VALHI INC /DE/
Form 10-Q
November 05, 2010

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 September 30, 2010 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 October 29, 2010: 113,607,955.

VALHI, INC. AND SUBSIDIARIES

INDEX

Items 2, 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, 2009	September 30, 2010 (unaudited)
Current assets:		
Cash and cash equivalents	$68.7	$61.8
Restricted cash equivalents	8.9	7.6
Marketable securities	6.1	1.7
Accounts and other receivables, net	222.9	273.4
Inventories, net	312.0	270.2
Prepaid expenses and other	17.7	25.1
Deferred income taxes	11.9	12.1
Total current assets	648.2	651.9
Other assets:		
Marketable securities	279.5	302.0
Investment in affiliates	116.1	114.1
Goodwill	396.9	397.0
Deferred income taxes	185.5	191.4
Other assets	103.5	108.4
Total other assets	1,081.5	1,112.9
Property and equipment:		
Land	56.3	54.3
Buildings	293.8	284.4
Equipment	1,176.1	1,142.8
Mining properties	68.4	66.3
Construction in progress	20.7	25.4
	1,615.3	1,573.2
Less accumulated depreciation	934.7	938.9
Net property and equipment	680.6	634.3
Total assets	$2,410.3	$2,399.1

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

LIABILITIES AND EQUITY	December 31, 2009	September 30, 2010 (unaudited)
Current liabilities:		
Current maturities of long-term debt	$2.5	$5.3
Accounts payable and accrued liabilities	288.1	264.4
Income taxes	3.9	4.1
Deferred income taxes	4.7	4.5
Total current liabilities	299.2	278.3
Noncurrent liabilities:		
Long-term debt	988.4	980.8
Deferred income taxes	360.7	382.2
Accrued pension costs	130.5	118.4
Accrued environmental costs	37.9	33.3
Accrued postretirement benefits costs	25.5	25.7
Other liabilities	69.7	68.3
Total noncurrent liabilities	1,612.7	1,608.7
Equity:		
Valhi stockholders’ equity:		
Preferred stock	667.3	667.3
Common stock	1.2	1.2
Additional paid-in capital	-	-
Accumulated deficit	(197.7)	(201.1)
Accumulated other comprehensive income (loss)	(3.2)	5.9
Treasury stock	(38.9)	(38.9)
Total Valhi stockholders' equity	428.7	434.4
Noncontrolling interest in subsidiaries	69.7	77.7
Total equity	498.4	512.1
Total liabilities and equity	$2,410.3	$2,399.1

Commitments and contingencies (Notes 10 and 12)

See accompanying Note to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three months ended September 30, 2009	Three months ended September 30, 2010	Nine months ended September 30, 2009	Nine months ended September 30, 2010
	(unaudited)			
Revenues and other income:				
Net sales	$341.6	$413.2	$931.0	$1,185.7
Other income, net	10.9	17.7	61.9	49.6
Total revenues and other income	352.5	430.9	992.9	1,235.3
Costs and expenses:				
Cost of sales	281.5	313.1	850.1	930.1
Selling, general and administrative	58.1	58.5	163.4	174.9
Litigation settlement and contract termination	-	-	-	33.3
Assets held for sale write-down	-	.5	.7	.5
Interest	17.2	16.7	49.9	51.1
Total costs and expenses	356.8	388.8	1,064.1	1,189.9
Income (loss) before income taxes	(4.3)	42.1	(71.2)	45.4
Provision for income taxes (benefit)	(13.7)	24.0	(36.6)	5.8
Net income (loss)	9.4	18.1	(34.6)	39.6
Noncontrolling interest in net income (loss) of subsidiaries	1.0	3.7	(4.0)	7.1
Net income (loss) attributable to Valhi stockholders	$8.4	$14.4	$(30.6)	$32.5
Amounts attributable to Valhi stockholders:				
Basic and diluted net income (loss) per share	$.07	$.13	$(.27)	$.27
Cash dividends per share	$.10	$.10	$.30	$.30
Basic and diluted weighted average shares Outstanding	114.3	114.3	114.3	114.3

See accompanying Note to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Nine months ended September 30, 2009	2010
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$(34.6)	$39.6
Depreciation and amortization	45.7	46.6
Gain on sale of business	(6.3)	-
Gain on litigation settlement	(11.1)	-
Accrued litigation settlement and contract termination	-	33.3
Litigation settlement payments	-	(19.0)
Assets held for sale write-down	.7	.5
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension expense	(1.3)	2.1
Other postretirement benefit expense	.1	-
Deferred income taxes	(27.3)	(8.5)
Net distributions from Ti02 manufacturing joint venture	1.5	1.8
Other, net	3.2	3.8
Change in assets and liabilities:		
Accounts and other receivables, net	(25.1)	(84.2)
Inventories, net	142.7	28.3
Accounts payable and accrued liabilities	1.1	(2.5)
Accounts with affiliates	(9.1)	19.1
Income taxes	(.5)	2.9
Other, net	(18.7)	(2.3)
Net cash provided by operating activities	61.0	61.5
Cash flows from investing activities:		
Capital expenditures	(48.9)	(28.3)
Capitalized permit costs	(7.5)	(4.4)
Purchases of marketable securities	(4.9)	(9.8)
Proceeds from:		
Disposal of marketable securities	6.6	3.6
Disposal of restricted marketable securities	-	5.2
Sale of business	6.7	.5
Real estate-related litigation settlement	11.8	-
Change in restricted cash equivalents, net	1.0	1.3
Other, net	.4	(.1)

Net cash used in investing activities	(34.8)	(32.0)

- 6 -

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Nine months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$353.4	$318.0
Principal payments	(313.6)	(308.1)
Deferred financing costs paid	(.7)	-
Purchases of Kronos common stock	(.1)	-
Valhi cash dividends paid	(34.1)	(34.1)
Distributions to noncontrolling interest in subsidiaries	(3.7)	(3.7)
Purchase of noncontrolling interest in subsidiary	-	(7.0)
Issuance of common stock and other	.1	.1
Net cash provided by (used in) financing activities	1.3	(34.8)
Cash and cash equivalents – net change from:		
Operating, investing and financing activities	27.5	(5.3)
Currency translation	5.0	(1.6)
Cash and cash equivalents at beginning of period	37.0	68.7
Cash and cash equivalents at end of period	$69.5	$61.8
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$40.2	$40.1
Income taxes paid (refunded), net	3.4	(10.7)
Noncash investing activities:		
Note receivable from sale of business	.7	-
Accrual for capital expenditures	9.4	2.5
Accrual for capitalized permit costs	1.3	.2
Noncash financing activities:		
Promissory notes payable incurred in connection with litigation settlements 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

Nine months ended September 30, 2010

(In millions)

(unaudited)

	Valhi Stockholders' Equity								
	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income(loss)	Treasury stock	Non-controlling interest	Total equity	Comprehensive income
Balance at December 31, 2009	$667.3	$1.2	$ -	$ (197.7)	$ (3.2)	$(38.9)	$ 69.7	$498.4	
Net income	-	-	-	32.5	-	-	7.1	39.6	$ 39.6
Other comprehensive income, net	-	-	-	-	9.1	-	4.8	13.9	13.9
Equity transaction with noncontrolling interest	-	-	.2	-	-	-	.1	.3	-
Cash dividends	-	-	(.3)	(33.8)	-	-	(3.7)	(37.8)	-
Other	-	-	.1	(2.1)	-	-	(.3)	(2.3)	-
Balance at September 30, 2010	$667.3	$1.2	$ -	$ (201.1)	$ 5.9	$(38.9)	$ 77.7	$512.1	
Comprehensive income									$ 53.5

See accompanying Notes to Condensed Consolidated Financial Statements.

- 8 -

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2010

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority owned by Contran Corporation, which directly and through its subsidiaries owns approximately 93% of our outstanding common stock at September 30, 2010. 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, 2009 that we filed with the SEC on March 10, 2009 (the “2009 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, 2009 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, 2009) 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 September 30, 2010 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 2009 Consolidated Financial Statements contained in our 2009 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 September 30, 2010
Chemicals	Kronos	95%
Component products	CompX	87%
Waste management	WCS	100%

Our control of Kronos includes 59% we hold directly and 36% held directly by NL. See Note 11. We own 83% of NL. Our control of CompX is through NL.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2010	2009	2010
	(In millions)			
Net sales:				
Chemicals	$310.1	$376.6	$840.2	$1,076.4
Component products	29.4	35.7	87.1	102.9
Waste management	2.1	.9	3.7	6.4
Total net sales	$341.6	$413.2	$931.0	$1,185.7
Cost of sales:				
Chemicals	$251.2	$281.0	$764.0	$836.3
Component products	22.4	26.1	69.1	75.3
Waste management	7.9	6.0	17.0	18.5
Total cost of sales	$281.5	$313.1	$850.1	$930.1
Gross margin:				
Chemicals	$58.9	$95.6	$76.2	$240.1
Component products	7.0	9.6	18.0	27.6
Waste management	(5.8)	(5.1)	(13.3)	(12.1)
Total gross margin	$60.1	$100.1	$80.9	$255.6
Operating income (loss):				
Chemicals	$22.3	$58.3	$(23.2)	$121.3
Component products	(.1)	3.1	(2.0)	7.8
Waste management	(9.0)	(8.1)	(22.2)	(22.8)
Total operating income (loss)	13.2	53.3	(47.4)	106.3
Equity in loss of investee	(.1)	(.1)	(.8)	(.2)
General corporate items:				
Securities earnings	7.0	6.6	20.0	19.7

Insurance recoveries	1.4	.3	4.1	18.6
Litigation settlement gains	-	6.3	23.0	6.3
Litigation settlement expense	-	-	-	(32.2)
Gain on sale of business	-	-	6.3	-
General expenses, net	(8.6)	(7.6)	(26.5)	(22.0)
Interest expense	(17.2)	(16.7)	(49.9)	(51.1)
Income (loss) before income taxes	$(4.3)	$42.1	$(71.2)	$45.4

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. Of the $33.3 million aggregate litigation settlement and contract termination expense we recognized in the first nine months 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. See Notes 7 and 12. Component Products operating income in the third quarter of 2010 includes the effect of a $.5 million write-down of an asset held for sale, see Note 5. Component Products operating income in the first nine months of 2009 includes the effect of a $.7 million write-down of assets held for sale, see Note 7 in our 2009 Annual Report.

Note 3 – Accounts and other receivables, net:

	December 31, 2009	September 30, 2010
	(In millions)	
Accounts receivable	$204.0	$272.9
Notes receivable	3.4	3.0
Refundable income taxes	2.6	.1
Receivable from Contran – income taxes, net	16.2	-
Allowance for doubtful accounts	(3.3)	(2.6)
Total	$222.9	$273.4

Note 4 - Inventories, net:

	December 31, 2009	September 30, 2010
	(In millions)	
Raw materials:		
Chemicals	$56.4	$52.4
Component products	4.8	6.4
Total raw materials	61.2	58.8
Work in process:		
Chemicals	18.2	13.0
Component products	6.2	6.8
Total in-process products	24.4	19.8
Finished products:		
Chemicals	161.8	130.0
Component products	5.3	4.8
Total finished products	167.1	134.8

Supplies (primarily chemicals)	59.3	56.8
Total	$312.0	$270.2

Note 5 - Other noncurrent assets:

	December 31, 2009	September 30, 2010
	(In millions)	
Marketable securities:		
The Amalgamated Sugar Company LLC	$250.0	$250.0
Titanium Metals Corporation ("TIMET")	28.5	45.4
Other	1.0	6.6
Total	$279.5	$302.0
Investment in affiliates:		
TiO2 manufacturing joint venture, Louisiana Pigment Company, L.P. ("LPC")	$98.7	$96.9
Other	17.4	17.2
Total	$116.1	$114.1
Other assets:		
Waste disposal site operating permits, net	$53.5	$56.9
Real-estate related note receivable	15.0	15.0
IBNR receivables	7.5	7.5
Deferred financing costs	6.0	4.1
Other intangible assets	1.4	1.0
Pension asset	.3	.3
Other	19.8	23.6
Total	$103.5	$108.4

Our noncurrent marketable securities are carried at fair value using quoted market prices, primarily Level 1 inputs as defined by Accounting Standards Codification ("ASC") Topic 820-10-35, Fair Value Measurements and Disclosures, except for our investment in The Amalgamated Sugar Company ("Amalgamated"). Our investment in Amalgamated is measured using significant unobservable inputs, which are Level 3 inputs. Please refer to Note 4 in our 2009 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 13.

Other noncurrent assets include two properties of our Component Products Segment classified as assets held for sale. These two properties (primarily land, buildings and building improvements) were classified as "assets held for sale" when they ceased to be used in our operations and met all of the applicable criteria under GAAP. Assets held for sale are stated at the lower of depreciated cost or fair value less cost to sell. During the third quarter of 2010, and as weak economic conditions continued longer than expected, we obtained an independent appraisal for the larger of these two properties. Based on this appraisal, CompX recorded a write-down of $500,000 during the third quarter of 2010 to reduce the carrying value of the asset to its estimated fair value less cost to sell. The appraisal represents a Level 2 input as defined by ASC 820-10-35. The carrying value of the other property is not significant. Both properties are being actively marketed; however, due to the current state of the commercial real estate market, we can not be certain of the timing of the disposition of these assets.

Note 6 - Accounts payable and accrued liabilities:

	December 31, 2009	September 30, 2010
	(In millions)	
Current:		
Accounts payable	$124.5	$101.1
Employee benefits	34.8	42.5
Payable to affiliates:		
Contran – trade items	14.1	16.5
LPC	12.0	10.3
TIMET	-	.8
Accrued sales discounts and rebates	21.4	16.2
Environmental costs	11.0	9.3
Interest	8.0	16.4
Deferred income	7.5	4.6
Other	54.8	46.7
Total	$288.1	$264.4
Noncurrent:		
Reserve for uncertain tax positions	$35.2	$41.1
Insurance claims and expenses	11.7	11.3
Employee benefits	9.2	8.5
Deferred income	8.5	1.1
Payable to affiliate – TIMET	.3	-
Other	4.8	6.3
Total	$69.7	$68.3

Note 7 - Long-term debt:

	December 31, 2009	September 30, 2010
	(In millions)	
Valhi:		
Snake River Sugar Company	$250.0	$250.0
Contran credit facility	54.9	86.7
Promissory note payable to Contran	30.0	30.0
Total Valhi debt	334.9	366.7
Subsidiary debt:		
Kronos International:		
6.5% Senior Secured Notes	574.6	534.8
European bank credit facility	13.0	-
CompX promissory note payable to TIMET	42.2	42.2

Kronos U.S. bank credit facility	16.7	-
NL promissory note (see Note 12)	-	18.0
WCS 6% promissory note payable	-	12.0
CompX bank credit facility	-	5.0
Other	9.5	7.4
Total subsidiary debt	656.0	619.4
Total debt	990.9	986.1
Less current maturities	2.5	5.3
Total long-term debt	$988.4	$980.8

Valhi - During the first nine months of 2010, we had net borrowings of $31.8 million under our Contran credit facility. The average interest rate on these outstanding borrowings at September 30, 2010 was 5.75%. The average interest rate on the Contran promissory note was 1.75% at September 30, 2010. On March 31, 2010 we amended both the Contran credit facility and the Contran promissory note to extend their maturity date, and such facilities are now due on demand, but in any event no earlier than March 31, 2012, and on July 1, 2010 we amended the Contran promissory note to increase the size of the facility from $70 million to $100 million.

Kronos - During the first nine months of 2010, we repaid a net euro 9 million ($8.5 million when borrowed/repaid) under Kronos' European credit facility and repaid a net $16.7 million under Kronos' U.S. credit facility. Kronos European revolving credit facility currently matures in May 2011. On October 28, 2010 Kronos entered into the Fifth Amendment to its European credit facility, which among other things extends the maturity to October 2013, lowers the rate on outstanding borrowings to LIBOR plus 1.50% and lowers the unused commitment fee to .4%.

In May 2010, Kronos satisfied certain specified financial covenants in its European revolving credit facility, and as a result the maximum borrowing availability under such facility returned to the full euro 80 million facility size at that time. In addition, in August 2010 Kronos satisfied the financial ratio of net secured debt to earnings before income taxes, interest and depreciation as defined in the credit facility, and as a result two financial covenants added to such credit facility in September 2009 are no longer effective, and the interest rate on outstanding borrowings under such credit facility was prospectively reduced from LIBOR plus a margin ranging from 3% to 4% to LIBOR plus 1.75%.

In April 2010, Kronos entered into an unsecured revolving credit facility with Contran pursuant to which Kronos may borrow up to $40.0 million from Contran. The loans from Contran bear interest, payable quarterly, at the prime rate minus 0.5%, with all outstanding principal due on demand and in any event no later than December 31, 2011. The amount of Kronos' outstanding borrowing at any time is solely at the discretion of Contran. As of September 30, 2010, Kronos had no borrowings outstanding from Contran.

NL – NL's $18.0 million long-term promissory note is discussed in Note 12.

WCS – As part of the termination of a contract with a former customer regarding various contractual and legal claims, in April 2010 WCS issued the former customer a $12.0 million long-term promissory note. The note is unsecured, bears interest at a fixed rate of 6% and is payable in five equal annual installments of principal plus accrued interest beginning on December 31, 2010. We have the right to prepay the note at any time without penalty. A substantial portion of the principal amount of the promissory note issued was offset against deferred revenue that was unearned by us. The remaining $1.1 million we recognized in contract termination expense related to this agreement in the first quarter of 2010.

CompX – During the first nine months of 2010, CompX borrowed $5.0 million under its revolving bank credit facility that matures in January 2012. The average interest rate on this outstanding borrowing at September 30, 2010 was 3.5%.

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 September 30, 2010. 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 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 September 30,		Nine months ended September 30,	
	2009	2010	2009	2010
	(In millions)			
Service cost	$2.0	$2.5	$5.6	$7.7
Interest cost	7.1	6.2	20.5	19.1
Expected return on plan assets	(5.6)	(5.0)	(16.3)	(15.5)
Amortization of unrecognized:				
Prior service cost	.3	.3	.9	.9
Net transition obligations	.1	.1	.3	.4
Recognized actuarial losses	1.9	1.6	5.6	4.9
Total	$5.8	$5.7	$16.6	$17.5

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2010	2009	2010
	(In millions)			
Service cost	$.1	$.1	$.2	$.3
Interest cost	.5	.4	1.5	1.1
Amortization of prior service credit	(.1)	(.1)	(.3)	(.3)
Recognized actuarial gains	(.1)	(.1)	(.2)	(.2)
Total	$.4	$.3	$1.2	$.9

Contributions - We expect to contribute the equivalent of $24.4 million and $2.5 million, respectively, to all of our defined benefit pension plans and other postretirement benefit plans during 2010.

Note 9 - Other income, net:

	Nine months ended September 30, 2009	2010
	(In millions)	
Securities earnings:		
Dividends and interest	$19.6	$19.5
Securities transactions, net	.4	.2
Total securities earnings	20.0	19.7
Equity in loss of investee	(.8)	(.2)
Currency transactions, net	9.0	4.7
Insurance recoveries	4.1	18.6
Gain on litigation settlements	23.0	6.3
Gain on sale of business	6.3	-
Other, net	.3	.5
Total	$61.9	$49.6

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 12.

Litigation settlement gains received in the third quarter of 2010 are discussed in Note 12. Litigation settlement gains in 2009 include a first quarter gain of $11.9 million related to amounts we received from Halliburton Company in recovery of past environmental remediation and related legal costs we had previously incurred, and a second quarter gain of $11.1 million related to the second closing associated with the settlement of condemnation proceedings on certain real property formerly owned by NL that is subject to environmental remediation.

We provided certain research, laboratory and quality control services within and outside the sweetener industry for Amalgamated and others. In January 2009, we sold our research, laboratory and quality control business to Amalgamated for an aggregate sales price of $7.5 million, consisting of $6.7 million in cash paid at closing and $500,000 which was paid in February 2010 and $250,000 payable in February 2011. The amounts owed to us in 2010 and 2011 do not bear interest, and we recognized these amounts at their aggregate net present value of approximately $.7 million. We recognized a pre-tax gain of $6.3 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 10 - Income taxes:

	Nine months ended September 30,	
	2009	2010
	(In millions)	
Expected tax expense (benefit), at U.S. federal Statutory income tax rate of 35%	$(24.9)	$15.9
Incremental U.S. tax and rate differences on equity in earnings	(7.7)	21.2
Non-U.S. tax rates	1.9	(3.0)
German tax attribute adjustments	-	(35.2)
Nondeductible expenses	2.2	1.7
Change in reserve for uncertain tax positions	(7.1)	5.2
U.S. state income taxes, net	.1	.9
Other, net	(1.1)	(.9)
Income tax expense (benefit)	$(36.6)	$5.8

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 $6.1 million within the next twelve months due to certain statutes of limitation.

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.

Under GAAP, 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 11 - Noncontrolling interest in subsidiaries:

	December 31, 2009	September 30, 2010
	(In millions)	
Noncontrolling interest in subsidiaries:		
NL	$43.6	$47.1
Kronos	15.0	19.7
CompX	11.1	10.9
Total	$69.7	$77.7

	Nine months ended September 30, 2009	2010
	(In millions)	
Noncontrolling interest in net income (loss) of Subsidiaries:		
NL	$(1.8)	$2.3
Kronos	(2.0)	4.5
CompX	(.2)	.3
Total	$(4.0)	$7.1

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

	Nine months ended September 30, 2009	2010
	(In millions)	
Net income (loss) attributable to Valhi stockholders	$(30.6)	$32.5
Transfers from noncontrolling interest:		
Increase in additional paid-in capital for purchase of 14,000 shares of Kronos common stock	.2	-
Equity adjustment, Note 12	-	.4
Issuance of subsidiary common stock	.1	(.1)
Transfers from noncontrolling interest	.3	.3
Net income (loss) attributable to Valhi stockholders and change from noncontrolling interest in subsidiaries	$(30.3)	$ 32.8

On November 2, 2010, Kronos completed a secondary public offering of 7.8 million shares of its common stock in an underwritten offering. Kronos intends to use the net proceeds of $293.5 million from this offering, for general corporate purposes. On November 4, 2010 the underwriters exercised their option to purchase an additional 1.17 million shares of its common stock to cover overallotments. The transaction is expected to close on November 9, 2010, subject to customary closing conditions, and will generate an additional $44.1 million net proceeds to Kronos. This disclosure does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of Kronos' common stock in any state or other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such state or other jurisdiction. Upon completion of the offering, our aggregate ownership of Kronos was reduced to 82% (51% held directly by us and 31% held by NL), and our aggregate ownership of Kronos will be reduced to 80% (50% held directly by us and 30% held directly by NL) when the overallotment closes.

Note 12 - 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 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, strict liability, 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 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 NL's 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 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, 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 such allocation of costs;
- 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 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 as circumstances change. Such further information or changed circumstances could include, among other things, new assertions of liability, revised expectations regarding the nature, timing and extent of any remediation required or revised estimates of the allocation of remediation costs among PRPs, and such further information or changed circumstances could result in an increase or reduction in our accrued environmental costs. 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 September 30, 2010, 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 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 nine months of 2010 are as follows:

	Amount (In millions)
Balance at the beginning of the period	$48.9
Reductions charged against expense, net	(.3)
Changes in currency exchange rates	(.1)
Settlement agreement	(2.0)
Payments, net	(3.9)
Balance at the end of the period	$42.6
Amounts recognized in the Condensed Consolidated Balance Sheet at the end of the period:	
Current liability	$9.3
Noncurrent liability	33.3
Total	$42.6

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 September 30, 2010, we accrued approximately $41 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 $75 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 September 30, 2010, 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.

In July 2010, Tremont, a wholly-owned subsidiary of ours, and NL entered into a settlement agreement with another PRP pursuant to which, among other things, the other PRP reimbursed us for certain remediation and legal costs we had previously incurred for certain sites related to one of our former business units, and the PRP also affirmed its full responsibility to indemnify us for all claims (environmental or otherwise) with respect to certain specified sites related to our former business unit as well as indemnify us for any future claims that may arise related to such former business unit. As a result of the July 2010 settlement agreement, in the third quarter of 2010 we recognized a litigation settlement gain of $6.3 million, consisting of $4.0 million related to the PRP's cash reimbursement of prior remediation and legal costs and $2.3 million related to a reduction in our accrued environmental remediation and legal settlement costs resulting from the PRP's agreement to indemnify us.

- 22 -

Other - We have also accrued approximately $2.0 million at September 30, 2010 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 2009 Annual Report.

Other litigation

NL - In June 2010, the case captioned Contran Corporation, et al. v. Terry S. Casey, et al. (Case No. 07-04855, 192nd Judicial District Court, Dallas County, Texas) was dismissed with prejudice in accordance with the previously reported settlement agreement. In May 2010, pursuant to such agreement, NL paid $26.0 million in cash and issued an $18.0 million long-term promissory note. The note bears interest, payable quarterly, at the prime rate. Fifty percent of the principal amount will be payable on each of December 1, 2011 and December 1, 2012. The note is collateralized by shares of Kronos and CompX common stock, owned by NL, and having an aggregate market value of at least 200% of the outstanding principal amount of the promissory note. Under certain conditions, NL has agreed to prepay up to $4.0 million principal amount of such indebtedness.

For financial reporting purposes, we classified $32.2 million of the aggregate amount payable under the settlement agreement as a litigation settlement expense in respect of certain claims made by plaintiffs in the litigation. NL had insurance coverage for a portion of such litigation settlement, and a substantial portion of the insurance recoveries we recognized in the first quarter of 2010 relates to such coverage. With respect to the other claim of the plaintiffs as it relates to the repurchase of their EMS noncontrolling interest, the resulting $2.5 million increase over our previous estimate of such payment is accounted for as a reduction in stockholders' equity in accordance with GAAP, of which $2.1 million is attributable to Valhi stockholders and $.4 million is attributable to the shareholders representing the noncontrolling interest of 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 its 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 approximately 1,226 of these types of cases pending, involving a total of approximately 2,670 plaintiffs. In addition, the claims of approximately 7,500 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 – CompX is involved, from time to time, in various contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to its business. On February 10, 2009, Humanscale Corporation ("Humanscale") filed a complaint with the U.S. International Trade Commission ("ITC") requesting that the ITC commence an investigation pursuant to the Tariff Act of 1930 to evaluate allegations concerning the unlawful importation of certain adjustable keyboard support products into the U.S. by CompX's Canadian subsidiary. The products were alleged to infringe certain claims under a U.S. patent held by Humanscale. The complaint sought as relief the barring of future imports of the products into the U.S. until the expiration of the related patent in March 2011. On July 9, 2010, the ITC issued its final ruling that CompX had not infringed on the Humanscale patent and that the patent is invalid. Humanscale has chosen not to appeal the ITC's ruling. Humanscale also had previously filed a complaint for patent infringement in the United States District Court for the Eastern District of Virginia against us involving the identical patent in question in the ITC case. That claim was stayed by the Court pending the outcome of the ITC case. With the issuance of the final determination in the ITC case, Humanscale has filed for dismissal of their action in the U.S. District Court.

On March 30, 2009, CompX filed in the U.S. District Court for the Eastern District of Virginia a counterclaim of patent infringement against Humanscale for infringement of certain of our keyboard support patents by Humanscale's models 2G, 4G and 5G support arms. A jury trial was completed on February 25, 2010 relating to CompX's counterclaims with the jury finding that Humanscale infringed on CompX's patents and awarded damages of approximately $20 million for past royalties. The judge issued the final judgment on October 19, 2010 which confirms the dismissal of the Humanscale claims and the jury verdict and their award of damages in the amount of approximately $20 million. Humanscale appealed to the U.S. Court of Appeals for the Federal Circuit the outcome of the trial prior to the issuance of the final judgment by the District Court. Due to the uncertain nature of the on-going legal proceedings, we have not accrued a receivable for the amount of the award.

Other – For a discussion of other legal proceedings to which we are a party, please refer to our 2009 Annual Report and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010.

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 13 - Financial instruments:

The following table summarizes the valuation of our marketable securities and financial instruments recorded at fair value:

	Total	Fair Value Measurements Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In millions)		
December 31, 2009:				
Marketable securities:				
Current	$6.1	$-	$6.1	$ -
Noncurrent	279.5	28.6	.9	250.0
Currency forward contracts	1.6	1.6	-	-
September 30, 2010:				
Marketable securities:				
Current	1.7	-	1.7	-
Noncurrent	302.0	45.4	6.6	250.0
Currency forward contracts	3.8	3.8	-	-

See Note 5 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 as defined by ASC Topic 820-10-35 based on the foreign currency spot forward rates quoted by banks or foreign currency dealers.

At September 30, 2010 our Chemicals Segment held the following series of forward exchange contracts.

- an aggregate of $82.5 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. $1.04 to Cdn. $1.08 per U.S. dollar. These contracts with Wells Fargo (formerly Wachovia Bank, National Association), mature from October 2010 through December 2011 at a rate of $5.5 million per month, subject to early redemption provisions at our option. At September 30, 2010, the actual exchange rate was Cdn. $1.03 per U.S. dollar;
- an aggregate $30.9 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 5.92 to kroner 6.60 per U.S. dollar. These contracts with DnB Nor Bank ASA mature from November 2010 through July 2011 at a rate of $2.3 million to $5.5 million per month. At September 30, 2010, the actual exchange rate was kroner 5.95 per U.S. dollar; and
- an aggregate euro 5.4 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 8.47 to kroner 8.52 per euro. These contracts with DnB Nor Bank ASA mature from October 2010 through December 2010 at a rate of euro 1.8 million per month, subject to early redemption provisions at our option. At September 30, 2010, the actual exchange rate was kroner 7.97 per euro.

The estimated fair value of our currency forward contracts at September 30, 2010 was a $3.8 million net asset, which is included in our Condensed Consolidated Balance Sheet as $3.8 million recognized as part of Prepaid Expenses and Other. There is also a corresponding $3.8 million currency transaction gain in our Condensed Consolidated Statements of Operations. We are not currently using hedge accounting for our outstanding currency forward contracts at September 30, 2010, and we did not use hedge accounting for any of such contracts we held earlier in 2010 and during 2009.

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

	December 31, 2009		September 30, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In millions)			
Cash, cash equivalents and restricted cash equivalents	$78.0	$78.0	$69.7	$69.7
Real-estate related 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	$574.6	$466.2	$534.8	$505.7
Snake River Sugar Company fixed rate loans	250.0			