108.8 |

Note 7 - Accounts payable and accrued liabilities:

| | December 31, 2010 | March 31, 2011 |
|---|---|---|
| | (In millions) | |
| Current: | | |
| Accounts payable | $129.6 | $140.6 |
| Payable to affiliates: | | |
| Contran – income taxes | 4.3 | .6 |
| Contran – trade items | 17.4 | 18.2 |
| LPC | 7.4 | 13.0 |
| TIMET | 1.0 | - |
| Other | .1 | - |
| Employee benefits | 44.8 | 39.2 |
| Environmental costs | 9.7 | 10.0 |
| Accrued sales discounts and rebates | 11.3 | 6.9 |
| Interest | 7.4 | 14.2 |
| Deferred income | 3.3 | 1.6 |
| Other | 39.3 | 52.6 |
| Total | $275.6 | $296.9 |

Note 8 - Other noncurrent liabilities:

| | December 31, 2010 | March 31, 2011 |
|---|---|---|
| | (In millions) | |
| Noncurrent: | | |
| Reserve for uncertain tax positions | $41.3 | $42.0 |
| Insurance claims and expenses | 10.3 | 10.3 |
| Employee benefits | 9.8 | 10.2 |
| Deferred income | 1.1 | 1.1 |
| Other | 7.0 | 7.1 |
| Total | $69.5 | $70.7 |

Note 9 - Long-term debt:

| | December 31, 2010 | March 31, 2011 |
|---|---|---|
| | (In millions) | |
| Valhi: | | |
| Snake River Sugar Company | $250.0 | $250.0 |
| Subsidiary debt: | | |
| Kronos International: | | |
| 6.5% Senior Secured Notes | 532.8 | 450.5 |
| European bank credit facility | - | 112.9 |
| CompX promissory note payable to TIMET | 42.2 | 38.0 |
| CompX bank credit facility | 3.0 | - |
| NL promissory note | 18.0 | 18.0 |
| WCS financing capital lease | 72.0 | 71.8 |
| WCS 6% promissory notes | 15.4 | 15.5 |
| Other | 6.9 | 6.5 |
| Total subsidiary debt | 690.3 | 713.2 |
| Total debt | 940.3 | 963.2 |
| Less current maturities | 17.4 | 17.5 |
| Total long-term debt | $922.9 | $945.7 |

Kronos - On March 24, 2011, Kronos redeemed euro 80 million of its euro 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. Following such partial redemption, euro 320 million principal amount of the Senior Notes remain outstanding. Kronos borrowed under its European revolving credit facility, as discussed below, in order to fund the redemption. We recognized a $3.3 million pre-tax interest charge related to the prepayment of the 6.5% Senior

Secured 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.

During the first three months of 2011, Kronos borrowed a net euro 80 million ($113.3 million when borrowed) under its European credit facility.  The average interest rate on these borrowings at March 31, 2011 was 2.39%.

CompX – During the first three months of 2011, CompX repaid its revolving bank credit facility that matures in January 2012.

The CompX promissory note payable to TIMET was amended in September 2009 resulting in the deferral of interest payments and postponement of quarterly principal payments on the promissory note until March 2011. As such, in March 2011 CompX paid its required quarterly principal payment of $250,000 and all accrued interest totaling approximately $1.0 million. In addition, CompX prepaid $4.0 million principal amount on the promissory note. The interest rate on the promissory note at March 31, 2011 was 1.3%.

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, 2011. 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, | |
|---|---|---|
| | 2010 | 2011 |
| | (In millions) | |
| Service cost | $2.7 | $2.7 |
| Interest cost | 6.5 | 6.6 |
| Expected return on plan assets | (5.3) | (5.6) |
| Amortization of unrecognized: | | |
| Prior service cost | .3 | .4 |
| Net transition obligations | .1 | .1 |
| Recognized actuarial losses | 1.7 | 1.8 |
| Total | $6.0 | $6.0 |

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

| | Three months ended March 31, | |
|---|---|---|
| | 2010 | 2011 |
| | (In millions) | |
| Service cost | $.1 | $.1 |
| Interest cost | .4 | .2 |
| Amortization of prior service credit | (.2) | (.6) |
| Recognized actuarial losses | - | .1 |
| Total | $.3 | $(.2) |

Contributions - We expect to contribute the equivalent of $28.3 million and $1.9 million, respectively, to all of our defined benefit pension plans and other postretirement benefit plans during 2011.

Note 11 - Other income, net:

| | Three months ended March 31, | |
|---|---|---|
| | 2010 | 2011 |
| | (In millions) | |
| Securities earnings: | | |
| Dividends and interest | $6.5 | $7.3 |
| Securities transactions, net | - | .1 |
| Total | 6.5 | 7.4 |
| Equity in joint venture earnings | .1 | (.1) |
| Currency transactions, net | 2.6 | 1.4 |
| Insurance recoveries | 18.2 | .4 |
| Patent litigation settlement gain | - | 7.5 |
| Other, net | .6 | .2 |
| Total | $28.0 | $16.8 |

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 us. In addition, a substantial portion of the insurance recoveries we recognized in the first quarter of 2010 relates to the NL litigation settlement discussed in Note 14. The gain on the patent litigation settlement in the first quarter of 2011 related to a CompX patent litigation settlement discussed in Note 14.

Note 12 - Income taxes:

| | Three months ended March 31, | |
|---|---|---|
| | 2010 | 2011 |
| | (In millions) | |
| Expected tax expense (benefit), at U.S. federal Statutory income tax rate of 35% | $(5.2) | $29.4 |
| Incremental U.S. tax and rate differences on equity in earnings | 10.3 | 3.8 |
| Non-U.S. tax rates | (.1) | (3.7) |
| German tax attribute adjustments | (35.2) | - |
| Adjustment to the reserve for uncertain tax positions, net | - | .4 |
| Nondeductible expenses | .8 | .5 |
| Nontaxable income | (.3) | (.2) |
| Prior year adjustments | (.7) | - |
| U.S. state income taxes, net | .4 | .4 |
| Other, net | - | .1 |
| Income tax expense (benefit) | $(30.0) | $30.7 |

Tax authorities are continuing to examine certain of our foreign tax returns and have or may propose tax deficiencies, including penalties and interest. We cannot guarantee that these tax matters will be resolved in our favor due to the inherent uncertainties involved in settlement initiatives and court and tax proceedings. We believe we have adequate accruals for additional taxes and related interest expense that 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 that our unrecognized tax benefits will decrease by $20.8 million within the next twelve months due to the reversal of certain timing differences and the expiration of certain statutes of limitation.

In the first quarter of 2011, we recognized a $2.1 million provision for deferred income taxes related to the undistributed earnings of CompX's Canadian subsidiary attributable to the $7.5 million patent litigation settlement gain discussed in Note 14.

As a consequence of a European Court ruling that resulted in a favorable resolution of certain income tax issues in Germany, during the first quarter of 2010 the German tax authorities agreed to an increase in Kronos' German net operating loss carryforwards.  Accordingly, we recognized a non-cash income tax benefit of $35.2 million in the first quarter of 2010.

We are required to recognize a deferred income tax liability with respect to the incremental U.S. (federal and state) and foreign withholding taxes that would be incurred when undistributed earnings of a foreign subsidiary are subsequently repatriated, unless management has determined that those undistributed earnings are permanently reinvested for the foreseeable future. Prior to March 31, 2010, we had not recognized a deferred income tax liability related to incremental income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary, as those earnings were deemed to be permanently reinvested.  We are required to reassess the permanent reinvestment conclusion on an ongoing basis to determine if our intentions have changed.  At the end of March 2010, and based primarily upon changes in our cash management plans, we determined that all of the undistributed earnings of our Taiwanese subsidiary could no longer be considered to be permanently reinvested in Taiwan.  Accordingly, in the first quarter of 2010 we recognized an aggregate $1.9 million provision for deferred income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary.

Note 13 - Noncontrolling interest in subsidiaries:

| | December 31, 2010 | March 31, 2011 |
|---|---|---|
| | (In millions) | |
| Noncontrolling interest in subsidiaries: | | |
| Kronos | $208.7 | $210.0 |
| NL | 56.8 | 62.1 |
| CompX | 10.9 | 11.3 |
| Total | $276.4 | $283.4 |

| | Three months ended March 31, 2010 | 2011 |
|---|---|---|
| | (In millions) | |
| Noncontrolling interest in net income (loss) of subsidiaries: | | |
| Kronos | $2.0 | $11.8 |
| NL | (.4) | 2.9 |
| CompX | (.1) | .5 |
| Total | $1.5 | $15.2 |

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

| | Three months ended March 31, | |
|---|---|---|
| | 2010 | 2011 |
| | (In millions) | |
| Net income attributable to Valhi stockholders | $13.6 | $38.0 |
| Transfers from noncontrolling interest: | | |
| Equity adjustment | .4 | - |
| Issuance of subsidiary common stock | .1 | .3 |
| Transfers from noncontrolling interest | .5 | .3 |
| Net income attributable to Valhi stockholders and change from noncontrolling interest in subsidiaries | $14.1 | $38.3 |

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 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 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:

- we have 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 us, and
- we have 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.

Environmental matters and 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. 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 currently or previously owned, operated or were used by us or our subsidiaries, or their predecessors, 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.

Environmental obligations 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 the allocation of costs among them,
- financial capabilities of the PRPs and the allocation of costs among them,
- solvency of other PRPs,
- multiplicity of possible solutions,
- number of years of investigatory, remedial and monitoring activity required 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 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. Because we may be jointly and severally liable for the total remediation cost at certain sites, the amount for which we are ultimately liable may exceed our accruals due to, among other things, the reallocation of costs among PRPs or the insolvency of one or more PRPs. 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 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 obligations when estimated future expenditures are probable and reasonably estimable. We adjust our environmental accruals as further information becomes available to us or as circumstances change. 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 remediation costs from other parties, if any, as assets when their receipt is deemed probable. At March 31, 2011, 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 costs. The timing of payments depends upon a number of factors including 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 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.

Changes in our accrued environmental costs during the first quarter of 2011 are as follows:

| | Amount (In millions) |
|---|---|
| Balance at the beginning of the period | $42.3 |
| Additions charged to expense, net | .1 |
| Changes in currency exchange rates | .1 |
| Payments, net | (.8 ) |
| Balance at the end of the period | $41.7 |
| Amounts recognized in the Condensed Consolidated Balance Sheet at the end of the period: | |
| Current liability | $10.0 |
| Noncurrent liability | 31.7 |
| Total | $41.7 |

NL - On a quarterly basis, we evaluate the potential range of our liability at sites where NL, its present or former subsidiaries have been named as a PRP or defendant. At March 31, 2011, we had accrued approximately $40 million, related to approximately 50 sites, for those environmental matters related to NL which we believe are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to us for sites for which we believe it is currently possible to estimate costs is approximately $73 million, including the amount currently accrued. We have not discounted these estimates to present value.

We believe that it is not possible to estimate the range of costs for certain sites. At March 31, 2011, there were approximately 5 sites for which we are not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not NL 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 our control, such as when the party alleging liability provides information to us. 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 NL, along with any other alleged PRPs, is liable for past and/or future clean-up costs that could be material to us if we are ultimately found liable.

Other - We have also accrued approximately $2 million at March 31, 2011 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.

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 two 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, insurance recoveries are recognized when the receipt is probable and the amount is determinable.

For a complete discussion of certain litigation involving NL and certain of its former insurance carriers, please refer to our 2010 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 1,121 of these types of cases pending, involving a total of approximately 2,340 plaintiffs. In addition, the claims of approximately 7,700 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.

CompX – Prior to March 9, 2011, CompX was involved in certain patent litigation with Humanscale Corporation, ("Humanscale"). In March 2011, CompX entered into a confidential settlement agreement with Humanscale. Under the terms of the agreement, they paid CompX's Canadian subsidiary approximately $7.5 million in cash (which is recognized as a patent litigation settlement gain in the first quarter of 2011), and CompX and Humanscale each agreed to cross-license certain patents and to withdraw certain legal proceedings against the other party.

Other – For a discussion of other legal proceedings to which we are a party, please refer to our 2010 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 claims.

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 at fair value:

| | | 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, 2010: | | | | |
| Marketable securities: | | | | |
| Current | $1.7 | $- | $1.7 | $ - |
| Noncurrent | 340.4 | 87.2 | 3.2 | 250.0 |
| | | | | |
| Currency forward contracts | 6.3 | 6.3 | - | - |
| | | | | |
| March 31, 2011: | | | | |
| Marketable securities: | | | | |
| Current | 107.4 | 106.1 | 1.3 | - |
| Noncurrent | 366.0 | 112.7 | 3.3 | 250.0 |
| | | | | |
| Currency forward contracts | 6.9 | 6.9 | - | - |

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 foreign currency spot forward rates quoted by banks or foreign currency dealers.

At March 31, 2011 our Chemicals Segment held the following series of forward exchange contracts:

- an aggregate of $49.5 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. $1.05 to Cdn. $1.08 per U.S. dollar. These contracts with Wachovia Bank, National Association, mature from April 2011 through December 2011 at a rate of $5.5 million per month, subject to early redemption provisions at our option.
- an aggregate $10 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 6.59 to kroner 6.60 per U.S. dollar. These contracts with DnB Nor Bank ASA mature from April 2011 through July 2011 at a rate of $2.5 million per month.
- an aggregate euro 11.8 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 8.19 to kroner 8.28 per euro. These contracts with DnB Nor Bank ASA mature from April 2011 through August 2011 at a rate of euro 1.8 million to euro 2.5 million per month, subject to early redemption provisions at our option.

The estimated fair value of these currency forward contracts of our Chemicals Segment at March 31, 2011 was a $6.9 million net asset, which is included in our Condensed Consolidated Balance Sheet as part of Other Current Assets. There is also a corresponding $6.9 million currency transaction gain in our Condensed Consolidated Statements of Income. We did not use hedge accounting for any of such contracts we previously held in 2010.

At March 31, 2011, our Component Products Segment held a series of contracts to exchange an aggregate of U.S. $6.0 million for an equivalent value of Canadian dollars at an exchange rate of Cdn. $0.99 per U.S. dollar. These contracts qualified for hedge accounting and mature through September 2011. The exchange rate was $0.97 per U.S. dollar at March 31, 2011. The estimated fair value of the contracts was not material at March 31, 2011.

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

| | December 31, 2010 | | March 31,2011 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | (In millions) | | | |
| Cash, cash equivalents and restricted cash equivalents | $334.8 | $334.8 | $150.4 | $150.4 |
| Promissory note receivable | 15.0 | 15.0 | 15.0 | 15.0 |
| | | | | |
| Long-term debt (excluding capitalized leases): | | | | |
| Publicly-traded fixed rate debt - | | | | |
| KII Senior Secured Notes | $532.8 | $536.0 | $450.5 | $456.3 |
| Snake River Sugar Company fixed rate loans | 250.0 | 250.0 | 250.0 | 250.0 |
| WCS fixed rate debt | 87.4 | 87.4 | 87.3 | 87.3 |
| Variable rate bank credit facilities | 3.0 | 3.0 | 112.9 | 112.9 |
| CompX variable rate promissory note | 42.2 | 42.2 | 38.0 | 38.0 |
| NL variable rate promissory note | 18.0 | 18.0 | 18.0 | 18.0 |
| | | | | |
| Noncontrolling interest in: | | | | |
| Kronos common stock | $208.7 | $482.0 | $210.0 | $663.0 |
| NL common stock | 56.8 | 92.0 | 62.1 | 122.8 |
| CompX common stock | 10.9 | 18.6 | 11.3 | 25.5 |

| | | | | |
|---|---|---|---|---|
| Valhi stockholders' equity | $541.8 | $2,509.2 | $580.9 | $2,986.5 |

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, 2010 and March 31, 2011, the estimated market price of the 6.5% Notes was approximately euro 1004 and euro 1011, respectively, per euro 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 – Earnings per share:

Earnings per share is based on the weighted average number of common shares outstanding during each period. A reconciliation of the numerator used in the calculation of earnings per share is presented in the following table:

| | Three months ended March 31, | |
|---|---|---|
| | 2010 | 2011 |
| | (In millions) | |
| Net income attributable to Valhi stockholders | $13.6 | $38.0 |
| Equity adjustment | (2.1) | - |
| | | |
| Adjusted net income attributable to Valhi stockholders | $11.5 | $38.0 |

The $2.1 million equity adjustment attributable to Valhi stockholders is discussed in Note 17 to our 2010 Annual Report.

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 global manufacturer of security products, precision ball bearing slides and ergonomic computer support systems used in the office furniture, transportation, tool storage and a variety of other industries. CompX also manufactures steel exhaust systems, gauges and electronic and mechanical throttle controls for the performance boat industry.

- Waste Management – WCS is our subsidiary which operates a West Texas facility for the processing, treatment, storage and disposal of a broad range of 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 radioactive waste (“LLRW”) disposal license, which was signed in September 2009. Construction of the LLRW facility began in January 2011 and the facility is expected to be operational in late 2011.

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 Annual 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 identify forward-looking statements by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expects" or comparable 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 ("TiO2")operations);
- Customer inventory levels (such as the extent to which Kronos' customers may, from time to time, accelerate purchases of TiO2 in advance of anticipated price increases or defer purchases of TiO2in advance of anticipated price decreases;
- Changes in raw material and other operating costs (such as energy 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, TiO2);
- 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;
- Our ability to protect our intellectual property rights in our technology;
- The introduction of trade barriers;
- Restructuring transactions involving us and our affiliates;
- Potential consolidation or solvency of our competitors;
- The ability of our subsidiaries to pay us dividends (such as Kronos' suspension of its dividend in 2009 through the third quarter of 2010);
- Uncertainties associated with new product development;
- Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian krone, the Canadian dollar and the New Taiwan dollar);
- Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions);
- The timing and amounts of insurance recoveries;
- Our ability to renew, amend, refinance or establish credit facilities;
- Our ability to maintain sufficient liquidity;
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters;
- Our ultimate ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefit of which has been recognized under the more-likely-than-not recognition criteria (such as Kronos' ability to utilize its German net operating loss carryforwards);
- Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities, or new developments regarding environmental remediation at sites related to our former operations);
- Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products);
- The ultimate resolution of pending litigation (such as NL's lead pigment litigation, environmental and other litigation and Kronos' class action litigation);
- Uncertainties associated with the development of new product features;
- Our ability to comply with covenants contained in our revolving bank credit facilities;
- Our ability to complete, obtain approval of and comply with the conditions of our licenses and permits (such as approval by the Texas Commission on Environmental Quality ("TCEQ") of license conditions of WCS's LLRW disposal license); and
- Possible future litigation.

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

Operations Overview

Quarter Ended March 31, 2011 Compared to the Quarter Ended March 31, 2010 -

Net income attributable to Valhi stockholders was $38.0 million, or $.33 per diluted share, in the first quarter of 2011 compared to $13.6 million, or $.10 per diluted share, in the first quarter of 2010.  As more fully discussed below, our diluted income per share increased from 2010 to 2011 primarily due to the net effects of:

- increased operating income from each of our Chemicals and Component Products Segments in 2011 compared to 2010 (in 2011 our Component Products Segments operating income increased primarily due to a patent litigation settlement gain recognized in 2011) offset by an increased operating loss at our Waste Management segment in 2011 compared to 2010;
- a non-cash deferred income tax benefit recognized in the first quarter of 2010;
- a decrease in our ownership percentage of Kronos from 95% in the first quarter of 2010 to 80% in 2011 due to Kronos' secondary stock offering completed in November 2010;
- loss on the prepayment of debt in 2011 as a result of calling €80 million of our Senior Notes;
- litigation settlement and contract termination expense in 2010 and;
- lower insurance recoveries in 2011.

Our net income attributable to Valhi stockholders in 2011 includes income of $.02 per diluted share related to a patent litigation settlement we recognized and $.01 per diluted share loss on prepayment of debt.

Our net income attributable to Valhi shareholders in 2010 includes:

- a non-cash deferred income tax benefit of $.21 per diluted share (net of noncontrolling interest) recognized by Kronos related to a European Court ruling that resulted in the favorable resolution of certain German income tax issues;
- insurance recoveries of $.09 per diluted share (net of tax and noncontrolling interest); and
- a charge of $.16 per diluted share (net of tax and noncontrolling interest) related to litigation settlement and contract termination.

Current Forecast for 2011 –

We currently expect to report higher net income attributable to Valhi stockholders for 2011 as compared to 2010 primarily due to the net effects of:

- higher expected operating income from our Chemicals Segment as the expected increase in operating income will more than offset the effect of the 15% reduction in our aggregate ownership percentage of Kronos as a result of Kronos' secondary offering of its common stock completed in November 2010;
- higher expected operating income from our Component Products Segment due to the patent litigation settlement gain recognized in the first quarter of 2011 as well as from higher sales and lower legal expenses;
- litigation settlement and contract termination expense recorded in 2010; and
- higher operating losses at WCS as we expect more expenses associated with the limited operations of our byproduct disposal facility which commenced operations in the fourth quarter of 2009 and the construction of the LLRW facility which is expected to be operational in late 2011.

Segment Operating Results - 2010 Compared to 2011 –

Chemicals -

We consider TiO2 to be a "quality of life" product, with demand affected by gross domestic product (or "GDP") and overall economic conditions in our markets located in various regions of the world. Over the long-term, we expect that demand for TiO2 across all markets will grow on average 2% to 3% per year, consistent with our expectations for the long-term growth in GDP. However, even if we and our competitors maintain consistent shares of the worldwide market, demand for TiO2 in any interim or annual period may not change in the same proportion as the change in GDP, in part due to relative changes in the TiO2 inventory levels of our customers. We believe our customers' inventory levels are partly influenced by their expectation for future changes in TiO2 selling prices. Although certain of our TiO2 grades are considered specialty pigments the majority of our grades and substantially all of our production are considered commodity pigment products price and availability being the most significant competitive factors along with quality and customer service.

The factors having the most impact on our reported operating results are:

- Our TiO2 sales and production volumes,
- TiO2 selling prices,
- Currency exchange rates (particularly the exchange rate for the U.S. dollar relative to the euro, Norwegian krone and the Canadian dollar) and
- Manufacturing costs, particularly raw materials, maintenance and energy-related expenses.

Our key performance indicators are our TiO2 average selling prices and our level of TiO2 sales and production volumes. TiO2 selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures.

| | Three months ended March 31, 2010 | 2011 | % Change |
|---|---|---|---|
| | (Dollars in millions) | | |
| Net sales | $319.7 | $420.4 | 31 % |
| Cost of sales | 260.0 | 274.6 | 6 |
| Gross margin | $59.7 | $145.8 | 144 % |
| Operating income | $22.6 | $103.5 | 358 % |
| Percent of net sales: | | | |
| Cost of sales | 81 % | 65 % | |
| Gross margin | 19 | 35 | |
| Operating income | 7 | 25 | |
| Ti02 operating statistics: | | | |
| Sales volumes* | 122 | 125 | 2 % |
| Production volumes* | 124 | 133 | 7 |
| Percent change in net sales: | | | |
| Ti02 product pricing | | | 32 % |
| Ti02 sales volumes | | | 2 |
| Ti02 product mix | | | (2 ) |
| Changes in currency exchange rates | | | (1 ) |
| Total | | | 31 % |

* Thousands of metric tons

Current industry conditions– Throughout 2010 and continuing into 2011, global customer demand for our Chemicals Segment's TiO2 products continued to strengthen, and our Chemicals Segment's production facilities operated at near full practical capacity rates. We believe inventories throughout the TiO2 industry remain at historically low levels despite efforts of the major TiO2 producers to operate their facilities at near full capacity. As a result we increased TiO2 selling prices throughout 2010 and the first quarter of 2011 that resulted in increased profitability and cash flows. Even with such increased profitability, we believe profit margins are currently at a level which does not reasonably justify greenfield or other major expansions of TiO2 capacity. Provided global demand for TiO2 products remains strong, we expect the low level of worldwide TiO2 inventories to continue for several years due to the constraints of adding significant new production capacity, especially for premium grades of TiO2 products through the Chloride process. Given these current dynamics in the TiO2 industry, as well as the expectation for increases in our manufacturing costs discussed below, we anticipate further implementation of TiO2 selling price increases. Overall, based on these positive market dynamics in the TiO2 industry, we expect our profitability and cash flows to significantly increase in 2011 and the foreseeable future.

Net Sales – Net sales in the first quarter of 2011 increased 31%, or $100.7 million, compared to the first quarter of 2010 primarily due to a 32% increase in average TiO2 selling prices. TiO2 selling prices will increase or decrease generally as a result of competitive market pressures and changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs. Based on current conditions in the TiO2 industry as well as the expectation for increases in our manufacturing costs discussed below, we currently expect average selling prices in the remainder of 2011 to continue to be significantly higher than the comparable periods in 2010. Our 2% increase in sales volumes in the first quarter of 2011 is due to increased availability of product through higher production volumes. We expect demand will continue to remain strong for the remainder of the year. In addition, we estimate the unfavorable effect of changes in currency exchange rates decreased our net sales by approximately $5 million, or 1%, as compared to the first quarter of 2010.

Cost of Sales - Our Chemicals Segment's cost of sales percentage decreased significantly in the first quarter of 2011 compared to the same period last year, primarily due to the net impact of (i) a 32% increase in selling prices, (ii) a 2% increase in sales volumes, (iii) a 7% increase in TiO2 production volumes, higher raw material costs of $12.5 million (primarily feedstock ore and petroleum coke), (iv) an increase in maintenance costs of $3.6 million which is consistent with the increased production volumes and (v) currency fluctuations (primarily the euro). Our production volumes in the first quarter of 2011 tied our previous record for a first quarter.

Operating Income - Our Chemicals Segment's operating income increased significantly in the first quarter of 2011, primarily due to the significant increase in our gross margin and increased sales volumes. Gross margin has increased in both periods primarily because of higher selling prices, higher sales volumes and higher production volumes all of which more than offset the impact of higher manufacturing costs (primarily raw materials and maintenance). Additionally, changes in currency exchange rates have negatively affected our gross margin and income from operations. We estimate that changes in currency exchange rates decreased income from operations by approximately $9 million in the first quarter of 2011 as compared to the same period in 2010.

Our Chemicals Segment's operating income is net of amortization of purchase accounting adjustments made in conjunction with our acquisitions of interests in NL and Kronos. As a result, we recognize additional depreciation expense above the amounts Kronos reports separately, substantially all of which is included within cost of sales. We recognized an additional $.7 million of additional depreciation expense in each of the first quarters of 2010 and 2011 which reduced our reported Chemicals Segment operating income as compared to amounts reported separately by Kronos.

Currency Exchange Rates – Our Chemicals Segment has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). The majority of sales generated from our foreign operations are denominated in currencies other than the U.S. dollar, principally the euro, other major European currencies and the Canadian dollar. A portion of our sales generated from our foreign operations is denominated in the U.S. dollar. Certain raw materials used worldwide, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are purchased primarily in local currencies. Consequently, the translated U.S. dollar value of our foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect the comparability of period-to-period operating results. In addition to the impact of the translation of sales and expenses over time, our foreign operations also generate currency transaction gains and losses which primarily relate to the difference between the currency exchange rates in effect when non-local currency sales or operating costs are initially accrued and when such amounts are settled with the non-local currency.

Overall, fluctuations in currency exchange rates had the following effects on our Chemicals Segment's net sales and operating income:

Impact of changes in currency exchange rates
Three months ended March 31, 2011 vs March 31, 2010

| | Transaction gains recognized | | | Translation loss- impact of rate changes | Total currency impact 2010 vs 2011 |
|---|---|---|---|---|---|
| | 2010 | 2011 | Change | | |
| | (In millions) | | | | |
| Impact on: | | | | | |
| Net sales | $- | $- | $- | $(5) | $(5) |
| Operating income | 3 | 1 | (2) | (7) | (9) |

Outlook - During the first quarter of 2011 we operated our Chemicals Segment's production facilities at near full practical capacity levels, consistent with our operating rates throughout 2010. We currently expect to continue to operate our facilities at near full practical capacity levels throughout the remainder of 2011. While we will continue to work on debottlenecking projects in 2011 to increase our production capacity, we believe such debottlenecking projects will produce relatively nominal increases in our capacity and as a result our overall production volumes in 2011 will not increase significantly as compared to 2010.

The overall strong global demand for TiO2 we experienced in the first quarter of 2011 is expected to continue through the remainder of the year and inventory levels throughout the TiO2 industry are expected to remain at historically low levels. As a result, in 2011 we expect our sales of TiO2 to approximately match our production. Given our expectations for the level of our increased production capacity in 2011 discussed above, we similarly expect our sales volumes in 2011 will not increase significantly as compared to 2010.

We implemented significant increases in TiO2 selling prices throughout 2010 and the first quarter of 2011. Our average TiO2 selling prices were 32% higher in the first quarter of 2011 as compared to the first quarter of 2010, and our average selling prices at the end of the first quarter of 2011 were 9% higher as compared to the end of 2010. As a result, and based on our expected continuation of strong demand levels the low level of worldwide TiO2 inventories and increases in our manufacturing costs discussed below, we anticipate our average selling prices will continue to increase significantly during the remainder of 2011.

During 2011, we expect to see significantly higher feedstock ore costs driven by tight ore supplies, and higher than historical increases in petroleum coke, energy and freight which are being driven in part by escalating worldwide fuel prices. Overall, we currently expect our per metric ton cost of TiO2 we produce will increase approximately 10% to 15% in 2011 as compared to 2010, which is slightly higher than our previous expectations primarily due to increases in our raw material costs. Given that the current conditions for the TiO2 industry discussed above are not expected to change over the year, we believe we should be able to recoup such higher costs through additional selling price increases.

Overall, we expect operating income will continue to be significantly higher in the remainder of 2011 as compared to the same periods of 2010, as the favorable effect of higher selling prices will more than offset the impact of higher production costs.

Our expectations as to the future of the TiO2 industry are based upon a number of factors beyond our control, including worldwide growth of gross domestic product, competition in the marketplace, continued operation of competitors, unexpected or earlier than expected capacity additions or reductions and technological advances.  If actual developments differ from our expectations, our results of operations could be unfavorably affected.

Component Products -

The key performance indicator for our Component Products Segment is operating income margins.

| | Three months ended March 31, | | |
|---|---|---|---|
| | 2010 | 2011 | % Change |
| | (Dollars in millions) | | |
| Net sales | $32.8 | $34.8 | 6 % |
| Cost of sales | 23.7 | 26.1 | 10 |
| Gross margin | $9.1 | $8.7 | (5 )% |
| Operating income | $1.7 | $8.8 | 405 % |
| Percent of net sales: | | | |
| Cost of sales | 72 % | 75 % | |
| Gross margin | 28 | 25 | |
| Operating income | 5 | | |