

VALHI INC /DE/
Form 10-Q
May 06, 2009

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 2009

Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

87-0110150
(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 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
smaller reporting company

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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 30, 2009: 113,599,955.

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

ASSETS	December 31, 2008	March 31, 2009 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 37.0	\$ 48.0
Restricted cash equivalents	9.4	8.8
Marketable securities	8.8	7.2
Accounts and other receivables, net	205.2	210.2
Inventories, net	408.5	316.2
Prepaid expenses and other	15.4	16.9
Deferred income taxes	12.1	12.0
Total current assets	696.4	619.3
Other assets:		
Marketable securities	275.5	270.3
Investment in affiliates	124.0	125.2
Goodwill	396.8	396.6
Other intangible assets	2.0	1.9
Deferred income taxes	166.4	178.5
Other assets	87.3	87.4
Total other assets	1,052.0	1,059.9
Property and equipment:		
Land	46.4	46.1
Buildings	268.5	270.3
Equipment	1,025.3	1,032.7
Mining properties	30.3	34.4
Construction in progress	58.2	79.5
	1,428.7	1,463.0
Less accumulated depreciation	787.7	821.8
Net property and equipment	641.0	641.2
Total assets	\$ 2,389.4	\$ 2,320.4

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2008	March 31, 2009 (unaudited)
Current liabilities:		
Current maturities of long-term debt	\$ 9.4	\$ 89.3
Accounts payable and accrued liabilities	275.2	223.2
Income taxes	4.9	5.5
Deferred income taxes	4.7	4.4
Total current liabilities	294.2	322.4
Noncurrent liabilities:		
Long-term debt	911.0	862.9
Deferred income taxes	346.6	346.4
Accrued pension costs	146.1	138.9
Accrued postretirement benefits costs	29.3	29.2
Accrued environmental costs	41.3	40.0
Other liabilities	78.8	78.5
Total noncurrent liabilities	1,553.1	1,495.9
Stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	1.2	1.2
Additional paid-in capital	-	-
Accumulated deficit	(109.8)	(141.0)
Accumulated other comprehensive loss	(51.0)	(53.9)
Treasury stock	(38.9)	(38.9)
Total Valhi stockholders' equity	468.8	434.7
Noncontrolling interest in subsidiaries	73.3	67.4
Total equity	542.1	502.1
Total liabilities and equity	\$ 2,389.4	\$ 2,320.4

Commitments and contingencies (Notes 11 and 13)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three months ended March 31, 2008 2009 (unaudited)	
Revenues and other income:		
Net sales	\$ 373.9	\$ 277.3
Other income, net	5.1	30.2
Total revenues and other income	379.0	307.5
Costs and expenses:		
Cost of sales	310.4	272.7
Selling, general and administrative	58.3	51.4
Interest	17.4	16.0
Total costs and expenses	386.1	340.1
Loss before income taxes	(7.1)	(32.6)
Income tax benefit	(1.3)	(9.2)
Net loss	(5.8)	(23.4)
Noncontrolling interest in net income (loss) of subsidiaries	.1	(3.4)
Net loss attributable to Valhi stockholders	\$ (5.9)	\$ (20.0)
Amounts attributable to Valhi stockholders:		
Basic and diluted net loss per share	\$ (.05)	\$ (.18)
Cash dividends per share	\$.10	\$.10
Basic and diluted weighted average shares outstanding	114.4	114.3

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Three months ended March 31, 2008 2009 (unaudited)	
Cash flows from operating activities:		
Net loss	\$ (5.8)	\$ (23.4)
Depreciation and amortization	16.7	14.4
Gain on sale of business	-	(6.4)
Defined benefit plan expense less than cash funding requirements	(3.8)	(.9)
Deferred income taxes	(3.5)	(16.4)
Net distributions from (contributions to) Ti02 manufacturing joint venture	1.4	(1.8)
Other, net	2.0	1.2
Change in assets and liabilities:		
Accounts and other receivables, net	(36.5)	(10.6)
Inventories, net	(4.2)	81.3
Accounts payable and accrued liabilities	(3.2)	(54.2)
Accounts with affiliates	6.2	(9.5)
Income taxes	(3.9)	2.2
Other, net	1.0	5.3
Net cash used in operating activities	(33.6)	(18.8)
Cash flows from investing activities:		
Capital expenditures	(18.9)	(19.3)
Capitalized permit costs	(4.4)	.1
Purchases of CompX common stock	(.5)	-
Marketable securities	(1.6)	(3.1)
Proceeds from disposal of marketable securities	2.6	2.2
Proceeds from sale of business	-	6.8
Change in restricted cash equivalents, net	.2	.8
Other, net	.3	(.1)
Net cash used in investing activities	(22.3)	(12.6)

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Three months ended March 31, 2008 2009 (unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	\$ 103.8	\$ 117.3
Principal payments	(93.6)	(61.6)
Deferred financing costs paid	-	(.1)
Purchases of Kronos common stock	-	(.1)
Valhi cash dividends paid	(11.4)	(11.4)
Distributions to noncontrolling interest in subsidiaries	(1.9)	(1.2)
Issuance of common stock and other	-	.2
Net cash provided by (used in) financing activities	(3.1)	43.1
Cash and cash equivalents – net change from:		
Operating, investing and financing activities	(59.0)	11.7
Currency translation	1.6	(.7)
Cash and cash equivalents at beginning of period	138.3	37.0
Cash and cash equivalents at end of period	\$ 80.9	\$ 48.0
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	\$ 7.9	\$ 7.2
Income taxes, net	-	3.5
Accrual for capital expenditures	4.1	11.4
Accrual for capitalized permit costs	2.0	1.7
Noncash investing activities -		
Note receivable from sale of business	-	.8

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Three months ended March 31, 2009

(In millions)

	Valhi Stockholders' Equity				Accumulated other comprehensive loss	Treasury stock	Non- controlling interest	Total equity	Comprehensive loss
	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit					
Balance at December 31, 2008	\$ 667.3	\$ 1.2	\$ -	\$ (109.8)	\$ (51.0)	\$ (38.9)	\$ 73.3	\$ 542.1	
Net loss	-	-	-	(20.0)	-	-	(3.4)	(23.4)	\$ (23.4)
Other comprehensive loss, net	-	-	-	-	(2.9)	-	(1.1)	(4.0)	(4.0)
Equity transactions with noncontrolling interest, net	-	-	.2	-	-	-	(.2)	-	-
Cash dividends	-	-	(.2)	(11.2)	-	-	(1.2)	(12.6)	-
Balance at March 31, 2009	\$ 667.3	\$ 1.2	\$ -	\$ (141.0)	\$ (53.9)	\$ (38.9)	\$ 67.4	\$ 502.1	
Comprehensive loss									\$ (27.4)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority owned by Contran Corporation, which through its subsidiaries owns approximately 94% of our outstanding common stock at March 31, 2009. 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 (NYSE: 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, 2008 that we filed with the SEC on March 12, 2009 (the "2008 Annual Report"), except as disclosed in Note 15. 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, 2008 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, 2008) 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 period ended March 31, 2009 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 2008 Consolidated Financial Statements contained in our 2008 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	% owned at March 31, 2009
Chemicals	Kronos	95%
Component products	CompX	87%
Waste management	WCS	100%

Our ownership of Kronos includes 59% we hold directly and 36% held directly by NL. We own 83% of NL. Our ownership of CompX is through NL.

	Three months ended March 31,	
	2008	2009
Net sales:		
Chemicals	\$ 332.5	\$ 248.0
Component products	40.5	28.5
Waste management	.9	.8
Total net sales	\$ 373.9	\$ 277.3
Cost of sales:		
Chemicals	\$ 276.0	\$ 244.4
Component products	31.1	23.7
Waste management	3.3	4.6
Total cost of sales	\$ 310.4	\$ 272.7
Gross margin:		
Chemicals	\$ 56.5	\$ 3.6
Component products	9.4	4.8
Waste management	(2.4)	(3.8)
Total gross margin	\$ 63.5	\$ 4.6
Operating income (loss):		
Chemicals	\$ 11.0	\$ (25.5)
Component products	3.0	(1.0)
Waste management	(4.4)	(6.5)
Total operating income (loss)	9.6	(33.0)
Equity in losses of investee	(.4)	(.7)
General corporate items:		
Securities earnings	6.6	6.4
Insurance recoveries	.1	.7

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Gain on litigation settlement	-	11.9
Gain on sale of business	-	6.4
General expenses, net	(5.6)	(8.3)
Interest expense	(17.4)	(16.0)
Loss before income taxes	\$ (7.1)	\$ (32.6)

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.

Note 3 – Accounts and other receivables, net:

	December 31, 2008	March 31, 2009
	(In millions)	
Accounts receivable	\$ 194.9	\$ 208.5
Refundable income taxes	1.6	.2
Receivable from affiliates	.1	-
Other receivables	11.3	4.5
Allowance for doubtful accounts	(2.7)	(3.0)
 Total	 \$ 205.2	 \$ 210.2

Note 4 - Inventories, net:

	December 31, 2008	March 31, 2009
	(In millions)	
Raw materials:		
Chemicals	\$ 67.1	\$ 48.1
Component products	7.5	7.3
 Total raw materials	 74.6	 55.4
Work in process:		
Chemicals	19.8	18.2
Component products	8.2	7.2
 Total in-process products	 28.0	 25.4
Finished products:		
Chemicals	243.8	173.0
Component products	6.9	6.3
 Total finished products	 250.7	 179.3
Supplies (primarily chemicals)	55.2	56.1
 Total	 \$ 408.5	 \$ 316.2

Note 5 - Other noncurrent assets:

	December 31, 2008	March 31, 2009
	(In millions)	
Marketable securities:		
The Amalgamated Sugar Company LLC	\$ 250.0	\$ 250.0
Titanium Metals Corporation ("TIMET")	20.1	12.5
Other	5.4	7.8
Total	\$ 275.5	\$ 270.3
Investment in affiliates:		
TiO2 manufacturing joint venture	\$ 105.6	\$ 107.4
Other	18.4	17.8
Total	\$ 124.0	\$ 125.2
Other assets:		
Waste disposal site operating permits, net	\$ 43.7	\$ 45.1
Deferred financing costs	7.1	6.4
IBNR receivables	7.5	7.7
NL note receivable	15.0	15.0
Other	14.0	13.2
Total	\$ 87.3	\$ 87.4

Our noncurrent marketable securities are carried at fair value using quoted market prices, primarily Level 1 inputs as defined by Statement of Financial Accounting Standards ("SFAS") No. 157, Fair Value Measurements, except for our investment in The Amalgamated Sugar Company. Our investment in Amalgamated is measured using significant unobservable inputs, Level 3 as defined by SFAS No. 157. Please refer to Note 4 in our 2008 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 14.

Note 6 - Accounts payable and accrued liabilities:

	December 31, 2008	March 31, 2009
	(In millions)	
Current:		
Accounts payable	\$ 121.0	\$ 65.7
Employee benefits	33.6	29.8
Payable to affiliates:		
Louisiana Pigment Company	14.3	7.8
Contran – trade items	9.7	10.4
Contran – income taxes, net	1.3	2.4
TIMET	.5	.4
Accrued sales discounts and rebates	14.9	10.0
Environmental costs	11.6	11.8
Interest	7.9	16.9
Deferred income	8.4	13.5
Reserve for uncertain tax positions	.2	.5
Other	51.8	54.0
Total	\$ 275.2	\$ 223.2
Noncurrent:		
Reserve for uncertain tax positions	\$ 50.4	\$ 50.2
Insurance claims and expenses	13.5	13.8
Employee benefits	9.1	8.7
Other	5.8	5.8
Total	\$ 78.8	\$ 78.5

Note 7 - Long-term debt:

	December 31, 2008	March 31, 2009
	(In millions)	
Valhi:		
Snake River Sugar Company	\$ 250.0	\$ 250.0
Revolving bank credit facility	7.3	18.0
Total Valhi debt	257.3	268.0
Subsidiary debt:		
Kronos International:		
6.5% Senior Secured Notes	560.0	538.2
European bank credit facility	42.2	68.9
CompX promissory note payable to TIMET	43.0	42.7

Kronos U.S. bank credit facility	13.7	30.2
Other	4.2	4.2
Total subsidiary debt	663.1	684.2
Total debt	920.4	952.2
Less current maturities	9.4	89.3
Total long-term debt	\$ 911.0	\$ 862.9

During the first quarter of 2009, we borrowed a net \$10.7 million under our Valhi bank credit facility with an average interest rate on these outstanding borrowings of 3.25% at March 31, 2009.

During the first quarter of 2009, we borrowed a net euro 21.0 million (\$26.7 million) under Kronos' European bank credit facility and a net \$16.5 million under Kronos' U.S. bank credit facility. The average interest rates on these outstanding borrowings at March 31, 2009 were 3.88% and 3.25, respectively.

Our Chemicals Segment also has a Cdn. \$30 million revolving credit facility that had a maturity date of January 15, 2009. Prior to maturity we and the lender temporarily extended the borrowing terms of this agreement on a month-to-month basis, and we are in the process of renegotiating this facility. We expect a new agreement in place in the second quarter 2009. At March 31, 2009, no amounts were outstanding under the facility.

Restrictions and other. Under the cross-default provisions of Kronos' 6.5% Notes, the 6.5% Notes may be accelerated prior to their stated maturity if our European subsidiaries default under any other indebtedness in excess of \$20 million due to a failure to pay the other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under the other indebtedness). Under the cross-default provisions of Kronos' European revolving credit facility, any outstanding borrowings under the facility may be accelerated prior to their stated maturity if the borrowers or their parent company default under any other indebtedness in excess of euro 5 million due to a failure to pay the other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under the other indebtedness). Under the cross-default provisions of the U.S. revolving credit facility, any outstanding borrowing under the facility may be accelerated prior to their stated maturity in the event of the bankruptcy of Kronos. The Canadian revolving credit facility contains no cross-default provisions. The European, U.S. and Canadian revolving credit facilities each contain provisions that allow the lender to accelerate the maturity of the applicable facility in the event of a change of control, as defined in the respective agreement, of the applicable borrower. In the event any of these cross-default or change-of-control provisions become applicable, and the indebtedness is accelerated, we would be required to repay the indebtedness prior to their stated maturity.

Certain of the credit facilities described above require the respective borrower 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. None of our credit agreements contain provisions that link the debt payment rates or schedules or borrowing availability to our or any of our subsidiaries' credit ratings. On March 20, 2009, the lenders associated with Kronos' European credit facility waived compliance with the required financial ratio of the borrowers' net secured debt to earnings before income taxes, interest and depreciation, as defined in the amended revolving credit facility, for the 12-month period ending March 31, 2009. Among other things, the waiver moved the next required financial ratio measurement period to the 12-month period ending April 30, 2009. On April 29, 2009, the lenders waived compliance with the required financial ratio for the 12-month period ending April 30, 2009. Among other things, the waiver moved the next required financial ratio measurement period to the 12-month period ending June 15, 2009. We did not pay any fee to the lenders to obtain either waiver. Absent receiving the waiver Kronos would have been in violation of this financial ratio. In addition, we believe it is probable that Kronos will not be able to comply with this financial ratio for the next 12-month period; as a result we have classified the outstanding balance of the European credit facility as a current liability at March 31, 2009. In 2009, we have reduced our production levels in response to the current economic environment, which has favorably impacted our liquidity and cash flows by reducing our inventory levels. We expect to continue to maintain reduced levels of production for the remainder of 2009. However, the reduced capacity utilization levels will negatively impact our Chemicals Segment's 2009 results of operations due to the resulting unabsorbed fixed production costs that will be charged to expense as incurred. As a result, we may not be able to maintain the required financial ratio throughout 2009.

We have begun discussions with the lenders to amend the terms of the existing Kronos European credit facility to eliminate the requirement to maintain this financial ratio until at least March 31, 2010. While we believe it is possible we can obtain such an amendment to eliminate this financial ratio through at least March 31, 2010, there is no assurance that such amendment will be obtained, or if obtained that the requirement to maintain the financial ratio will be eliminated (or waived, in the event the lenders would only agree to a waiver and not an amendment to eliminate the covenant itself) through at least March 31, 2010. Any amendment or waiver which we might obtain could increase our future borrowing costs, either from a requirement that we pay a higher interest rate on outstanding borrowings and/or pay a fee to the lenders as part of agreeing to an amendment or waiver.

In the event we are not be successful in obtaining the amendment or waiver of the existing European credit facility to eliminate the requirement to maintain the financial ratio, we would seek to refinance such facility with a new group of lenders with terms that would not include such financial covenant or, if required, use our existing liquidity resources (which could include funds provided by our affiliates). While there is no assurance that we should be able to refinance the existing European credit facility with a new group of lenders, we believe these other sources of liquidity available to us would allow us to refinance the existing European credit facility. If required, we believe by undertaking one or more of these steps we would be successful in maintaining sufficient liquidity to meet our future obligations including operations, capital expenditures and debt service for the next 12 months.

Note 8 - 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,	
	2008	2009
	(In millions)	
Service cost	\$ 1.7	\$ 1.8
Interest cost	7.4	6.6
Expected return on plan assets	(8.0)	(5.2)
Amortization of prior service cost	.2	.3
Amortization of net transition obligations	.1	.1
Recognized actuarial losses	1.1	1.8
Total	\$ 2.5	\$ 5.4

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

	Three months ended March 31, 2008 2009 (In millions)	
Service cost	\$.1	\$.1
Interest cost	.5	.4
Amortization of prior service credit	(.1)	(.1)
 Total	 \$.5	 \$.4

Contributions - We expect our 2009 contributions for our pension and other postretirement benefit plans to be consistent with the amounts we disclosed in our 2008 Annual Report.

Note 9 – Stockholders’ equity:

Share repurchases - Our board of directors has previously authorized the repurchase of up to 10.0 million shares of our common stock in open market transactions, including block purchases, or in privately negotiated transactions, which may include transactions with our affiliates or subsidiaries. We may purchase the stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, we may terminate the program prior to completion. We will use cash on hand to acquire the shares. Repurchased shares could be retired and cancelled or may be added to our treasury stock and used for employee benefit plans, future acquisitions or other corporate purposes. We did not purchase any shares of our common stock during the first three months of 2009, and at March 31, 2009, approximately 4.0 million shares were available for purchase under the repurchase authorization.

Note 10 - Other income, net:

	Three months ended March 31, 2008 2009 (In millions)	
Securities earnings:		
Dividends and interest	\$ 7.0	\$ 6.6
Securities transactions, net	(.4)	(.2)
 Total securities earnings	 6.6	 6.4
Equity in losses of investee	(.4)	(.7)
Currency transactions, net	(2.5)	5.3
Insurance recoveries	.1	.7
Gain on litigation settlement	-	11.9
Gain on sale of business	-	6.4
Other, net	1.3	.2
 Total	 \$ 5.1	 \$ 30.2

The gain on litigation settlement is discussed in Note 13. We provided certain research, laboratory and quality control services within and outside the sweetener industry for The Amalgamated Sugar Company LLC and others. In January 2009, we sold our research, laboratory and quality control business to the LLC for an aggregate sales price of \$7.5 million, consisting of \$6.75 million in cash paid at closing and \$500,000 payable in February 2010 and \$250,000 payable in February 2011. The amounts payable in 2010 and 2011 do not bear interest, and we recognized the payable at their aggregate net present value of approximately \$.7 million. We recognized a pre-tax gain of \$6.4 million from the sale of this business. The revenues, pre-tax income and total assets of the operations sold are not material in any period presented.

Note 11 - Income tax benefit:

	Three months ended March 31, 2008 2009 (In millions)	
Expected tax benefit, at U.S. federal statutory income tax rate of 35%	\$ (2.4)	\$ (11.4)
Incremental U.S. tax and rate differences on equity in earnings	.6	(1.6)
Non-U.S. tax rates	-	1.4
Nondeductible expenses	-	2.2
Nontaxable income	-	(1.0)
Change in reserve for uncertain tax positions	.2	-
U.S. state income taxes, net	.1	.9
Other, net	.2	.3
 Income tax benefit	 \$ (1.3)	 \$ (9.2)

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 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 that our unrecognized tax benefits will decrease by \$3.8 million within the next twelve months due to the reversal of certain timing differences and the expiration of certain statutes.

Note 12 - Noncontrolling interest in subsidiaries:

	December 31, 2008 March 31, 2009 (In millions)	
Noncontrolling interest in subsidiaries:		
NL Industries	\$ 45.8	\$ 41.7
Kronos Worldwide	15.6	14.2
CompX International	11.9	11.5
 Total	 \$ 73.3	 \$ 67.4

	Three months ended March 31,	
	2008	2009
	(In millions)	
Noncontrolling interest in net income (loss) of subsidiaries:		
NL Industries	\$ (0.1)	\$ (2.0)
CompX International	.2	(0.1)
Kronos Worldwide	-	(1.3)
 Total	 \$ 0.1	 \$ (3.4)

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

	Three months ended March 31, 2009 (In millions)
Net loss attributable to Valhi stockholders	\$ (20.0)
Transfers (to) from noncontrolling interest:	
Increase in additional paid-in capital for purchase of 14,000 shares of Kronos common stock	.2
Net transfers (to) from noncontrolling interest	.2
Net loss attributable to Valhi stockholders and change from noncontrolling interest in subsidiaries	\$ (19.8)

Note 13 - 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 are pending (in which we are not a defendant) seeking recovery for injury allegedly caused by lead pigment and lead-based paint. Although we are not a defendant in these cases, the outcome of these cases may have an impact on cases that might be filed against us 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 any 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 these 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 results of operations 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

General - 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 our environmental performance. From time to time, we may be subject to environmental regulatory enforcement under U.S. and foreign 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 of NL, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal 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. In addition, we are a party to a number of personal injury lawsuits filed in various jurisdictions related to environmental conditions alleged to have resulted from our operations.

Environmental obligations are difficult to assess and estimate for numerous reasons including:

- 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; and
- number of years of investigatory, remedial and monitoring activity required.

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 for 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 position, 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 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, 2009, we had no 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 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 three months of 2009 are as follows:

	Amount (In millions)
Balance at the beginning of the period	\$ 52.9
Additions charged to expense, net	.9
Payments, net	(2.0)
Balance at the end of the period	\$ 51.8
Amounts recognized in the Consolidated Balance Sheet at the end of the period:	
Current liability	\$ 11.8
Noncurrent liability	40.0
Total	\$ 51.8

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, 2009, we accrued approximately \$48 million for those environmental matters related to NL which we believe are reasonably estimable. We believe that it is not possible to estimate the range of costs for certain sites. 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 \$74 million, including the amount currently accrued. We have not discounted these estimates to present value.

At March 31, 2009, there were approximately 25 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 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, we have received general and special notices of liability from the EPA alleging that we, along with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations conducted at the sites. These notifications may assert that NL, along with other PRPs, are liable for past clean-up costs that could be material to us if we are ultimately found liable.

In 2005, certain real property NL owned that is subject to environmental remediation was taken from us in a condemnation proceeding by a governmental authority in New Jersey. The condemnation proceeds, the adequacy of which we disputed, were placed into escrow with a court in New Jersey. Because such funds were in escrow with the court and were beyond our control, we never gave recognition to such condemnation proceeds for financial reporting purposes. In April 2008, we reached a tentative settlement agreement. The tentative settlement agreement was subject to certain conditions which ultimately were not met, and on May 2, 2008 we terminated such agreement. In October 2008 we reached a definitive settlement agreement with such governmental authority and a real estate developer, among others, pursuant to which, among other things, we would receive certain agreed-upon amounts in satisfaction of our claim to just compensation for the taking of our property in the condemnation proceeding and we would be

indemnified against certain environmental liabilities related to such property. The initial closing under the definitive settlement agreement occurred in October 2008. In April 2009, the second closing was partially completed, pursuant to which we received an aggregate of \$8 million in cash. An additional \$3.8 million, representing the remainder of the consideration due to us at the second closing, is currently expected to be received later in the second quarter of 2009. The agreement calls for one final closing that is scheduled to occur in October 2010. The final closing is subject to, among other things, our receipt of certain additional payments. In exchange for these additional payments at the second and third closings, we would release our equitable lien on the remaining portion of the property. Our carrying value of this property was approximately \$1.3 million at March 31, 2009. For financial reporting purposes, in the second quarter of 2009 we will account for the aggregate consideration received at the second closing by the full accrual method of accounting for real estate sales (since the settlement agreement arose out of a dispute concerning the adequacy of the condemnation proceeds for our former real property in New Jersey). Under this method, we anticipate we will recognize a pre-tax gain related to the second closing based on the difference between the aggregate cash consideration received and the carrying value of the portion of the property for which our equitable lien of \$.3 million will be released.

Tremont - Prior to 2005, Tremont, another of our wholly-owned subsidiaries, entered into a voluntary settlement agreement with the Arkansas Department of Environmental Quality and certain other PRPs pursuant to which Tremont and the other PRPs would undertake certain investigatory and interim remedial activities at a former mining site partly operated by NL located in Hot Springs County, Arkansas. Tremont had entered into an agreement with Halliburton Energy Services, Inc. ("Halliburton"), another PRP for this site, which provided for, among other things, the interim sharing of remediation costs associated with the site pending a final allocation of costs through an agreed-upon procedure in arbitration, as further discussed below.

On December 9, 2005, Halliburton and DII Industries, LLC, another PRP of this site, filed suit in the United States District Court for the Southern District of Texas, Houston Division, Case No. H-05-4160, against NL, Tremont and certain of its subsidiaries, M-I, L.L.C., Milwhite, Inc. and Georgia-Pacific Corporation seeking:

- to recover response and remediation costs incurred at the site;
- a declaration of the parties' liability for response and remediation costs incurred at the site;
- a declaration of the parties' liability for response and remediation costs to be incurred in the future at the site; and
- a declaration regarding the obligation of Tremont to indemnify Halliburton and DII for costs and expenses attributable to the site.

On December 27, 2005, a subsidiary of Tremont filed suit in the United States District Court for the Western District of Arkansas, Hot Springs Division, Case No. 05-6089, against Georgia-Pacific, seeking to recover response costs it has incurred and would incur at the site. Subsequently, plaintiffs in the Houston litigation agreed to stay that litigation by entering into an amendment with NL, Tremont and its affiliates to the arbitration agreement previously agreed upon for resolving the allocation of costs at the site. The Tremont subsidiary subsequently also agreed with Georgia Pacific to stay the Arkansas litigation, and subsequently that matter was consolidated with the Houston litigation, where the court agreed to stay the plaintiffs' claims against Tremont and its subsidiaries, but denied Tremont's motions to dismiss and to stay the claims made by M-I, Milwhite and Georgia Pacific.

In June and September 2007, the arbitration panel chosen by the parties to address the issues in the Houston litigation discussed above returned decisions favorable to NL, Tremont and its affiliates. Among other things, the panel found that Halliburton and DII are obligated to indemnify Tremont and its affiliates (including NL) against all costs and expenses, including attorney fees, associated with any environmental remediation at the site and other sites arising out of NL's former petroleum services business, and ordered Halliburton to pay Tremont approximately \$10.0 million in cash in recovery of past investigation and remediation costs and legal expenses incurred by Tremont related to the Magcobar site, plus any future remediation and legal expenses incurred after specified dates, together with post-judgment interest accruing after September 1, 2007. In October 2007, Tremont filed a motion with the court in the Houston litigation to confirm the arbitration panel's decisions, and Halliburton and DII filed a motion to vacate such decisions. A confirmation hearing was held in November 2007, and in March 2008 the court upheld and confirmed the arbitration panel's decisions. In April 2008, Halliburton and DII filed a notice of their appeal of the court's opinion confirming the arbitration awards to the United States Court of Appeals for the Fifth Circuit. In July 2008, the trial court issued a final judgment pursuant to its March 2008 confirmation, and required that Halliburton and DII post a supersedeas bond in the amount of \$14.3 million during the period of the appeal in order to stay enforcement of the monetary award in the judgment. The nonmonetary portion of the judgment was not stayed. Also in July 2008, Halliburton and DII filed a motion with the trial court for a new trial or to alter or amend its judgment, and the court subsequently denied such motion. Halliburton and DII filed a Motion for Relief from the Court's Confirmation Order and Partial Final Judgment pursuant to Fed.R.Civ.P.60(b) claiming that essential documents had been wrongfully withheld from the arbitration panel. Subsequently the Court of Appeals for the Fifth Circuit affirmed the lower court ruling and remanded the Rule 60(b) motion back to the trial court. In February 2009, the court held a hearing on the motion. In January 2009, Tremont received payment from Halliburton of \$11.8 million as partial payment of the monetary judgment against it, and in March 2009 the lower court denied Halliburton's Rule 60(b) motion. Accordingly, in the first quarter of 2009 we recognized a litigation settlement gain of \$11.9 million, consisting of the \$11.8 million received as well as an additional \$.1 million in additional legal costs incurred for which Halliburton is obligated to reimburse us.

Tremont and its affiliates (including NL) have also filed counterclaims in the Houston litigation against Halliburton and DII for other similar remediation costs associated with NL and Tremont's other former historical petroleum services sites, which the panel also found were the obligations of Halliburton and DII. At the September 26, 2008 hearing the trial court judge agreed to sever these claims from Case No. 05-6089 and consolidate those claims into a Civil Action Case No. H-08-1063 now also pending with the court.

Other - We have also accrued approximately \$3.6 million at March 31, 2009 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 not considered any potential insurance recoveries for lead pigment or asbestos litigation matters in determining related accruals. We recognize insurance recoveries in income only when receipt of the recovery is probable and we are able to reasonably estimate the amount of the recovery.

We have agreements with two former insurance carriers pursuant to which the carriers reimburse us for a portion of our lead pigment litigation defense costs, and one such carrier reimburses us for a portion of our asbestos litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for past 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. We have not considered any additional potential insurance recoveries in determining accruals for lead pigment or asbestos litigation matters.

For a complete discussion of certain litigation involving NL and certain of their former insurance carriers, please refer to our 2008 Annual Report.

Other litigation

NL - In June 2005, we received notices from the three minority shareholders of our wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS") indicating they were each exercising their right, which became exercisable on June 1, 2005, to require EMS to purchase their preferred shares in EMS as of June 30, 2005 for a formula-determined amount as provided in EMS' certificate of incorporation. In accordance with the certificate of incorporation, we made a determination in good faith of the amount payable to the three former minority shareholders to purchase their shares of EMS stock, which amount may be subject to review by a third party. In June 2005, we set aside funds as payment for the shares of EMS, but as of March 31, 2009 the former minority shareholders have not tendered their shares. Therefore, the liability owed to these former minority shareholders has not been extinguished for financial reporting purposes as of March 31, 2009 and remains recognized as a current liability in our Condensed Consolidated Financial Statements. We have similarly classified the funds which have been set aside in restricted cash and cash equivalents.

In May 2007, we filed a complaint in Texas state court (Contran Corporation, et al. v. Terry S. Casey, et al., Case No. 07-04855, 192nd Judicial District Court, Dallas County, Texas) in which we alleged negligence, conversion, and breach of contract against a former service provider of ours who was also a former minority shareholder of EMS. In February 2008, two other former minority shareholders of EMS filed counterclaims, a third-party petition and petition in intervention, seeking damages related to their former ownership in EMS. Our original claims were removed to arbitration, and the case is now captioned Industrial Recovery Capital Holdings Co. et al. v. Harold C. Simmons et al., Case No. 08-02589, District Court, Dallas County, Texas. The defendants are NL, Contran, us and certain of NL's and EMS's current or former officers or directors. The plaintiffs claim that, in preparing the valuation of the former minority shareholders' preferred shares for purchase by EMS, defendants have committed fraud, breach of fiduciary duty, civil conspiracy, breach of contract and tortious interference with economic relations. We believe that these claims are without merit and have denied all liability therefor. NL and EMS have also filed counterclaims against the former minority shareholders relating to the formation and management of EMS. Trial is scheduled for July 2009.

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. During the first quarter of 2009, certain of these cases involving multiple plaintiffs were separated into single-plaintiff cases. As a result, the total number of outstanding cases increased. 1,234 of these types of cases remain pending, involving a total of approximately 3,400 plaintiffs. In addition, the claims of approximately 7,500 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio 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 – On February 10, 2009, a complaint (Doc. No. DN2650) was filed with the U.S. International Trade Commission (“ITC”) by Humanscale Corporation requesting that the ITC commence an investigation pursuant to Section 337 of the Tariff Act of 1930 to determine allegations concerning the unlawful importation of certain adjustable keyboard related products into the U.S. by CompX’s Canadian subsidiary (“investigation”). The products are alleged to infringe certain claims under a U.S. patent held by Humanscale. The complaint seeks as relief the barring of future imports of the products into the U.S. until the expiration of the related patent in March 2011. In March 2009, the ITC agreed to undertake the investigation and set a procedural schedule with a target date of June 14, 2010 for its findings. We deny any infringement alleged in the investigation and plan to defend ourselves with respect to any claims of infringement by Humanscale.

U.S. District Court. On February 13, 2009, a Complaint for Patent Infringement was filed in the United States District Court, Eastern District of Virginia, Alexandria Division (CV No. 3:09CV86-JRS) by Humanscale Corporation against CompX International Inc. and CompX Waterloo. CompX answered the allegations of infringement of Humanscale’s U.S. Patent No. 5,292,097C1 set forth in the Complaint on March 30, 2009. CompX filed for a stay in the U.S. District Court Action with respect to Humanscale’s claims (as a matter of legislated right because of the ITC action) while at the same time counterclaiming patent infringement claims against Humanscale for infringement of CompX’s keyboard support arm patents (U.S. 5,037,054 and U.S. 5,257,767) by Humanscale’s models 2G, 4G and 5G support arms. Humanscale has filed a response not opposing our motion to stay their patent infringement claims but opposing our patent infringement counterclaims against them and asking the Court to stay all claims in the matter until the ITC investigation is concluded. CompX filed its response to their motions on April 24, 2009 and awaits a hearing by the judge with respect to these matters.

Accuride Litigation U.S. District Court. On April 8, 2009, Accuride International Inc. filed a Complaint for Patent Infringement in the United States District Court, Central District of California, Los Angeles (Case No. CV09-2448 R) against CompX Precision Slides Inc. and CompX International Inc. Accuride alleges that CompX Precision Slides Inc. and CompX International Inc. manufacture, sell and cause others to sell in the U.S. unauthorized self-closing precision drawer slides that infringe their U.S. Patent No. 6,773,097 B2. Accuride seeks an order declaring willful infringement of one or more claims of the '097 patent; an order enjoining CompX from making or selling slides that so infringe; damages for such willful infringement to be at least \$1,000,000; and costs and attorneys' fees. CompX was served on April 24, 2009 with a summons in this matter and intends to file an answer denying any claims of infringement made by Accuride.

Other – For a discussion of other legal proceedings to which we are a party, please refer to our 2008 Annual Report.

In addition to the litigation described above, we and our affiliates are 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 14 - Financial instruments:

The following table summarizes the valuation of our short-term investments and financial instruments recorded at fair value as of March 31, 2009:

	Fair Value Measurements at March 31, 2009			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In millions)			
Marketable securities:				
Current	\$ 8.8	\$ -	\$ 8.8	\$ -
Noncurrent	270.3	20.3	-	250.0
Currency forward contracts	2.1	2.1	-	-

See Note 5 for information on how we determine fair value of our marketable securities.

We periodically use currency forward contracts to manage a portion of foreign 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 as defined in SFAS No. 157 based on the foreign currency spot forward rates quoted by banks or foreign currency dealers.

At March 31, 2009 we held the following series of short-term forward exchange contracts.

- Our Component Products Segment entered into a series of short-term forward exchange contracts maturing through June 2009 to exchange an aggregate of \$3.9 million for an equivalent value of Canadian dollars at an exchange rate of Cdn. \$1.25 per U.S. dollar. At March 31, 2009, the actual exchange rate was Cdn. \$1.25 per U.S. dollar.
- Our Chemicals Segment has an aggregate of \$22.5 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. \$1.25 to Cdn. \$1.26 per U.S. dollar. These contracts with U.S. Bank mature from April 2009 through December 2009 at a rate of \$2.5 million per month. At March 31, 2009, the actual exchange rate was Cdn. \$1.25 per U.S. dollar.
- Our Chemicals Segment has an aggregate \$56.5 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 6.51 to kroner 7.18 per U.S. dollar. These contracts with DnB Nor Bank ASA mature from April 2009 through March 2010 at a rate of \$.5 million to \$4.75 million per month. At March 31, 2009, the actual exchange rate was kroner 6.51 per U.S. dollar.
- Our Chemicals Segment also has an aggregate euro 16.4 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 8.68 to kroner 9.23 per euro. These contracts with DnB Nor Bank ASA mature from April 2009 through March 2010 at a rate of euro .5 million to euro 1.7 million per month. At March 31, 2009, the actual exchange rate was kroner 8.89 per euro.

The estimated fair value of such currency forward contracts at March 31, 2009 was a \$2.1 million net asset, which is the net result of \$2.7 million recognized as part of Prepaid Expenses and Other and \$.6 million recognized as part of Accounts Payable and Accrued Liabilities in our Condensed Consolidated Balance Sheet. There is also a corresponding \$2.1 million currency transaction gain in our Condensed Consolidated Statement of Operations.

Note 15 – Recent accounting pronouncements:

Noncontrolling Interest – In December 2007, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51. SFAS No. 160 establishes a single method of accounting for changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation. On a prospective basis any changes in ownership are accounted for as equity transactions with no gain or loss recognized on the transactions unless there is a change in control; under previous GAAP such changes in ownership would generally result either in the recognition of additional goodwill (for an increase in ownership) or a gain or loss included in the determination of net income (for a decrease in ownership). The statement standardizes the presentation of noncontrolling interest as a component of equity on the balance sheet and on a net income basis in the statement of operations. This Statement also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners of a subsidiary. Upon adoption, we reclassified our condensed consolidated balance sheet and statement of operations to conform to the new presentation requirements for noncontrolling interest for all periods presented.

Benefit Plan Asset Disclosures - During the fourth quarter of 2008, the FASB issued FSP SFAS 132 (R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, which amends SFAS No. 87, 88 and 106 to require expanded disclosures about employers' pension plan assets. FSP 132 (R)-1 will be effective for us beginning with our 2009 annual report, and we will provide the expanded disclosures about our pension plan assets at that time.

Derivative Disclosures – In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities to provide enhanced disclosures about how and why we use derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133 and how derivative instruments and related hedged items affect our financial position and performance and cash flows. This statement becomes effective for us in the first quarter of 2009. We periodically use currency forward contracts to manage a portion of our foreign currency exchange rate market risk associated with trade receivables or future sales. The contracts we have outstanding at March 31, 2009 are marked to market at each balance sheet date and are not accounted for under hedge accounting. Because our prior disclosures regarding these forward contracts substantially met all of the applicable disclosure requirements of the new standard, its effectiveness did not have a significant effect on our Condensed Consolidated Financial Statements.

Other-Than-Temporary-Impairments - In April 2009, the FASB issued FASB Staff Position ("FSP") FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The FSP amends existing guidance for the recognition and measurement of other-than-temporary impairments for debt and equity securities classified as available-for-sale and held-to-maturity and expands the disclose requirements for interim and annual periods for available-for-sale and held-to-maturity debt securities, including information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized. This FSP will become effective for us in the second quarter of 2009 and its adoption is not expected to have a material affect on our Condensed Consolidated Financial Statements.

Fair Value Disclosures - Also in April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP will require us to disclose the fair value of all financial instruments for which it is practicable to estimate the value, whether recognized or not recognized in the statement of financial position, as required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments for interim as well as annual periods. Prior to the adoption of the FSP we are only required to disclose this information annually. This FSP will become effective for us in the second quarter of 2009 and will not affect our Condensed Consolidated Financial Statements.

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 (NYSE: CIX) each file periodic reports with the Securities and Exchange Commission ("SEC").

We have three consolidated operating segments:

• **Chemicals** – Our chemicals segment is operated through our majority ownership of Kronos. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments ("TiO₂"). TiO₂ is used for a variety of manufacturing applications, including plastics, paints, paper and other industrial products.

- **Component Products** – We operate in the component products industry through our majority ownership 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, postal, tool storage, appliance and a variety of other industries. CompX is also a leading manufacturer of stainless steel exhaust systems, gauges and throttle controls for the performance marine industry.
- **Waste Management** – WCS is our wholly-owned subsidiary which owns and operates a West Texas facility for the processing, treatment, storage and disposal of hazardous, toxic and certain types of low-level radioactive waste. WCS obtained a byproduct disposal license in 2008 and is in the process constructing the byproduct disposal facility, which is expected to be operational in the second half of 2009. In January 2009 WCS received a low-level radioactive waste disposal permit, and construction of the low-level radioactive waste facility is currently expected to begin in the third quarter of 2009, following the completion of some pre-construction licensing and administrative matters, and is expected to be operational in the third quarter of 2010.

General

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Quarterly Report on Form 10-Q that are not historical in nature are forward-looking in nature about our future that are not statements of historical fact. Statements in this report including, but not limited to, statements found in Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations," are forward-looking statements that represent our beliefs and assumptions based on currently available information. In some cases you can identify these forward-looking statements by the use of words such as "believes," "intends," "may," "should," "could," "anticipates," "expected" or comparable terminology, or by discussions of strategies or trends. Although we believe the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will be correct. Forward-looking statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. While it is not possible to identify all factors, we continue to face many risks and uncertainties. Among the factors that could cause our 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 including, but not limited to, the following:

- Future supply and demand for our products;
- The cyclical nature of certain of our businesses (such as Kronos' 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 TiO2 in advance of anticipated price decreases);
 - Changes in our raw material and other operating costs (such as energy costs);
- 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 substitute products;
- 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;
 - Restructuring transactions involving us and our affiliates;
 - Potential consolidation or solvency of our competitors;
 - Demand for high performance marine components;
 - The ability of our subsidiaries to pay us dividends;
 - 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, 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;
- The 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 and litigation surrounding environmental matters of NL and Tremont and CompX's patent litigation);
 - Our ability to comply with covenants contained in our revolving bank credit facilities; and
 - Possible future litigation.

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.

Net Income (Loss) Overview

Quarter Ended March 31, 2008 Compared to the Quarter Ended March 31, 2009 -

We reported a net loss attributable to Valhi stockholders of \$20.0 million, or \$.18 per diluted share, in the first quarter of 2009 compared to a net loss attributable to Valhi stockholders of \$5.9 million, or \$.05 per diluted share, in the first quarter of 2008. Our diluted loss per share increased from 2008 to 2009 primarily due to the net effects of: