VALHI INC /DE/
Form 10-K
March 13, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

X
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 - For the fiscal year ended December 31, 2007

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 (Address of principal executive offices)	75240-2697 (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock ($.01 par value per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark:

If the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No X

If the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No X

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

If disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes X No

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

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

The aggregate market value of the 7.3 million shares of voting common stock held by nonaffiliates of Valhi, Inc. as of June 30, 2007 (the last business day of the Registrant's most recently-completed second fiscal quarter) approximated $119.7 million.

As of February 29, 2008, 113,679,278 shares of the Registrant's common stock were outstanding.

Documents incorporated by reference

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

Valhi, Inc. (NYSE: VHI) is primarily a holding company. We operate through our wholly-owned and majority-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc. and Waste Control Specialists LLC ("WCS"). Prior to March 26, 2007 we were also the largest shareholder of Titanium Metals Corporation ("TIMET"), although we owned less than a majority interest and we accounted for our investment in TIMET by the equity method. On February 28, 2007 our board of directors declared a special dividend of all of the TIMET common stock we owned. The special dividend was paid on March 26, 2007 to stockholders of record as of March 12, 2007. After completion of the dividend, we own approximately 1% of TIMET primarily through our NL subsidiary. See Note 3 to our Consolidated Financial Statements. Kronos (NYSE: KRO), NL (NYSE: NL) and CompX (NYSE: CIX) each file periodic reports with the U.S. Securities and Exchange Commission ("SEC").

Our principal executive offices are located at Three Lincoln Center, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240. Our telephone number is (972) 233-1700. We maintain a worldwide website at www.valhi.net.

Brief History

LLC Corporation, our legal predecessor, was incorporated in Delaware in 1932. We are the successor company of the 1987 merger of LLC Corporation and another entity controlled by Contran Corporation. We are majority owned by a subsidiary of Contran, which owns approximately 93% of our outstanding common stock at December 31, 2007. 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 related companies to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran and us.

Key events in our history include:

- 1979 – Contran acquires control of LLC;
- 1981 - Contran acquires control of our other predecessor company;
- 1982 - Contran acquires control of Keystone Consolidated Industries, Inc., a predecessor to CompX;
- 1984 - Keystone spins-off an entity that includes what is to become CompX; this entity subsequently merges with LLC;
- 1986 - Contran acquires control of NL, which at the time owns 100% of Kronos and a 50% interest in TIMET;
- 1987 - LLC and another Contran controlled company merge to form Valhi, our current corporate structure;
- 1988 - NL spins-off an entity that includes its investment in TIMET;
- 1995 - WCS begins start-up operations;
- 1996 - TIMET completes an initial public offering;
- 2003 – NL completes the spin-off of Kronos through the pro-rata distribution of Kronos shares to its shareholders including us;
- 2004 through 2005 - NL distributes Kronos shares to its shareholders, including us, through quarterly dividends; and
- 2007 – We distribute all of our TIMET common stock to our shareholders through a stock dividend.

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

Forward-Looking Statements

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in this Annual Report on Form 10-K that are not historical in nature are forward-looking in nature about our future that are not statements of historical fact. Statements are found in this report including, but not limited to, statements found in Item 1 - "Business," Item 1A – "Risk Factors," Item 3 - "Legal Proceedings," Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk," 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 actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Annual 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 cyclicality 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 TiO2in advance of anticipated price decreases;
- Changes in our raw material and other operating costs (such as energy costs);
- The possibility of labor disruptions;
- 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 of our competitors;
- The extent to which our subsidiaries were to become unable 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 kroner and the Canadian 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 or refinance credit facilities;
- 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);
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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
- 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.

Segments

We have three consolidated operating segments at December 31, 2007:

Chemicals Kronos Worldwide, Inc.	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, which imparts whiteness, brightness and opacity, is used for a variety of manufacturing applications including: plastics, paints, paper and other industrial products. Kronos has production facilities in Europe and North America. TiO2 sales were over 90% of Kronos' sales in 2007.
Component Products CompX International Inc.	We operate in the component products industry through our majority ownership of CompX. CompX is a leading 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. CompX has production facilities in North America and Asia.
Waste Management Waste Control Specialists LLC	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 is in the process of seeking to obtain regulatory authorization to expand its low-level and mixed low-level radioactive waste handling capabilities.

For additional information about our segments and equity investments see "Part II – Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 2 and 7 to our Consolidated Financial Statements.

CHEMICALS SEGMENT - KRONOS WORLDWIDE, INC.

Business Overview - Through our majority owned subsidiary, Kronos, we are a leading global producer and marketer of value-added TiO2, which is a white inorganic pigment used to impart whiteness, brightness and opacity for products such as coatings, plastics, paper, fibers, food, ceramics and cosmetics. Kronos and its predecessors have produced and marketed TiO2 in North America and Europe for over 80 years. TiO2 is considered a "quality of life" product with demand and growth affected by gross domestic product and overall economic conditions in various regions of the world. We produce TiO2 in four facilities in Europe and two facilities in North America, including one facility in the U.S. that is owned by a 50/50 joint venture. We also mine ilmenite, the raw material used in the production of TiO2, in Norway.

TiO2’s value is in its whitening properties and hiding power (opacity), which is the ability to cover or mask other materials effectively and efficiently. TiO2 is the largest commercially used whitening pigment by volume because it provides more hiding power than any other commercially produced white pigment due to its high refractive index rating. In addition, TiO2 has excellent resistance to interaction with other chemicals, good thermal stability and resistance to ultraviolet degradation. We ship TiO2 to our customers in either a powder or slurry form via rail, truck or ocean carrier.

Approximately one-half of our 2007 TiO2 sales volumes was to Europe. We believe we are the second-largest producer of TiO2 in Europe, with an estimated 20% of European TiO2 sales volumes. We estimated we had 15% of North American TiO2 sales volumes.

Per capita consumption of TiO2 is greatest in the United States and Western Europe and far exceeds consumption in other areas of the world. We expect these markets to continue to be the largest consumers of TiO2 for the near future. It is probable significant markets for TiO2 could emerge in Eastern Europe, the Far East, India or China, as the economies in these regions continue to develop.

Manufacturing, Operations and Products – We produce TiO2 using two different methods: the chloride process and the sulfate process. The chloride process, which begins with raw natural rutile ore or purchased slag as the base, utilizes newer technology, is less labor intensive, requires less energy and results in less waste. The chloride process produces rutile TiO2 which is preferred for the majority of customer applications because it has a bluer undertone and higher durability than sulfate process rutile TiO2. Chloride process rutile TiO2 is preferred for use in coatings and plastics, the two largest end-use markets. As a result approximately three-fourths of the TiO2 we produce is chloride based rutile. For the overall TiO2 industry, chloride based TiO2 sales have increased relative to sulfate process pigments over the last several years. The sulfate process, which begins with ilmenite ore or purchased slag as a base, produces both rutile and anatase TiO2. Anatase TiO2 is a much smaller percentage of annual global TiO2 production and is preferred for use in selected paper, ceramics, rubber tires, man-made fibers, food and cosmetics applications.

After the intermediate TiO2 pigment is produced by either the chloride or sulfate process, it is “finished” into products with specific performance characteristics for particular end-use applications through proprietary processes involving various chemical surface treatments and intensive micronizing (milling). We currently produce over 40 different TiO2 grades, sold under our Kronos™ trademark, which provide a variety of performance properties to meet our customers' specific requirements. Our major customers include domestic and international paint, plastics and paper manufacturers. Directly and through our distributors and agents, we sell and provide technical services for our products to over 4,000 customers in over 100 countries, with the majority of our sales in Europe and North America.

We believe there are no effective substitutes for TiO2. Extenders, such as kaolin clays, calcium carbonate and polymeric opacifiers, are used in a number of end-use markets as white pigments, however the opacity in these products is not able to duplicate the performance characteristics of TiO2. Therefore, we believe these products are not an effective substitute for TiO2.

Over the last 10 years we have focused on expanding our annual production capacity by obtaining additional operating efficiencies at our existing plants through modest capital expenditures. In 2007, we produced 512,000 metric tons of TiO2 compared to 516,000 metric tons 2006. Our production records include our 50% share of TiO2 produced at our joint-venture owned Louisiana facility. We believe our attainable production capacity for 2008 is approximately 532,000 metric tons with some slight additional capacity available in 2009, through our continued debottlenecking efforts.

TiO2 sales were about 90% of our total Chemicals sales in 2007. The remaining 10% of our total chemical sales is comprised of other products that are complementary to our Ti02 business. These products are as follows:

- We own and operate an ilmenite mine in Norway pursuant to a governmental concession with an unlimited term, and we are currently excavating a second mine located near the first mine. Ilmenite is a raw material used directly as a feedstock by some sulfate-process TiO2 plants, including all of our European sulfate-process plants. We also sell ilmenite ore to third-parties, some of whom are our competitors. The mines have estimated aggregate reserves that are expected to last for at least another 60 years.

- We manufacture and sell iron-based chemicals, which are co-products and processed co-products of the TiO2 pigment production process. These co-product chemicals are marketed through our Ecochem division, and are used primarily as treatment and conditioning agents for industrial effluents and municipal wastewater as well as in the manufacture of iron pigments, cement and agricultural products.

- We manufacture and sell titanium oxychloride and titanyl sulfate, which are side-stream products from the production of TiO2. Titanium oxychloride is used in specialty applications in the formulation of pearlescent pigments, production of electroceramic capacitors for cell phones and other electronic devices. Titanyl sulfate products are used primarily in pearlescent pigments.

Our Chemicals Segment operated the following TiO2 facilities, two slurry facilities and an ilmenite mine at December 31, 2007.

Location	Description
Leverkusen, Germany (1)	Chloride and sulfate process TiO2 production
Nordenham, Germany	Sulfate process TiO2 production
Langerbrugge, Belgium	Chloride process TiO2 production
Fredrikstad, Norway (2)	Sulfate process TiO2 production
Varennes, Quebec	Chloride and sulfate process TiO2 production, slurry facility
Lake Charles, Louisiana (3)	Chloride process TiO2 production
Lake Charles, Louisiana	Slurry facility
Hauge I Dalane, Norway (4)	Ilmenite mine

(1) The Leverkusen facility is located within an extensive manufacturing complex owned by Bayer AG. We own the Leverkusen facility, which represents about one-third of our current Ti02 production capacity, but we lease the land under the facility from Bayer AG under a long term agreement which expires in 2050. Lease payments are periodically negotiated with Bayer for periods of at least two years at a time. Bayer provides some raw materials, including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility under separate supplies and services agreements.

(2) The Fredrikstad plant is located on public land and is leased until 2013, with an option to extend the lease for an additional 50 years.

(3) We operate this facility in a 50/50 joint venture with Huntsman Holdings LLC. See Note 7 to the Consolidated Financial Statements.

(4) We are currently excavating a second mine located near our current mine in Norway.

We produce our iron-based chemicals products in Germany, Norway and Belgium, and we produce our titanium chemicals products in Belgium and Canada. Our Chemicals Segment also leases various corporate and administrative offices in the U.S. and various sales offices in the U.S. and Europe.

Raw Materials - The primary raw materials used in chloride process TiO2 are titanium-containing feedstock (natural rutile ore or purchased slag), chlorine and coke. Chlorine and coke are available from a number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited, but increasing, number of suppliers around the world, principally in Australia, South Africa, Canada, India and the United States. We purchased chloride process grade slag in 2007 from Rio Tinto Iron and Titanium, under a long-term supply contract that expires at the end of 2011. We purchase natural rutile ore primarily from Iluka Resources, Limited under a long-term supply contract that expires at the end of 2009. We expect to successfully obtain long-term extensions to those and other existing supply contracts prior to their expiration. We expect the raw materials purchased under these contracts to meet our chloride process feedstock requirements over the next several years.

The primary raw materials used in sulfate process TiO2 are titanium-containing feedstock (primarily ilmenite from our Norwegian mine or purchased slag) and sulfuric acid. Titanium-containing feed stock suitable for use in the sulfate process is available from a limited number of suppliers, principally in Norway, Canada, Australia, India and South Africa. We are one of the few vertically integrated producers of sulfate process TiO2. We own and operate a rock ilmenite mine in Norway which supplied all the ilmenite used in our European sulfate process TiO2 in 2007. We expect ilmenite production from our mine to meet our European sulfate process feedstock requirements for the foreseeable future. For our Canadian sulfate process TiO2, we purchase sulfate grade slag, primarily from Q.I.T. Fer et Titane Inc. (also a subsidiary of Rio Tinto Iron and Titanium), under a long-term supply contract that expires at the end of 2009 and Tinfos Titan and Iron KS of Norway under a supply contract that expires in 2010. We expect these contracts will meet our sulfate process feedstock requirements over the next few years. Sulfuric acid is available from a number of suppliers.

Many of our raw material contracts contain fixed quantities we are required to purchase, although these contracts allow for an upward or downward adjustment in the quantity purchased. We are not required to purchase feedstock in excess of amounts we would reasonably consume in a year. Raw material pricing under these agreements is generally negotiated annually.

The following table summarizes our raw materials procured or mined in 2007.

Production Process/Raw Material	Raw Materials Procured or Mined (In thousands of metric tons)
Chloride process plants -	
purchased slag or natural rutile ore	470
Sulfate process plants:	
Raw ilmenite ore mined and used internally	311
Purchased slag	25

Ti02 Manufacturing Joint Venture - We hold a 50% interest in a manufacturing joint venture with a subsidiary of Huntsman Corporation (NYSE: HUN). The joint venture owns and operates a chloride process TiO2 facility in Lake Charles, Louisiana. We share production from the facility equally with Huntsman pursuant to separate offtake agreements.

A supervisory committee composed of four members, two of whom we appoint and two of whom are appointed by Huntsman, directs the business and affairs of the joint venture, including production and output decisions. Two general managers, one we appoint and one appointed by Huntsman, manage the joint venture operations acting under the direction of the supervisory committee.

We are required to purchase one-half of the TiO2 produced by the joint venture. Because we do not control the joint venture, it is not consolidated in our Consolidated Financial Statements; instead we use the equity method to account for our interest. The joint venture operates on a break-even basis, and therefore we do not have any equity in earnings from the joint venture. With the exception of raw material costs and packaging costs for the pigment grades produced, we share all costs and capital expenditures of the joint venture equally with Huntsman. Our share of the net costs is reported as cost of sales as the related TiO2 is sold. See Note 7 to our Consolidated Financial Statements for additional financial information.

Patents and Trademarks – We hold patents for products and production processes which we believe are important to our continuing business activities. We seek patent protection for technical developments, principally in the United States, Canada and Europe, and from time to time we enter into licensing arrangements with third parties. Our existing patents generally have terms of 20 years from the date of filing, and have remaining terms ranging from 2 to 19 years. We actively protect our intellectual property rights, including our patent rights, and from time to time we are engaged in disputes relating to the protection and use of intellectual property relating to our products. We also rely on unpatented proprietary know-how, continuing technological innovation and other trade secrets to develop and maintain our competitive position. Our proprietary chloride production process is an important part of our technology, and our business could be harmed if we fail to maintain confidentiality of trade secrets used in this technology.

Our major trademarks, including KronosTM, are protected by registration in the United States and elsewhere for products we manufacture and sell.

Sales – We sell to a diverse customer base, with no single customer makes up more than 10% of our Chemicals Segment's sales in 2007. Our ten largest Chemicals Segment customers accounted for approximately 27% of the Chemicals Segment's 2007 sales. Due in part to the increase in paint production in the spring to meet spring and summer painting season demand, our sales are slightly seasonal with TiO2 sales generally higher in the first half of the year.

Competition - The TiO2 industry is highly competitive, with five major producers including us. Our four largest competitors are: E.I. du Pont de Nemours & Co. ("DuPont"), National Titanium Dioxide Company Ltd. (Cristal), Tronox Incorporated and Huntsman. These four largest competitors, plus the next largest producer Ishihara Sangyo Kaisha, Ltd., have estimated individual shares of TiO2 production capacity ranging from 4% (for Ishihara) to 22% (for DuPont), and an estimated aggregate share of worldwide TiO2 production volume in excess of 60%. DuPont has about one-half of total North American TiO2 production capacity and is our principal North American competitor.

We compete primarily on the basis of price, product quality and technical service, and the availability of high performance pigment grades. Although certain TiO2 grades are considered specialty pigments, the majority of our TiO2 grades and substantially all of our production are considered commodity pigments with price generally being the most significant competitive factor. We believe we are the leading seller of TiO2 in several countries, including Germany, with an estimated 12% of worldwide TiO2 sales volumes in 2007. Overall, we are the world's fifth-largest producer of TiO2.

Worldwide capacity additions in the TiO2 market resulting from construction of greenfield plants require significant capital expenditures and substantial lead time (typically three to five years in our experience). We are not aware of any TiO2 plants currently under construction. DuPont has announced its intention to build a TiO2 facility in China, but it is not clear when construction will begin and it is not likely that any product would be available until 2011, at the earliest.

We expect that industry capacity will increase as we and our competitors continue to debottleneck our existing facilities. We expect the average annual increase in industry capacity from announced debottlenecking projects to be less than the average annual demand growth for TiO2 during the next three to five years. However, we do not know if future increases in the TiO2 industry production capacity and future average annual demand growth rates for TiO2 will conform to our expectations. If actual developments differ from our expectations, ours and the TiO2 industry's performances could be unfavorably affected.

Research and Development - Our research and development activities are focused primarily on improving both the chloride and sulfate production processes, improving product quality and strengthening our competitive position by developing new pigment applications. We conduct our research and development activities primarily at our Leverkusen, Germany facility. We spent approximately $9 million in 2005, $11 million in 2006 and $12 million in 2007 on these activities and certain technical support programs.

We are continually improving the quality of our finished grades, and we have been successful at developing new grades for existing and new applications to meet the needs of our customers and increase product life cycle. Since 2002, we have added 14 new grades for plastics, coatings, fiber or paper laminate applications.

Regulatory and Environmental Matters - Our operations are governed by various environmental laws and regulations. Certain of our operations are, or 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 facilities and to strive to improve our environmental performance. 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 as well as our consolidated financial position, results of operations or liquidity.

Our U.S. manufacturing operations are governed by federal environmental and worker health and safety laws and regulations, principally the Resource Conservation and Recovery Act ("RCRA"), the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act ("TSCA"), and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), as well as the state counterparts of these statutes. We believe our joint venture Louisiana TiO2 facility and a Louisiana TiO2 slurry facility we own are in substantial compliance with applicable requirements of these laws or compliance orders issued thereunder. These are our only U.S. facilities.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory framework is provided by the European Union ("EU"). Germany and Belgium are members of the EU and follow its initiatives. Norway, although not a member of the EU, generally patterns its environmental regulations after the EU. We believe we have obtained all required permits and we are in substantial compliance with applicable environmental requirements for our European and Canadian facilities.

At our sulfate plant facilities in Germany, we recycle weak sulfuric acid either through contracts with third parties or at our own facilities. At our Norwegian plant, we ship spent acid to a third party location where it is treated and disposed. At our German sulfate process facilities we have contracted with a third party to treat certain sulfate-process effluents. Either party may terminate the contract after giving three or four years advance notice, depending on the contract.

From time to time, our facilities may be subject to environmental regulatory enforce–ment under U.S. and foreign statutes. Typically we establish– compliance programs to resolve such matters. Occasionally, we may pay penalties, but to date such penalties have not had a material adverse effect on our consolidated financial position, results of operations or liquidity. We believe all of our facilities are in substantial compliance with applicable environmental laws.

Capital expenditures in 2007 related to ongoing environmental compliance, protection and improvement programs were $5.6 million, and are currently expected to be approximately $7 million in 2008.

Employees - As of December 31, 2007, our Chemicals Segment employed the following number of people:

Europe	1,940
Canada	410
United States(1)	50
Total	2,400

(1) Excludes employees of our Louisiana joint venture.

Our hourly employees in production facilities worldwide, including the TiO2 joint venture, are represented by a variety of labor unions under labor agreements with various expiration dates. Our European union employees are covered by master collective bargaining agreements in the chemicals industry that are renewed annually. Our Canadian union employees are covered by a collective bargaining agreement that expires in June 2010.

COMPONENT PRODUCTS SEGMENT - COMPX INTERNATIONAL INC.

Business Overview - Through our majority-owned subsidiary, CompX, we are 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. We are also a leading manufacturer of stainless steel exhaust systems, gauges and throttle controls for the performance marine industry as a result of the acquisition of two performance manufacturers in August 2005 and April 2006. See Note 3 to the Consolidated Financial Statements. Our products are principally designed for use in medium- to high-end product applications, where design, quality and durability are critical to our customers.

Manufacturing, Operations and Products - We manufacture locking mechanisms and other security products for sale to the postal, transportation, furniture, banking, vending, and other industries. We believe that we are a North American market leader in the manufacture and sale of cabinet locks and other locking mechanisms. Our security products are used in a variety of applications including ignition systems, mailboxes, vending and gaming machines, parking meters, electrical circuit panels, storage compartments, office furniture and medical cabinet security. These products include:

- disc tumbler locks, which provide moderate security and generally represent the lowest cost lock to produce;
- pin tumbler locking mechanisms, which are more costly to produce and are used in applications requiring higher levels of security, including our KeySet high security system, which allows the user to change the keying on a single lock 64 times without removing the lock from its enclosure; and
- our innovative eLock® electronic locks, which provide stand alone security and audit trail capability for drug storage and other valuables through the use of a proximity card, magnetic stripe, or keypad credentials.

A substantial portion of our security products' sales consist of products with specialized adaptations to individual manufacturer's specifications, some of which are listed above. We also have a standardized product line suitable for many customers which is offered through a North American distribution network with our STOCK LOCKS distribution program to lock distributors and for smaller original equipment manufacturers ("OEMs").

We manufacture a complete line of furniture components (precision ball bearing slides and ergonomic computer support systems) for use in applications such as computer related equipment, tool storage cabinets, imaging equipment, file cabinets, desk drawers, automated teller machines, appliances and other applications. These products include:

- our patented Integrated Slide Lock, which allows a file cabinet manufacturer to reduce the possibility of multiple drawers being opened at the same time;
- our patented adjustable Ball Lock, which reduces the risk of heavily-filled drawers, such as auto mechanic tool boxes, from opening while in movement;
- our Self-Closing Slide, which is designed to assist in closing a drawer and is used in applications such as bottom mount freezers;
- articulating computer keyboard support arms (designed to attach to desks in the workplace and home office environments to alleviate possible strains and stress and maximize usable workspace), along with our patented LeverLock keyboard arm, which is designed to make the adjustment of an ergonomic keyboard arm easier;
- CPU storage devices which minimize adverse effects of dust and moisture; and
- complimentary accessories, such as ergonomic wrist rest aids, mouse pad supports and flat screen computer monitor support arms.

We also manufacture and distribute marine instruments, hardware and accessories for performance boats. Our specialty marine component products are high performance components designed to operate within precise tolerances in the highly corrosive marine environment. These products include:

- original equipment and aftermarket stainless steel exhaust headers, exhaust pipes, mufflers, other exhaust components and billet accessories; and
- high performance gauges and related components such as GPS speedometers, throttles, controls, tachometers and panels.

Our Component Products segment operated the following manufacturing facilities at December 31, 2007.

Furniture Components	Security Products	Marine Components
Kitchener, Ontario	Mauldin, SC	Neenah, WI
Byron Center, MI	Grayslake, IL	Grayslake, IL
Taipei, Taiwan		

We also lease a distribution facility located in California.

Raw Materials – Our primary raw materials are:

- zinc (used in the manufacture of locking mechanisms);
- coiled steel (used in the manufacture of precision ball bearing slides and ergonomic computer support systems);
- stainless steel (used in the manufacture of exhaust headers and pipes and other marine components); and
- plastic resins (used for injection molded plastics in the manufacture of ergonomic computer support systems).

These raw materials are purchased from several suppliers and are readily available from numerous sources.

We occasionally enter into raw material arrangements to mitigate the short-term impact of future increases in raw material costs. While these arrangements do not necessarily commit us to a minimum volume of purchases, they generally provide for stated unit prices based upon achievement of specified purchase volumes. We utilize purchase arrangements to stabilize our raw material prices, provided we meet the specified minimum monthly purchase quantities. Raw materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. Due to the competitive nature of the markets served by our products, it is often difficult to recover all increases in raw material costs through increased product selling prices or raw material surcharges. Consequently, overall operating margins can be affected by such raw material cost pressures. Steel and zinc prices are cyclical, reflecting overall economic trends and specific developments in consuming industries and are currently at historically high levels.

Patents and Trademarks – Our Component Products Segment holds a number of patents relating to its component products, certain of which we believe are important to our continuing business activity. Patents generally have a term of 20 years, and our patents have remaining terms ranging from less than one year to 15 years at December 31, 2007. Our major trademarks and brand names include:

Furniture Components	Security Products	Marine Components
CompX Precision Slides®	CompX Security Products®	Custom Marine®
CompX Waterloo®	National Cabinet Lock®	Livorsi Marine®
CompX ErgonomX®	Fort Lock®	CMI Industrial Mufflers™
CompX DurISLide®	Timberline®	Custom Marine Stainless Exhaust™
Dynaslide®	Chicago Lock®	The #1 Choice in Performance Boating®
Waterloo Furniture Components Limited®	STOCK LOCKS®	Mega Rim™
	KeSet®	Race Rim™
	TuBar®	
	ACE II®	
	eLocks®	

Sales - Our Component Products Segment sells directly to large OEM customers through our factory-based sales and marketing professionals and engineers working in concert with field salespeople and independent manufacturers' representatives. We select manufacturers' representatives based on special skills in certain markets or relationships with current or potential customers.

A significant portion of our sales are also made through distributors. We have a significant market share of cabinet lock sales as a result of the locksmith distribution channel. We support our distributor sales with a line of standardized products used by the largest segments of the marketplace. These products are packaged and merchandised for easy availability and handling by distributors and end users. Due to our success with the STOCK LOCKS inventory program within the security products business unit, similar programs have been implemented for distributor sales of ergonomic computer support systems within the furniture components business unit.

In 2007, our ten largest customers accounted for approximately 31% of our total sales; however, no one customer accounted for sales of 10% or more in 2007. Of the 31%, 13% was related to security products and 18% was related to furniture components and overall, our customer base is diverse and the loss of any single customer would not have a material adverse effect on our operations.

Competition – The markets in which our Component Products Segment competes are highly competitive. We compete primarily on the basis of product design, including ergonomic and aesthetic factors, product quality and durability, price, on-time delivery, service and technical support. We focus our efforts on the middle and high-end segments of the market, where product design, quality, durability and service are placed at a premium by the customer.

Our performance marine components business unit’s products compete with small domestic manufacturers and is minimally affected by foreign competitors. Our security products and furniture components business units’ products compete against a number of domestic and foreign manufacturers. Suppliers, particularly the foreign furniture components suppliers, have put intense price pressure on our products. In some cases, we have lost sales to these lower cost foreign manufacturers. We have responded by: shifting the manufacture of some products to our lower cost facilities; working to reduce costs and gain operational efficiencies through workforce reductions and process improvements in all of our facilities; and by working with our customers to be their value-added supplier of choice by offering customer support services which foreign suppliers are generally unable to provide.

Regulatory and Environmental Matters - Our facilities are subject to federal, state, local and foreign laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, discharge, disposal, remediation of, and exposure to, hazardous and non-hazardous substances, materials and wastes. We are also subject to federal, state, local and foreign laws and regulations relating to worker health and safety. We believe we are in substantial compliance with all such laws and regulations. To date, the costs of maintaining compliance with such laws and regulations have not significantly impacted our Component Products Segment’s results. We currently do not anticipate any significant costs or expenses relating to such matters; however, it is possible future laws and regulations may require us to incur significant additional expenditures.

Employees - As of December 31, 2007, we employed the following number of people:

United States	636
Canada(1)	259
Taiwan	134
Total	1,029

(1) Approximately 75% of our Canadian employees are represented by a labor union covered by a collective bargaining agreement that expires in January 2009 which provides for annual wage increases from 1% to 2.5% over the term of the contract.

We believe our labor relations are good at all of our facilities.

WASTE MANAGEMENT SEGMENT - WASTE CONTROL SPECIALISTS LLC

Business Overview – Our Waste Management Segment was formed in 1995 and in early 1997 we completed construction of the initial phase of our waste disposal facility in West Texas. The facility is designed for the processing, treatment, storage and disposal of certain hazardous and toxic wastes. We received the first wastes for disposal in 1997. Subsequently, we have expanded our permitting authorizations to include the processing, treatment and storage of low-level and mixed low-level radioactive wastes and the disposal of certain types of exempt low-level radioactive wastes.

We currently operate our waste disposal facility on a relatively limited basis while we navigate the regulatory licensing requirements to receive permits for the disposal of byproduct 11.e(2) waste material and for a broad range of low-level and mixed low-level radioactive wastes.

Facility, Operations and Services - Our Waste Management Segment has permits by the Texas Commission on Environmental Quality ("TCEQ") and the U.S. Environmental Protection Agency ("EPA") to accept hazardous and toxic wastes governed by RCRA and TSCA. In October 2005, our RCRA permit was renewed for a new ten-year period. Likewise in September 2005, our five-year TSCA authorization was renewed for a new five-year period. Our RCRA permit and TSCA authorization are subject to additional renewals by the agencies assuming we remain in compliance with the provisions of the permits.

In November 1997, the Texas Department of State Health Services (“TDSHS”) issued a license to Waste Control Specialists for the treatment and storage, but not disposal, of low-level and mixed low-level radioactive wastes. In June 2007, the TDSHS regulatory authority for this license was transferred to TCEQ. The current provisions of this license generally enable us to accept such wastes for treatment and storage from U.S. commercial and federal generators, including the Department of Energy ("DOE") and other governmental agencies. We accepted the first shipments of such wastes in 1998. We have obtained additional authority to dispose of certain categories of low-level radioactive material including naturally-occurring radioactive material ("NORM") and exempt-level materials (radioactive materials that do not exceed certain specified radioactive concentrations and are exempt from licensing).

Our waste disposal facility also serves as a staging and processing location for material that requires other forms of treatment prior to final disposal as mandated by the EPA or other regulatory bodies. Our 20,000 square foot treatment facility provides for waste treatment/stabilization, warehouse storage, treatment facilities for hazardous, toxic and mixed low-level radioactive wastes, drum to bulk, and bulk to drum materials handling and repackaging capabilities. Treatment operations involve processing wastes through one or more chemical or other treatment methods, depending upon the particular waste being disposed and regulatory and customer requirements. Chemical treatment uses chemical oxidation and reduction, chemical precipitation of heavy metals, hydrolysis and neutralization of acid and alkaline wastes, and results in the transformation of waste into inert materials through one or more of these chemical processes. Certain treatment processes involve technology which we may acquire, license or subcontract from third parties.

Once treated and stabilized, waste is either (i) placed in our landfill, (ii) stored onsite in drums or other specialized containers or (iii) shipped to third-party facilities for final disposition. Only waste that meets certain specified regulatory requirements can be disposed of in our fully-lined landfill, which includes a leachate collection system.

We operate one Waste Management facility located on a 1,338-acre site in West Texas, which we own. The site is permitted for 5.4 million cubic yards of airspace landfill capacity for the disposal of RCRA and TSCA wastes. We also own approximately 13,500 acres of additional land surrounding the permitted site, a small portion of which is located in New Mexico, which is available for future expansion. We believe our facility has superior geological characteristics which make it an environmentally-desirable location for this type of waste disposal. The facility is located in a relatively remote and arid section of West Texas. The possibility of leakage into any underground water table is considered highly remote because the ground is composed of triassic red bed clay. However, we do not believe there are any underground aquifers or other usable sources of water below the site based in part on extensive drilling by the oil and gas industry and our own test wells.

Sales – Our Waste Management Segment's target customers are industrial companies, including chemical, aerospace and electronics businesses and governmental agencies, including the DOE, which generate hazardous, mixed low-level radioactive and other wastes. We employ our own salespeople to market our services to potential customers.

Competition - The hazardous waste industry (other than low-level and mixed low-level radioactive waste) currently has excess industry capacity caused by a number of factors, including a relative decline in the number of environmental remediation projects generating hazardous wastes and efforts on the part of waste generators to reduce the volume of waste and/or manage waste onsite at their facilities. These factors have led to reduced demand and increased price pressure for non-radioactive hazardous waste management services. While we believe our broad range of permits for the treatment and storage of low-level and mixed-level radioactive waste streams provides us certain competitive advantages, a key element of our long-term strategy is to provide "one-stop shopping" for hazardous, low-level and mixed low-level radioactive wastes. To offer this service we will have to obtain the additional regulatory authorizations for which we have applied.

Competition within the hazardous waste industry is diverse and based primarily on facility location/proximity to customers, pricing and customer service. We expect price competition to be intense for RCRA- and TSCA-related wastes. With respect to our currently-permitted activities, our principal competitors are Energy Solutions, LLC, American Ecology Corporation and Perma-Fix Environmental Services, Inc. These competitors are well established and have significantly greater resources than we do, which could be important factors to our potential customers. We believe we may have certain competitive advantages, including our environmentally-desirable location, broad level of local community support, a rail transportation network leading to our facility and our capability for future site expansion.

Regulatory and Environmental Matters - While the waste management industry has benefited from increased governmental regulation, it has also become subject to extensive and evolving regulation by federal, state and local authorities. The regulatory process requires Waste Management businesses to obtain and retain numerous operating permits covering various aspects of their operations, any of which could be subject to revocation, modification or denial. Regulations also allow public participation in the permitting process. Individuals as well as companies may oppose the granting of permits. In addition, governmental policies and the exercise of broad discretion by regulators are subject to change. It is possible our ability to obtain and retain permits on a timely basis could be impaired in the future. The loss of an individual permit or the failure to obtain a permit could have a significant impact on our Waste Management Segment's future operating plans, financial condition, results of operations or liquidity, especially because we only own and operate one disposal site. For example, adverse decisions by governmental authorities on our permit applications could cause us to abandon projects, prematurely close our facility or restrict operations. We expect our RCRA permit and our license from the TCEQ, as amended, to expire in 2015 and our TSCA authorization to expire in 2010. Such permits, licenses and authorizations can be renewed subject to compliance with the requirements of the application process and approval by the TCEQ or EPA, as applicable.

Prior to June 2003, Texas state law prohibited the applicable Texas regulatory agency from issuing a license for the disposal of a broad range of low-level and mixed low-level radioactive waste to a private enterprise operating a disposal facility. In June 2003, a new Texas state law was enacted that allows the TCEQ to issue a low-level radioactive waste disposal license to a private entity, such as us. Our Waste Management Segment is the only entity to apply for such a license with the TCEQ. The application was declared administratively complete by the TCEQ in February 2005. The TCEQ began its technical review of the application in May 2005. In October 2007 we received notification that the TCEQ had prepared a draft license for the disposal of byproduct material at our facility and made the preliminary decision that this license met all statutory and regulatory requirements. We are uncertain as to the length of time it will take for the draft byproduct waste material license to become final and for agencies to complete their reviews and act upon our other license applications. We currently believe the applicable state agency will not issue a final decision on our application for byproduct waste material until late 2008, and we do not expect to receive a final decision on our application for low-level and mixed low-level radioactive waste disposal until 2009. We do not know if we will be successful in obtaining these licenses.

From time to time federal, state and local authorities have proposed or adopted other types of laws and regulations for the waste management industry, including laws and regulations restricting or banning the interstate or intrastate shipment of certain waste, changing the regulatory agency issuing a license, imposing higher taxes on out-of-state waste shipments compared to in-state shipments, reclassifying certain categories of hazardous waste as non-hazardous and regulating disposal facilities as public utilities. Certain states have issued regulations that attempt to prevent waste generated within that particular state from being sent to disposal sites outside that state. The U.S. Congress has also considered legislation that would enable or facilitate such bans, restrictions, taxes and regulations. Due to the complex nature of industry regulation, implementation of existing or future laws and regulations by different levels of government could be inconsistent and difficult to foresee. While we attempt to monitor and anticipate regulatory, political and legal developments that affect the industry, we cannot assure you we will be able to do so. Nor can we predict the extent to which legislation or regulations that may be enacted, or any failure of legislation or regulations to be enacted, may affect our operations in the future.

The demand for certain hazardous waste services we intend to provide is dependent in large part upon the existence and enforcement of federal, state and local environmental laws and regulations governing the discharge of hazardous waste into the environment. We and the industry as a whole could be adversely affected to the extent such laws or regulations are amended or repealed or their enforcement is lessened.

Because of the high degree of public awareness of environmental issues, companies in the waste management business may be, in the normal course of their business, subject to judicial and administrative proceedings. Governmental agencies may seek to impose fines or revoke, deny renewal of, or modify any applicable operating permits or licenses. In addition, private parties and special interest groups could bring actions against us alleging, among other things, a violation of operating permits or opposition to new license authorizations.

Employees - At December 31, 2007, we had 110 employees. We believe our labor relations are good.

TITANIUM METALS - TITANIUM METALS CORPORATION

As discussed in Note 3 to the Consolidated Financial Statements, we completed a special dividend of our TIMET common stock on March 26, 2007. We now own approximately 1% of TIMET's common stock, and we account for our investment in TIMET's common stock as available-for-sale marketable securities carried at fair value.

OTHER

NL Industries, Inc. - At December 31, 2007, NL owned 86% of CompX and 36% of Kronos. NL also owns 100% of EWI RE, Inc., an insurance brokerage and risk management services company and also holds certain marketable securities and other investments. See Note 16 to our Consolidated Financial Statements for additional information.

Tremont LLC - Tremont is primarily a holding company through which we hold indirect ownership interests in Basic Management, Inc. ("BMI"), which provides utility services to, and owns property (the "BMI Complex") adjacent to, TIMET's facility in Nevada, and The Landwell Company L.P. ("Landwell"), which is engaged in efforts to develop certain land holdings for commercial, industrial and residential purposes surrounding the BMI Complex.

Business Strategy - We routinely compare our liquidity requirements and alternative uses of capital against the estimated future cash flows to be received from our subsidiaries and unconsolidated affiliates, and the estimated sales value of those businesses. As a result, we have in the past, and may in the future, seek to raise additional capital, refinance or restructure indebtedness, repurchase indebtedness in the market or otherwise, modify our dividend policy, consider the sale of our interest in our subsidiaries, business units, marketable securities or other assets, or take a combination of these or other steps, to increase liquidity, reduce indebtedness and fund future activities, which have in the past and may in the future involve related companies. From time to time, we and our related entities consider restructuring ownership interests among our subsidiaries and related companies. We expect to continue this activity in the future.

We and other entities that may be deemed to be controlled by or affiliated with Mr. Harold C. Simmons routinely evaluate acquisitions of interests in, or combinations with, companies, including related companies, we perceive to be undervalued in the marketplace. These companies may or may not be engaged in businesses related to our current businesses. In some instances we actively manage the businesses we acquire with a focus on maximizing return-on-investment through cost reductions, capital expenditures, improved operating efficiencies, selective marketing to address market niches, disposition of marginal operations, use of leverage and redeployment of capital to more productive assets. In other instances, we have disposed of our interest in a company prior to gaining control. We intend to consider such activities in the future and may, in connection with such activities, consider issuing additional equity securities and increasing our indebtedness.

Website and Available Information – Our fiscal year ends December 31. We furnish our stockholders with annual reports containing audited financial statements. In addition, we file annual, quarterly and current reports, proxy and information statements and other information with the SEC. Certain of our consolidated subsidiaries (Kronos, NL and CompX) also file annual, quarterly and current reports, proxy and information statements and other information with the SEC. We also make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments thereto, available free of charge through our website at www.valhi.net as soon as reasonably practical after they have been filed with the SEC. We also provide to anyone, without charge, copies of such documents upon written request. Requests should be directed to the attention of the Corporate Secretary at our address on the cover page of this Form 10-K.

Additional information, including our Audit Committee charter, our Code of Business Conduct and Ethics and our Corporate Governance Guidelines, can also be found on our website. Information contained on our website is not part of this Annual Report.

The general public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We are an electronic filer. The SEC maintains an Internet website at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, including us.

ITEM 1A. RISK FACTORS

Listed below are certain risk factors associated with us and our businesses. In addition to the potential effect of these risk factors discussed below, any risk factor which could result in reduced earnings or operating losses, or reduced liquidity, could in turn adversely affect our ability to service our liabilities or pay dividends on our common stock or adversely affect the quoted market prices for our securities.

Our assets consist primarily of investments in our operating subsidiaries, and we are dependent upon distributions from our subsidiaries to service our liabilities. A significant portion of our assets consists of ownership interests in our subsidiaries and affiliates. A majority of our cash flows are generated by our subsidiaries, and our ability to service our liabilities and to pay dividends on our common stock depends to a large extent upon the cash dividends or other distributions we receive from our subsidiaries. Our subsidiaries and affiliates are separate and distinct legal entities and they have no obligation, contingent or otherwise, to pay cash dividends or other distributions to us. In addition, in some cases our subsidiaries' ability to pay dividends or other distributions could be subject to restrictions as a result of debt covenants, applicable tax laws or other restrictions imposed by current or future agreements. Events beyond our control, including changes in general business and economic conditions, could adversely impact the ability of our subsidiaries to pay dividends or make other distributions to us. If our subsidiaries should become unable to make sufficient cash dividends or other distributions to us, our ability to service our liabilities and to pay dividends on our common stock could be adversely affected. In addition, if the level of dividends and other distributions we receive from our subsidiaries were to decrease to such a level that we were required to liquidate any of our investments in the securities of our subsidiaries or affiliates in order to generate funds to satisfy our liabilities, we may be required to sell such securities at a time or times at which we would not be able to realize what we believe to be the actual value of such assets.

Demand for, and prices of, certain of our products are cyclical and we may experience prolonged depressed market conditions for our products, which may result in reduced earnings or operating losses. A significant portion of our revenues is attributable to sales of TiO2. Pricing within the global TiO2 industry over the long term is cyclical, and changes in industry economic conditions, especially in Western industrialized nations, can significantly impact our earnings and operating cash flows. This may result in reduced earnings or operating losses.

Historically, the markets for many of our products have experienced alternating periods of increasing and decreasing demand. Relative changes in the selling prices for our products is one of the main factors that affects the level of our profitability. In periods of increasing demand, our selling prices and profit margins generally will tend to increase, while in periods of decreasing demand our selling prices and profit margins generally tend to decrease. Future growth in demand for TiO2 may not be sufficient to alleviate any future conditions of excess industry capacity, and such conditions may not be sustained or may be further aggravated by anticipated or unanticipated capacity additions or other events.

The demand for TiO2 during a given year is also subject to annual seasonal fluctuations. TiO2 sales are generally higher in the first half of the year. This is due in part to the increase in paint production in the spring to meet demand during the spring and summer painting season. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion on production and price changes.

We sell several of our products in mature and highly competitive industries and face price pressures in the markets in which we operate, which may result in reduced earnings or operating losses. The markets in which Kronos, CompX and WCS operate their businesses are highly competitive. Competition is based on a number of factors, such as price, product quality and service. Some of our competitors may be able to drive down prices for our products because their costs are lower than our costs. In addition, some of our competitors' financial, technological and other resources may be greater than our resources, and these competitors may be better able to withstand changes in market conditions. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Further, consolidation of our competitors or customers in any of the industries in which we compete may result in reduced demand for our products or make it more difficult for us to compete with our competitors. In addition, in some of our businesses new competitors could emerge by modifying their existing production facilities so they could manufacture products that compete with our products. The occurrence of any of these events could result in reduced earnings or operating losses.

Higher costs or limited availability of our raw materials may reduce our earnings and decrease our liquidity. The number of sources and availability of certain raw materials is specific to the particular geographical regions in which our facilities are located. For example, titanium-containing feedstocks suitable for use in producing our TiO2 are available from a limited number of suppliers around the world. Political and economic instability in the countries from which we purchase our raw material supplies could adversely affect their availability. If our worldwide vendors were not able to meet their contractual obligations and we were otherwise unable to obtain necessary raw materials or if we would have to pay more for our raw materials and other operating costs, we may be required to reduce production levels or reduce our gross margins if we were unable to pass price increases onto our customers, which may decrease our liquidity and operating income and results of operations.

We could incur significant costs related to legal and environmental remediation matters. NL formerly manufactured lead pigments for use in paint. NL and others pigment manufacturers 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. 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. As with all legal proceedings, the outcome is uncertain. Any liability NL might incur in the future could be material. See also Item 3.

Certain properties and facilities used in our former businesses are the subject of litigation, administrative proceedings or investigations arising under various environmental laws. These proceedings seek investigation and remediation costs, personal injury or property damages and/or damages for injury to natural resources. Some of these proceedings involve claims for substantial amounts. Environmental obligations are difficult to assess and estimate for numerous reasons, and we may incur costs for environmental remediation in the future in excess of amounts currently estimated. Any liability we might incur in the future could be material.

Our failure to enter into new markets with our current compoenent products businesses would result in the continued significant impact of fluctuations in demand within the office furniture manufacturing industry on our operating results. In an effort to reduce our dependence on the office furniture market for certain products and to increase our participation in other markets, we have been devoting resources to identifying new customers and developing new applications for those products in markets outside of the office furniture industry, such as home appliances and tool boxes. Developing these new applications for our products involves substantial risk and uncertainties due to our limited experience with customers and applications in these markets, as well as facing competitors who are already established in these markets. We may not be successful in developing new customers or applications for our products outside of the office furniture industry. Significant time may be required to develop new applications and uncertainty exists as to the extent to which we will face competition in this regard.

Our development of new component products as well as innovative features for our current component products is critical to sustaining and growing our Component Product Segment sales. Historically, our ability to provide value-added custom engineered component products that address requirements of technology and space utilization has been a key element of our success. The introduction of new products and features requires the coordination of the design, manufacturing and marketing of such products with current and potential customers. The ability to implement such coordination may be affected by factors beyond our control. While we will continue to emphasize the introduction of innovative new products that target customer-specific opportunities, there can be no assurance that any new products we introduce will achieve the same degree of success that we have achieved with our existing products. Introduction of new products typically requires us to increase production volume on a timely basis while maintaining product quality. Manufacturers often encounter difficulties in increasing production volumes, including delays, quality control problems and shortages of qualified personnel or raw materials. As we attempt to introduce new products in the future, there can be no assurance that we will be able to increase production volume without encountering these or other problems, which might negatively impact our financial condition or results of operations.

Our leverage may impair our financial condition or limit our ability to operate our businesses. We have a significant amount of debt, substantially all of which relates to Kronos' Senior Secured Notes and our loans from Snake River Sugar Company. Our level of debt could have important consequences to our stockholders and creditors, including:

- making it more difficult for us to satisfy our obligations with respect to our liabilities;
- increasing our vulnerability to adverse general economic and industry conditions;
- requiring that a portion of our cash flow from operations be used for the payment of interest on our debt, reducing our ability to use our cash flow to fund working capital, capital expenditures, dividends on our common stock, acquisitions and general corporate requirements;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
- placing us at a competitive disadvantage relative to other less leveraged competitors.

In addition to our indebtedness, we are party to various lease and other agreements pursuant to which we are committed to pay approximately $362 million in 2008. Our ability to make payments on and refinance our debt, and to fund planned capital expenditures, depends on our ability to generate cash flow. To some extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow additional funds under our subsidiaries' credit facilities will in some instances depend in part on our subsidiaries' ability to maintain specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreements.

Our business may not generate sufficient cash flows from operating activities to allow us to pay our debts when they become due and to fund our other liquidity needs. As a result, we may need to refinance all or a portion of our debt before maturity. We may not be able to refinance any of our debt in a timely manner on favorable terms, if at all. Any inability to generate sufficient cash flows or to refinance our debt on favorable terms could have a material adverse effect on our financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We along with our subsidiaries: Kronos, CompX, WCS and NL lease office space for our principal executive offices in Dallas, Texas. A list of operating facilities for each of our subsidiaries is described in the applicable business sections of Item 1 - "Business." We believe our facilities are generally adequate and suitable for their respective uses.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings. In addition to information included below, certain information called for by this Item is included in Note 17 to our Consolidated Financial Statements, which is incorporated herein by reference.

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. 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 have never settled any of these cases, nor have any final adverse judgments against us been entered. However, see the discussion below in The State of Rhode Island case. See also Note 17 to our Consolidated Financial Statements.

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

In September 1999, an amended complaint was filed in Thomas v. Lead Industries Association, et al. (Circuit Court, Milwaukee, Wisconsin, Case No. 99-CV-6411) adding as defendants the former pigment manufacturers to a suit originally filed against plaintiff's landlords. Plaintiff, a minor, alleged injuries purportedly caused by lead on the surfaces of premises in homes in which he resided. Plaintiff sought compensatory and punitive damages. The case was tried in October 2007, and in November 2007 the jury returned a verdict in favor of all defendants. In January 2008, the judge denied plaintiff's motion for a new trial. The time for appeal has not yet expired.

In October 1999, we were served with a complaint in State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). The State sought compensatory and punitive damages, as well as reimbursement for public and private building abatement expenses and funding of a public education campaign and health screening programs. A 2002 trial on the sole question of whether lead pigment in paint on Rhode Island buildings is a public nuisance resulted in a mistrial when the jury was unable to reach a verdict on the question, with the jury reportedly deadlocked 4-2 in defendants' favor. In 2005, the trial court dismissed the conspiracy claim with prejudice, and the State dismissed its Unfair Trade Practices Act claim without prejudice. A second trial commenced against us and three other defendants on November 1, 2005 on the State's remaining claims of public nuisance, indemnity and unjust enrichment. Following the State's presentation of its case, the trial court dismissed the State's claims of indemnity and unjust enrichment. In February 2006, the jury found that we and two other defendants substantially contributed to the creation of a public nuisance as a result of the collective presence of lead pigments in paints and coatings on buildings in Rhode Island. The jury also found that we and the two other defendants should be ordered to abate the public nuisance. Following the trial, the trial court dismissed the State's claim for punitive damages. In March 2007, the final judgment and order was entered, and defendants filed an appeal. In April 2007, the State cross-appealed the issue of exclusion of past and punitive damages, as well as the dismissal of one of the defendants. Oral argument on the appeal has been scheduled for May 2008. While the appeal is pending, the trial court continues to move forward on the abatement process. In September 2007, the State submitted its plan of abatement and defendants' filed a response in December 2007. In December 2007, the Judge named two special masters to assist the judge in determining the scope of any abatement remedy.

In October 1999, we were served with a complaint in Smith, et al. v. Lead Industries Association, et al. (Circuit Court for Baltimore City, Maryland, Case No. 24-C-99-004490). Plaintiffs, seven minors from four families, each seek compensatory damages of $5 million and punitive damages of $10 million for alleged injuries due to lead-based paint. Plaintiffs allege that the former pigment manufacturers and other companies alleged to have manufactured paint and/or gasoline additives, the LIA and the National Paint and Coatings Association are jointly and severally liable. We have denied liability. In February 2006, the trial court issued orders dismissing the Smith family's case and severing and staying the cases of the three other families. In March 2006, the plaintiffs appealed. In August 2007, the Special Court of Appeals dismissed the appeal. In December 2007, the Maryland Court of Appeals accepted review.

In April 2000, we were served with a complaint in County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. CV788657) brought against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara seeks to represent a class of California governmental entities (other than the state and its agencies) to recover compensatory damages for funds the plaintiffs have expended or will in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of profit, and punitive damages. Solano, Alameda, San Francisco, Monterey and San Mateo counties, the cities of San Francisco, Oakland, Los Angeles and San Diego, the Oakland and San Francisco unified school districts and housing authorities and the Oakland Redevelopment Agency have joined the case as plaintiffs. In February 2003, defendants filed a motion for summary judgment, which was granted in July 2003. In March 2006, the appellate court affirmed the dismissal of plaintiffs' trespass claim, Unfair Competition Law claim and public nuisance claim for government-owned properties, but reversed the dismissal of plaintiffs' public nuisance claim for residential housing properties, plaintiffs' negligence and strict liability claims for government-owned buildings and plaintiffs' fraud claim. In January 2007, plaintiffs amended the complaint to drop all of the claims except for the public nuisance claim. In April 2007, the trial court ruled that the contingency fee arrangement between plaintiffs and their counsel was illegal, and in May 2007, plaintiffs appealed the ruling. The proceedings have been stayed pending resolution of this appeal.

In June 2000, a complaint was filed in Illinois state court, Lewis, et al. v. Lead Industries Association, et al. (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). Plaintiffs seek to represent two classes, one consisting of minors between the ages of six months and six years who resided in housing in Illinois built before 1978, and another consisting of individuals between the ages of six and twenty years who lived in Illinois housing built before 1978 when they were between the ages of six months and six years and who had blood lead levels of 10 micrograms/deciliter or more. The complaint seeks damages jointly and severally from the former pigment manufacturers and the LIA to establish a medical screening fund for the first class to determine blood lead levels, a medical monitoring fund for the second class to detect the onset of latent diseases, and a fund for a public education campaign. In March 2002, the court dismissed all claims. Plaintiffs appealed, and in June 2003 the appellate court affirmed the dismissal of five of the six counts of the plaintiffs, but reversed the dismissal of the conspiracy count. In May 2004, defendants filed a motion for summary judgment on plaintiffs' conspiracy count, which was granted in February 2005. In February 2006, the court of appeals reversed the trial court's dismissal of the case and remanded the case for further proceedings. The case is now proceeding in the trial court.

In February 2001, we were served with a complaint in Barker, et al. v. The Sherwin-Williams Company, et al. (Circuit Court of Jefferson County, Mississippi, Civil Action No. 2000-587, and formerly known as Borden, et al. vs. The Sherwin-Williams Company, et al.). The complaint seeks joint and several liability for compensatory and punitive damages from more than 40 manufacturers and retailers of lead pigment and/or paint, including us, on behalf of 18 adult residents of Mississippi who were allegedly exposed to lead during their employment in construction and repair activities. The claims of all but one of the plaintiffs have been dismissed without prejudice with respect to us.

In May 2001, we were served with a complaint in City of Milwaukee v. NL Industries, Inc. and Mautz Paint (Circuit Court, Civil Division, Milwaukee County, Wisconsin, Case No. 01CV003066). Plaintiff sought compensatory and equitable relief for lead hazards in Milwaukee homes, restitution for amounts it has spent to abate lead and punitive damages. The case was tried in May and June 2007, and in June 2007, the jury returned a verdict in favor of NL. In December 2007, plaintiff filed a notice of appeal.

In November 2003, we were served with a complaint in Lauren Brown v. NL Industries, Inc., et al. (Circuit Court of Cook County, Illinois, County Department, Law Division, Case No. 03L 012425). The complaint seeks damages against us and two local property owners on behalf of a minor for injuries alleged to be due to exposure to lead paint contained in the minor's residence. We have denied all allegations of liability. The case is proceeding in the trial court.

In January 2006, we were served with a complaint in Hess, et al. v. NL Industries, Inc., et al. (Missouri Circuit Court 22nd Judicial Circuit, St. Louis City, Cause No. 052-11799). Plaintiffs are two minor children who allege injuries purportedly caused by lead on the surfaces of the home in which they resided. Plaintiffs seek compensatory and punitive damages. We denied all allegations of liability. The case is proceeding in the trial court.

In December 2006 and January 2007, we were served with ten complaints by various cities in the State of Ohio. Of these, eight were dismissed by the plaintiffs without prejudice, one was dismissed by the court on defendants' motion to dismiss and no appeal was taken, and one remains pending: Columbus City, Ohio v. Sherwin-Williams Company et al. (Court of Common Pleas, Franklin County, Ohio, Case No. 06CVH-12-16480). The City of Columbus seeks compensatory and punitive damages, detection and abatement in residences, schools, hospitals and public and private buildings within the City which are accessible to children and damages for funding of a public education campaign and health screening programs. Plaintiff seeks judgments of joint and several liability against the former pigment manufacturers and the LIA. We intend to deny liability and to defend against all of the claims vigorously.

In January and February 2007, we were served with several complaints, the majority of which were filed in Circuit Court in Milwaukee County, Wisconsin. In some cases, complaints have been filed elsewhere in Wisconsin. The plaintiff(s) are minor children who allege injuries purportedly caused by lead on the surfaces of the homes in which they reside. Plaintiffs seek compensatory and punitive damages. The defendants in these cases include us, American Cyanamid Company, Armstrong Containers, Inc., E.I. Du Pont de Nemours & Company, Millennium Holdings, LLC, Atlanta Richfield Company, The Sherwin-Williams Company, Conagra Foods, Inc. and the Wisconsin Department of Health and Family Services. In some cases, additional lead paint manufacturers and/or property owners are also defendants. We have denied all liability in those cases in which we have been required to answer and, we intend to deny all liability in the other cases. Of these cases, nine have been dismissed without prejudice, and 21 remain pending. Seven of the remaining cases have been removed to Federal court. These cases are proceeding at the trial court level.

In January 2007, we were served with a complaint in Smith et al. v. 2328 University Avenue Corp. et al. (Supreme Court, State of New York, Case No. 13470/02). Plaintiffs, two minors and their mother, allege negligence, strict liability, and breach of warranty and seek compensatory and punitive damages for injuries purportedly caused by lead paint on the surfaces of the apartment in which they resided. In March 2007, we filed a motion to dismiss the claims, which was denied in October 2007. In November 2007, we filed a notice of appeal.

In May 2007, we were served with a complaint in State of Ohio, ex rel. Marc Dann Attorney General v. Sherwin-Williams Company et al. (U.S. District Court, Southern District of Ohio, Eastern Division, Case No. 2:08-cv-079). The State seeks compensatory and punitive damages, detection and abatement in residences, schools, hospitals and public and private buildings within the State accessible to children and damages for funding of a public education campaign and health screening programs. Plaintiff seeks judgments of joint and several liability against the former pigment manufacturers and the LIA. In January 2008, the case was removed to Federal court, and in February we filed a motion to dismiss the claims.

In October 2007, we were served with a complaint in Jones v. Joaquin Coe et al. (Superior Court of New Jersey, Essex County, Case No. ESX-L-9900-06). Plaintiff seeks compensatory and punitive damages for injuries purportedly caused by lead paint on the surfaces of the apartments in which he resided as a minor. Other defendants include three former owners of the apartment building at issue in this case. In December 2007, NL denied all liability. The matter is proceeding in the trial court.

In addition to the foregoing litigation, various legislation and administrative regulations have, from time to time, been proposed that seek to (a) impose various obligations on present and former manufacturers of lead pigment and lead-based paint with respect to asserted health concerns associated with the use of such products and (b) effectively overturn court decisions in which we and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date that are expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity, the imposition of market share liability or other legislation could have such an effect.

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 use or disposal 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 EPA's 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 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:

- 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 estimate 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 December 31, 2007, 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.

NL - On a quarterly basis, NL evaluates the potential range of liability at sites where NL has been named as a PRP or defendant, including sites for which our wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc. ("EMS") has contractually assumed our obligations. See Note 17 to our Consolidated Financial Statements. At December 31, 2007, we had accrued approximately $50 million for those environmental matters related to NL that 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 possible to estimate costs is approximately $71 million, including the amount currently accrued. We have not discounted these estimates to present value.

At December 31, 2007, there are approximately 20 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 we 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 we, along with other PRPs, are liable for past clean-up costs that could be material to us if we are ultimately found liable.

In December 2003, we were served with a complaint in The Quapaw Tribe of Oklahoma et al. v. ASARCO Incorporated et al. (United States District Court, Northern District of Oklahoma, Case No. 03-CII-846H(J)). The complaint alleges public nuisance, private nuisance, trespass, unjust enrichment, strict liability, deceit by false representation and asserts claims under CERCLA and RCRA against us and six other mining companies with respect to former operations in the Tar Creek mining district in Oklahoma. The complaint seeks class action status for former and current owners, and possessors of real property located within the Quapaw Reservation. Among other things, the complaint seeks actual and punitive damages from defendants. We have moved to dismiss the complaint and have denied all of plaintiffs' allegations. In June 2004, the court dismissed plaintiffs' claims for unjust enrichment and fraud as well as one of the RCRA claims. In February 2006, the court of appeals affirmed the trial court's ruling that plaintiffs waived their sovereign immunity to defendants' counter claim for contribution and indemnity. In April 2007, plaintiffs amended the complaint to add certain claims against the United States, to add an additional defendant, to remove certain bankrupt defendants, and to conform the complaint to recent developments in the governing law. In June 2007, plaintiffs amended the complaint to drop the class allegations. In December 2007, the court granted the defendants' motion to dismiss the Tribe's medical monitoring claims.

In February 2004, we were served in Evans v. ASARCO (United States District Court, Northern District of Oklahoma, Case No. 04-CV-94EA(M)), a purported class action on behalf of two classes of persons living in the town of Quapaw, Oklahoma: (1) a medical monitoring class of persons who have lived in the area since 1994, and (2) a property owner class of residential, commercial and government property owners. Four individuals are named as plaintiffs, together with the mayor of the town of Quapaw, Oklahoma, and the School Board of Quapaw, Oklahoma. Plaintiffs allege causes of action in nuisance and seek a medical monitoring program, a relocation program, property damages and punitive damages. We answered the complaint and denied all of plaintiffs' allegations. The trial court subsequently stayed all proceedings in this case pending the outcome of a class certification decision in another case that had been pending in the same U.S. District Court, a case from which we have been dismissed with prejudice.

In January 2006, we were served in Brown et al. v. NL Industries, Inc. et al. (Circuit Court Wayne County, Michigan, Case No. 06-602096 CZ). Plaintiffs, property owners and other past or present residents of the Krainz Woods Neighborhood of Wayne County, Michigan, allege causes of action in negligence, nuisance, trespass and under the Michigan Natural Resources and Environmental Protection Act with respect to a lead smelting facility formerly operated by us and another defendant. Plaintiffs seek property damages, personal injury damages, loss of income and medical expense and medical monitoring costs. In February 2006, we filed a petition to remove the case to federal court. In May 2007, we moved to dismiss several plaintiffs who failed to respond to discovery requests. In August 2007, the case was remanded to state court.

In June 2006, we and several other PRPs received a Unilateral Administrative Order from the EPA regarding a formerly-owned mine and milling facility located in Park Hills, Missouri. The Doe Run Company is the current owner of the site, and its predecessor purchased the site from us in approximately 1936. Doe Run is also named in the Order. In August 2006, Doe Run ceased to negotiate with us regarding an appropriate allocation of costs for the remediation. In 2007, the parties engaged in mediation regarding an appropriate allocation of costs for the remediation and in January 2008, the parties reached an agreement in principle on allocation calling for the preparation of a definitive agreement. If such an agreement is not reached, we intend to pursue Doe Run for its share of the costs associated with complying with the Order.

In June 2006, we were served with a complaint in Donnelly and Donnelly v. NL Industries, Inc. (State of New York Supreme Court, County of Rensselaer, Cause No. 218149). The plaintiffs, a man who claims to have worked near one of our former sites in New York and his wife, allege that he suffered injuries (which are not described in the complaint) as a result of exposure to harmful levels of toxic substances as a result of our conduct. Plaintiffs claim damages for negligence, product liability and derivative losses on the part of the wife. In July 2006, we removed this case to Federal Court. In August 2006, we answered the complaint and denied all of the plaintiffs' allegations. Discovery is proceeding. No trial date has been set.

In July 2006, we were served with a complaint in Norampac Industries, Inc. v. NL Industries, Inc. (United States District Court, Western District of New York, Case No. 06-CV-0479). In February 2008, the parties settled the matter and filed a stipulation with the court dismissing the case.

In October 2006, we entered into a consent decree in the United States District Court for the District of Kansas, in which we agreed to perform remedial design and remedial actions in OU-6, Waco Subsite, of the Cherokee County Superfund Site. We conducted milling activities on the portion of the site which we have agreed to remediate. We are also sharing responsibility with other PRPs as well as the EPA for remediating a tributary that drains the portions of the site in which the PRPs operated. We will also reimburse the EPA for a portion of its past and future response costs related to the site.

See also Item 1 "Regulatory and Environmental Matters".

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., another PRP for this site, which provides 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 will 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 has 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 noted above returned decisions favorable to NL, Tremont and its affiliates. Among other things, the panel found that Halliburton is 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 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 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 filed a motion to vacate such decisions. A confirmation hearing was held on November 13, 2007 and we are awaiting the opinion of the court on this matter. Due to the uncertain nature of the on-going legal proceedings, we have not accrued a receivable for any awards at December 31, 2007. Pending a final confirmation of the arbitration panel's decisions, Tremont has accrued for this site based upon the agreed-upon interim cost sharing allocation. Tremont has $.5 million accrued at December 31, 2007 for this matter.

Other - We have also accrued approximately $4.9 million at December 31, 2007 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 various legal proceedings with certain 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 have agreements with two former insurance carriers pursuant to which the carriers reimburse us for a portion of our past and future lead pigment 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 past defense costs qualify for reimbursement. See Note 17 to the Consolidated Financial Statements. 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. Any additional insurance recoveries would be recognized when the receipt is probable and the amount is determinable.

We have settled insurance coverage claims concerning environmental claims with certain of our principal former carriers. We do not expect further material settlements relating to environmental remediation coverage.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OR EQUITY SECURITIES

Common Stock and Dividends - Our common stock is listed and traded on the New York Stock Exchange (symbol: VHI). As of February 29, 2008, we had approximately 3,100 holders of record of our common stock. The following table sets forth the high and low closing per share sales prices for our common stock and dividends for the periods indicated. On February 29, 2008 the closing price of our common stock was $19.33.

	High	Low	Cash dividends paid
Year ended December 31, 2006			
First Quarter	$ 18.90	$ 17.00	$ .10
Second Quarter	25.81	18.14	.10
Third Quarter	27.50	22.75	.10
Fourth Quarter	27.92	22.92	.10
Year ended December 31, 2007			
First Quarter	$ 31.32	$ 13.20	$ .10
Second Quarter	19.56	14.90	.10
Third Quarter	25.15	15.44	.10
Fourth Quarter	26.69	15.94	.10
First Quarter 2008 through February 29	$ 20.62	$ 14.14	$ -

We paid regular quarterly cash dividends of $.10 per share during 2006 and 2007. In February 2008, our board of directors declared a first quarter 2008 dividend of $.10 per share, to be paid on March 31, 2008 to shareholders of record as of March 11, 2008. In addition to our regular dividend, in March 2007 we paid a special dividend to our shareholders in the form of shares of TIMET common stock. In the special dividend we distributed approximately 56.8 million shares of TIMET common stock, which amount represented all of the TIMET common stock we owned at that date and approximately 35.1% of the outstanding TIMET common stock. See Note 3 to our Consolidated Financial Statements. However, declaration and payment of future dividends, and the amount thereof, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual requirements and restrictions and other factors deemed relevant by our Board of Directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which we might pay. In this regard, our revolving bank credit facility currently limits the amount of our quarterly cash dividends to $.10 per share, plus an additional aggregate amount of $173.0 million at December 31, 2007.

Performance Graph - Set forth below is a line graph comparing the yearly change in our cumulative total stockholder return on our common stock against the cumulative total return of the S&P 500 Composite Stock Price Index and the S&P 500 Industrial Conglomerates Index for the period from December 31, 2002 through December 31, 2007. The graph shows the value at December 31 of each year assuming an original investment of $100 at December 31, 2002, and assumes the reinvestment of our regular quarterly cash dividends in shares of our stock and the sale of the TIMET shares distributed in our special dividend with the proceeds also reinvested in our stock.

	December 31,					
	2002	2003	2004	2005	2006	2007
Valhi common stock	$ 100	$ 184	$ 202	$ 237	$ 338	$ 475
S&P 500 Composite Stock Price Index	100	129	143	150	173	183
S&P 500 Industrial Conglomerates Index	100	135	161	155	168	176

The information contained in the performance graph shall not be deemed "soliciting material" or "filed" with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act, as amended, except to the extent we specifically request that the material be treated as soliciting material or specifically incorporate this performance graph by reference into a document filed under the Securities Act or the Securities Exchange Act.

Treasury Stock Purchases - In March 2005, our board of directors authorized the repurchase of up to 5.0 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. In November 2006, our board of directors authorized the repurchase of an additional 5.0 million shares. 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 could terminate the program prior to completion. We will use our cash on hand to acquire the shares. Repurchased shares will be retired and cancelled or may be added to our treasury stock and used for employee benefit plans, future acquisitions or other corporate purposes. See Notes 14 and 16 to the Consolidated Financial Statements.

The following table discloses certain information regarding the shares of our common stock we purchased in November 2007 (our only purchases during the fourth quarter of 2007). All of these purchases were made under the repurchase program in open market transactions.

Period	Total number of shares purchased	Average price paid per share, including commissions	Total number of shares purchased as part of a publicly-announced plan	Maximum number of shares that may yet be purchased under the publicly-announced plan at end of period
November 1, 2007 to November 30, 2007	61,100	$ 21.48	61,100	4,006,600

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data has been derived from our audited Consolidated Financial Statements. The following selected financial data should be read in conjunction with our Consolidated Financial Statements and related Notes and Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years ended December 31,				
	2003	2004	2005	2006	2007
	(In millions, except per share data)				
STATEMENTS OF OPERATIONS DATA:					
Net sales:					
Chemicals	$ 1,008.2	$ 1,128.6	$ 1,196.7	$ 1,279.5	$ 1,310.3
Component products	173.9	182.6	186.3	190.1	177.7
Waste management	4.1	8.9	9.8	11.8	4.2
Total net sales	$ 1,186.2	$ 1,320.1	$ 1,392.8	$ 1,481.4	$ 1,492.2
Operating income (loss):					
Chemicals	$ 123.6	$ 102.4	$ 165.6	$ 138.1	$ 88.6
Component products	9.1	16.2	19.3	20.6	16.0
Waste management	(11.5)	(10.2)	(12.1)	(9.5)	(14.1)
Total operating income	$ 121.2	$ 108.4	$ 172.8	$ 149.2	$ 90.5
Equity in earnings (losses) of TIMET	$ (2.3)	$ 22.7	$ 64.9	$ 101.1	$ 26.9
Income (loss) from continuing operations	$ (84.8)	$ 225.5	$ 82.1	$ 141.7	$ (45.7)
Discontinued operations	(2.9)	3.7	(.2)	-	-
Cumulative effect of change in accounting principle	.6	-	-	-	-
Net income (loss)	$ (87.1)	$ 229.2	$ 81.9	$ 141.7	$ (45.7)
DILUTED EARNINGS PER SHARE DATA:					
Income (loss) from continuing operations	$ (.71)	$ 1.87	$ .69	$ 1.20	$ (.40)
Net income (loss)	$ (.73)	$ 1.90	$ .69	$ 1.20	$ (.40)
Cash dividends	$ .24	$ .24	$ .40	$ .40	$ .40
Weighted average common shares outstanding	119.9	120.4	118.5	116.5	114.7
STATEMENTS OF CASH FLOW DATA:					
Cash provided by (used in):					

Operating activities	$ 108.5	$ 142.1	$ 104.3	$ 86.3	$ 63.5
Investing activities	(33.8)	(58.1)	20.4	(89.5)	(65.4)
Financing activities	(71.2)	78.4	(115.8)	(87.6)	(56.1)
BALANCE SHEET DATA (at year end):					
Total assets (1)	$ 2,307.2	$ 2,690.5	$ 2,578.4	$ 2,804.7	$ 2,603.0
Long-term debt	632.5	769.5	715.8	785.3	889.8
Stockholders' equity (1)(2)	631.2	876.1	797.3	866.8	618.4

(1) We adopted the asset and liability recognition provisions of Statement of Financial Accounting Standard ("SFAS") No. 158 as of December 31, 2006 and the measurement date provisions of SFAS No. 158 as of December 31, 2007. See Notes 11 and 18 to our Consolidated Financial Statements.

(2) We adopted FASB Interpretation Number ("FIN") 48 as of January 1, 2007. See Note 18 to our Consolidated Financial Statements.

ITEM 7. 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"). Prior to March 26, 2007 we were the largest shareholder of Titanium Metals Corporation ("TIMET") although we owned less than a majority interest. Kronos (NYSE: KRO), NL (NYSE: NL) and CompX (NYSE: CIX) each file periodic reports with the 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, tool storage 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 and, storage of hazardous, toxic and low level radioactive waste as well as the disposal of hazardous, toxic and certain low level radioactive waste. WCS is in the process of seeking to obtain regulatory authorization to expand its low-level and mixed low-level radioactive waste disposal capabilities.

On March 26, 2007 we completed a special dividend of the TIMET common stock we owned to our stockholders. We accounted for our 35% interest in TIMET by the equity method through March 31, 2007. As a result we now own approximately 1% of TIMET's outstanding common stock. Accordingly we now account for our share of TIMET common stock as available-for-sale marketable securities carried at fair value. See Note 3 to the Consolidated Financial Statements. TIMET is a leading global producer of titanium sponge, melted products and milled products. Titanium is used for a variety of commercial, aerospace, military, medical and other emerging markets. TIMET is also the only titanium producer with major production facilities in both of the world's principal titanium markets: the U.S. and Europe.

Income From Continuing Operations Overview

Year Ended December 31, 2006 Compared to Year Ended December 31, 2007 –

We reported a net loss from continuing operations of $45.7 million or $.40 per diluted share in 2007 compared to income from continuing operations of $141.7 million, or $1.20 per diluted share, in 2006 and income of $82.1 million, or $.69 per diluted share, in 2005.

Our diluted earnings per share decreased from 2006 to 2007 due primarily to the net effects of:

- an income tax charge recognized by our Chemicals Segment in 2007 primarily as a result of a reduction in German tax rates;
- an income tax benefit due to a net decrease in our reserve for uncertain tax positions in 2007;
- lower effective income tax rate in 2006 primarily due to the favorable resolution in 2006 related to audits in our Chemicals Segment's operations in Germany, Belgium and Norway;
- ceasing to record equity in earnings from TIMET due to the distribution of our TIMET shares in the first quarter of 2007;
- the gain in 2006 from the sale of certain land in Nevada;
- lower operating income from each of our segments in 2007;
- a charge in 2006 from the redemption of our 8.875% Senior Secured Notes;
- lower interest expense in 2007 resulting from the April 2006 refinancing of our Senior Secured Notes; and
- lower dividend income from Amalgamated Sugar Company in 2007 as the additional dividend it owed to us was completely paid in 2006.

Our income from continuing operations in 2006 includes (net of tax and minority interest, as applicable):

- a net income tax benefit of $.21 per diluted share at our Chemicals Segment related to the net effect of the withdrawal of certain income tax assessments previously made by Belgian and Norwegian tax authorities, the favorable resolution of certain income tax issues related to our German and Belgian operations and the enactment of a reduction in Canadian federal income tax rates offset by the unfavorable resolution of certain other income tax issues related to our German operations;
- income of $.20 per diluted share related to the sale of our land in Nevada;
- a charge related to the redemption of our 8.875% Senior Secured Notes of $.09 per diluted share;
- a gain of $.09 per diluted share related to TIMET's sale of its minority interest in VALTIMET, a manufacturing joint venture located in France; and
- income of $.03 per diluted share related to certain insurance recoveries recognized by NL.

Our net loss in 2007 includes (net of tax and minority interest):

- a charge of $.52 per diluted share as a result of the effect of a reduction of the German income tax rates in 2007;
- a charge of $.05 per diluted share related to the adjustment of certain German tax attributes within our Chemicals Segment;
- an income tax benefit of $.03 per diluted share due to a net decrease in our reserve for uncertain tax positions; and
- income of $.03 per diluted share related to certain insurance recoveries recognized by NL.

We discuss these amounts more fully below.

Year Ended December 31, 2005 Compared to Year Ended December 31, 2006 –

We reported income from continuing operations of $141.7 million, or $1.20 per diluted share, in 2006 compared to income of $82.1 million, or $.69 per diluted share, in 2005.

Our diluted earnings per share increased from 2005 to 2006 due primarily to the net effects of:

- a lower effective income tax rate in 2006 primarily due to the favorable resolution in 2006 related to audits in our Chemicals Segment's operations in Germany, Belgium and Norway and a provision in 2005 related to a change in the permanent reinvestment conclusion for earnings of certain foreign subsidiaries of our Component Products Segment;
- higher equity in earnings from TIMET in 2006.
- the gain in 2006 from the sale of certain land in Nevada;
- lower total operating income in 2006 as improvements in operating income from our Component Products and Waste Management Segments were more than offset by a decline in operating income at our Chemicals Segment;
- a charge in 2006 from the redemption of our 8.875% Senior Secured Notes;
- the write-off of accrued interest in 2005 on our prior loan to Snake River Sugar Company;
- securities transaction gains realized in 2005; and
- lower interest and dividend income in 2006 primarily due to lower distributions received from The Amalgamated Sugar Company LLC in 2006.

Our income from continuing operations in 2005 includes (net of tax and minority interest, as applicable):

- income related to certain income tax benefits recognized by TIMET of $.11 per diluted share;
- gains from NL's sales of shares of Kronos common stock of $.05 per diluted share;
- a non-cash income tax expense of $.03 per diluted share related to developments in certain income tax audits at NL and our Chemicals Segment and a change in the permanent reinvestment conclusion for earnings of certain foreign subsidiaries of our Component Products Segment;
- a gain from the sale of our passive interest in a Norwegian smelting operation of $.02 per diluted share;
- income related to TIMET's sale of certain real property adjacent to its Nevada operations of $.02 per diluted share; and
- income of $.01 per diluted share related to certain insurance recoveries recognized by NL.

Our income from continuing operations in 2006 includes (net of tax and minority interest, as applicable):

- a net income tax benefit of $.21 per diluted share at our Chemicals Segment related to the net effect of the withdrawal of certain income tax assessments previously made by Belgian and Norwegian tax authorities, the favorable resolution of certain income tax issues related to our German and Belgian operations and the enactment of a reduction in Canadian federal income tax rates offset by the unfavorable resolution of certain other income tax issues related to our German operations;
- income of $.20 per diluted share related to the sale of our land in Nevada;
- a charge related to the redemption of our 8.875% Senior Secured Notes of $.09 per diluted share;
- a gain of $.09 per diluted share related to TIMET's sale of its minority interest in VALTIMET, a manufacturing joint venture located in France; and
- income of $.03 per diluted share related to certain insurance recoveries recognized by NL.

We discuss these amounts more fully below.

Current Forecast for 2008 –

We currently expect to report a lower net loss for 2008 as compared to the net loss in 2007 due primarily to the net effects of:

- lower income taxes as the unfavorable effect of the reduction in German income taxes rates was recognized 2007;
- no equity in earnings from TIMET as we ceased to account for our interest in TIMET by the equity method following our March 2007 special distribution of TIMET common stock; and
- lower expected operating income from our Chemicals Segment due to continued lower average selling prices and increases in raw material costs.

Critical accounting policies and estimates

We have based the accompanying "Management's Discussion and Analysis of Financial Condition and Results of Operations" upon our Consolidated Financial Statements. We prepare our Consolidated Financial Statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In many cases the accounting treatment of a particular transaction does not require us to make estimates and judgments. However, in other cases we are required to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. On an on-going basis, we evaluate our estimates, including those related to impairments of investments in marketable securities and investments accounted for by the equity method, the recoverability of other long-lived assets (including goodwill and other intangible assets), pension and other postretirement benefit obligations and the underlying actuarial assumptions related thereto, the realization of deferred income and other tax assets and accruals for environmental remediation, litigation, income tax contingencies. We base our estimates on historical experience and on various other assumptions we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenues and expenses. Actual results might differ significantly from previously-estimated amounts under different assumptions or conditions.

"Our critical accounting policies" relate to amounts having a material impact on our financial position and results of operations, and that require our most subjective or complex judgments. See Note 1 to our Consolidated Financial Statements for a detailed discussion of our significant accounting policies.

- Marketable securities - We own investments in certain companies that we account for as marketable securities carried at fair value or that we account for under the equity method. For these investments, we evaluate the fair value at each balance sheet date. We use quoted market prices, Level 1 inputs as defined in SFAS No. 157, to determine fair value for our marketable debt securities and publicly traded investees. We use Level 3 inputs to determine fair value for our other marketable securities, primarily our investment in Amalgamated Sugar Company LLC. See Note 18 to our Consolidated Financial Statements. We record an impairment charge when we believe an investment has experienced an other than temporary decline in fair value below its cost basis (for marketable securities) or below its carrying value (for equity method investees). Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or our inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring us to recognize an impairment charge in the future.

At December 31, 2007, the carrying value (which equals their fair value) of substantially all of our marketable securities equaled or exceeded the cost basis of each of such investment. Our investment in The Amalgamated Sugar Company LLC represents approximately 78% of the aggregate carrying value of all of our marketable securities at December 31, 2007. The $250 million carrying value is the same as its cost basis. At December 31, 2007, the $26.45 per share quoted market price of our investment in TIMET was almost five times our per share net carrying value of our investment in TIMET.

- Goodwill – Our goodwill totaled $406.8 million at December 31, 2007 resulting primarily from our various step acquisitions of Kronos and NL. In accordance with SFAF No. 142, Goodwill and Other Intangible Assets, we do not amortize goodwill.

Goodwill is evaluated for impairment at least annually. Goodwill is also evaluated for impairment if the book value of its reporting unit exceeds its estimated fair value. A reporting unit can be a segment or an operating division. For our Chemicals Segment, we use Level 1 inputs of publicly traded market prices to compare the book value to assess impairment. For our Component Products Segment, we use Level 3 inputs of a discounted cash flow technique. If the fair value is less than the book value, the asset is written down to the estimated fair value.

Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

We did not recognize an impairment charge for goodwill during 2007.

- Long-lived assets – We account for our long-lived assets, including our investment in WCS, in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. We assess property, equipment and capitalized permit costs for impairment only when circumstances indicate an impairment may exist. During 2007, as a result of continued operating losses, certain long-lived assets of our Waste Management Segment were evaluated for impairment as of December 31, 2007. Our analysis, based on estimated future undiscounted cash flows of WCS' operations, indicated no impairment was present as the estimate exceeded the carrying value of WCS' net assets. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans.

- Employee benefit plan costs - We provide a range of benefits including various defined benefit pension and other postretirement benefits for our employees. We record annual amounts related to these plans based upon calculations required by GAAP, which make use of various actuarial assumptions, such as: discount rates, expected rates of returns on plan assets, compensation increases, employee turnover rates, mortality rates and expected health care trend rates. We review our actuarial assumptions annually and make modifications to the assumptions based on current rates and trends when we believe appropriate. As required by GAAP, modifications to the assumptions are generally recorded and amortized over future periods. Different assumptions could result in the recognition of different expense amounts over different periods of times. These assumptions are more fully described below under "—Assumptions on defined benefit pension plans and postretirement benefit plans."

- Income taxes – We recognize deferred taxes for future tax effects of temporary differences between financial and income tax reporting in accordance with SFAS 109 Accounting for Income Taxes. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for uncertain tax positions, it is possible that in the future we may change our estimate of the amount of the deferred income tax assets that would more-likely-than-not be realized in the future. If such changes take place, there is a risk that an adjustment to our deferred income tax asset valuation allowance may be required that would either increase or decrease, as applicable, our reported net income in the period such change in estimate was made.

We also evaluate at the end of each reporting period whether some or all of the undistributed earnings of our foreign subsidiaries are permanently reinvested (as that term is defined in GAAP). While we may have concluded in the past that some undistributed earnings are permanently reinvested, facts and circumstances can change in the future, such as a change in the expectation regarding the capital needs of our foreign subsidiaries, could result in a conclusion that some or all of the undistributed earnings are no longer permanently reinvested. If our prior conclusions change, we would recognize a deferred income tax liability in an amount equal to the estimated incremental U.S. income tax and withholding tax liability that would be generated if all of such previously-considered permanently reinvested undistributed earnings were distributed to us. We did not change our conclusions on our undistributed foreign earnings in 2007.

Beginning in 2007, we record a reserve for uncertain tax positions in accordance with FIN No. 48, Accounting for Uncertain Tax Positions for tax position where we believe it is more-likely-than-not our position will not prevail with the applicable tax authorities. From time to time, tax authorities will examine certain of our income tax returns. Tax authorities may interpret tax regulations differently than we do. Judgments and estimates made at a point in time may change based on the outcome of tax audits and changes to or further interpretations of regulations, thereby resulting in an increase or decrease in the amount we are required to accrue for uncertain tax positions (and therefore a decrease or increase in our reported net income in the period of such change). Our reserve for uncertain tax positions changed during 2007. See Note 18 to our Consolidated Financial Statements.

- Litigation and environmental liabilities - We are involved in numerous legal and environmental actions in part due to NL's former involvement in the manufacture of lead-based products. In accordance with SFAS No. 5, Accounting for Contingencies, we record accruals for these liabilities when estimated future expenditures associated with such contingencies become probable, and we can reasonably estimate the amounts of such future expenditures. However, new information may become available to us, or circumstances (such as applicable laws and regulations) may change, thereby resulting in an increase or decrease in the amount we are required to accrue for such matters (and therefore a decrease or increase in our reported net income in the period of such change). At December 31, 2007 we have recorded total accrued environmental liabilities of $55.7 million.

Operating income for each of our three operating segments are impacted by certain of these significant judgments and estimates, as summarized below:

- Chemicals – reserves for obsolete or unmarketable inventories, impairment of equity method investees, goodwill and other long-lived assets, defined benefit pension and OPEB plans and loss accruals.
- Component Products – reserves for obsolete or unmarketable inventories, impairment of long-lived assets and loss accruals.
- Waste Management – impairment of long-lived assets and loss accruals.

In addition, general corporate and other items are impacted by the significant judgments and estimates for impairment of marketable securities and equity method investees, defined benefit pension and OPEB plans, deferred income tax asset valuation allowances and loss accruals.

Segment Operating Results – 2006 Compared to 2007 and 2005 Compared to 2006 –

Chemicals –

We consider TiO2 to be a "quality of life" product, with demand affected by gross domestic product ("GDP") in various regions of the world. Over the long-term, we expect demand for TiO2 will grow by 2% to 3% per year, consistent with our expectations for the long-term growth in GDP. However, even if we and our competitors maintain consistent shares of the worldwide market, demand for TiO2 in any interim or annual period may not change in the same proportion as the change in GDP, in part due to relative changes in the TiO2 inventory levels of our customers. We believe our customers' inventory levels are partly influenced by their expectation for future changes in market TiO2 selling prices.

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

- TiO2 average selling prices;
- foreign currency exchange rates (particularly the exchange rate for the U.S. dollar relative to the euro and the Canadian dollar);
- TiO2 sales and production volumes; and

- manufacturing costs, particularly maintenance and energy-related expenses.

The key performance indicators for our Chemicals Segment are our TiO2 average selling prices, and our TiO2 sales and production volumes.

	Years ended December 31,			% Change	
	2005	2006	2007	2005-06	2006-07
	(Dollars in millions)				
Net sales	$ 1,196.7	$ 1,279.5	$ 1,310.3	7%	2%
Cost of goods sold	884.1	980.8	1,062.2	11%	8%
Gross margin	$ 312.6	$ 298.7	$ 248.1	(4)%	(17)%
Operating income	$ 165.6	$ 138.1	$ 88.6	(17)%	(36)%
Percent of net sales:					
Cost of sales	74%	77%	81%		
Gross margin	26%	23%	19%		
Operating income	14%	11%	7%		
TiO2 operating statistics:					
Sales volumes*	478	511	519	7%	1%
Production volumes*	492	516	512	5%	(1)%
Production rate as percent of capacity	99%	Full	98%		
Percent change in net sales:					
TiO2 product pricing				-%	(4)%
TiO2 sales volumes				7%	1%
TiO2 product mix				-%	-%
Changes in currency exchange rates				-%	5%
Total				7%	2%

*Thousands of metric tons

Net Sales – Our Chemicals Segment's sales increased by 2% or $30.8 million in 2007 compared to 2006 due primarily to a 5% favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately $65 million, or 5% and to a lesser extent a 1% increase in TiO2 sales volumes, offset by a 4% decline in average selling prices in 2007 as compared to 2006. Our Chemicals Segment's sales volumes in 2007 were a new record for us. The increase in our TiO2 sales volumes in 2007 was due primarily to higher sales volumes in Europe and export markets, which were partially offset by lower sales volumes in North America.

Our Chemicals Segment's sales increased by 7% or $82.8 million in 2006 compared to 2005 due primarily to a 7% increase in TiO2 sales volumes and to a lesser extent the favorable effect of fluctuations in foreign currency exchange rates, which increased sales by approximately $2 million, or less than 1%. Our Chemicals Segment's sales volumes in 2006 were a new record for us at that time. The increase in our TiO2 sales volumes in 2006 was due primarily to higher sales volumes in the United States, Europe and in export markets, which were partially offset by lower sales volumes in Canada. Our sales volumes in Canada were impacted by decreased demand for TiO2 used in paper products.

Cost of Goods Sold – Our Chemicals Segment's cost of sales increased in 2007 primarily due to the impact of higher sales volumes, lower utility costs, lower production volumes, and the effect of changes in currency exchange rates and higher operating costs. Cost of sales as a percentage of sales increased in 2007 due to the net effects of lower average selling prices, lower utility costs, higher other manufacturing costs (including maintenance) and slightly lower production volumes. TiO2 production volumes decreased 1% for 2007 compared to the same period in 2006, which unfavorably impacted our income from operations comparisons. Our operating rates were near full capacity in both periods.

Our Chemicals Segment's cost of sales increased in 2006 primarily due to the impact of higher sales volumes and higher operating costs. Cost of sales as a percentage of sales increased in 2006 primarily due to a 15% increase in utility costs (primarily energy costs), a 4% increase in raw material costs and currency fluctuations (primarily the Canadian dollar). The negative impact of the increase in raw materials and energy costs on our Chemicals Segment's gross margin and operating income comparisons was somewhat offset by record TiO2 production volumes that increased 5% in 2006 as compared to 2005. We continued to gain operational efficiencies by enhancing our processes and debottlenecking production to meet long-term demand. Our operating rates were near full capacity in 2005 and at full capacity in 2006, and our TiO2 production volumes in 2006 were a new record for us for the fifth consecutive year.

Operating Income – Our Chemicals Segment's operating income declined in 2007 primarily due to the decrease in gross margin and the effect of fluctuations in foreign currency exchange rates. The decline in operating income is driven by the decline in gross margin, which decreased to 19% in 2007 compared to 23% in 2006. While our sales volumes were higher in 2007, our gross margin decreased primarily because of lower average TiO2 selling prices, lower production volumes and higher manufacturing costs, which more than offset the impact of higher sales volumes. Changes in currency rates have also negatively affected our gross margin. We estimate the negative effect of changes in foreign currency exchange rates decreased operating income by approximately $4 million when comparing 2007 to 2006.

Our Chemicals Segment's operating income declined in 2006 primarily due to the decrease in gross margin and the effect of fluctuations in foreign currency exchange rates. While our sales volumes were higher in 2006, our gross margin decreased as we were not able to achieve pricing levels to offset the negative impact of our increased operating costs (primarily energy and raw materials costs). Changes in currency rates also negatively affected our gross margin. We estimate the negative effect of changes in foreign currency exchange rates decreased operating income by $20 million in 2006 as compared to 2005.

Our Chemicals Segment's operating income is net of amortization of purchase accounting adjustments made in conjunction with our acquisitions of interests in NL and Kronos. As a result, we recognize additional depreciation expense above the amounts Kronos reports separately, substantially all of which is included within cost of goods sold. We recognized additional depreciation expense of $16.6 million in 2005, $13.2 million in 2006 and $3.6 million in 2007, which reduced our reported Chemicals Segment's operating income as compared to amounts reported by Kronos. In the third quarter of 2006, certain of the basis differences became fully amortized, and as a result the amortization of our purchase accounting adjustments was lower in 2007 as compared to 2006 and 2005.

Foreign Currency Exchange Rates – Our Chemicals Segment has substantial operations and assets located outside the United States (primarily in Germany, Belgium, Norway and Canada). The majority of sales generated from our foreign operations are denominated in foreign currencies, principally the euro, other major European currencies and the Canadian dollar. A portion of our sales generated from our foreign operations are denominated in the U.S. dollar. Certain raw materials used worldwide, primarily titanium-containing feedstocks, are purchased in U.S. dollars, while labor and other production costs are purchased primarily in local currencies. Consequently, the translated U.S.

dollar value of our foreign sales and operating results are subject to currency exchange rate fluctuations, which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. Overall, fluctuations in foreign currency exchange rates had the following effects on our Chemicals Segment's net sales and operating income in 2007 and 2006 as compared to the respective prior year.

	Increase (decrease) – Year ended December 31,	
	2005 vs. 2006	2006 vs. 2007
	(In millions)	
Impact on:		
Net sales	$ 2	$ 65
Operating income	(20)	(4)

Other - On September 22, 2005, the chloride-process TiO2 facility operated by our 50%-owned joint venture, Louisiana Pigment Company ("LPC"), temporarily halted production due to Hurricane Rita. Although storm damage to core processing facilities was not extensive, a variety of factors, including loss of utilities, limited access and availability of employees and raw materials, prevented the resumption of partial operations until October 9, 2005 and full operations until late 2005. The majority of LPC's property damage and unabsorbed fixed costs for periods in which normal production levels were not achieved were covered by insurance, and insurance covered our lost profits (subject to applicable deductibles) resulting from our share of the loss of production at LPC. Both we and LPC filed claims with our insurers. We recognized a gain of $1.8 million related to our business interruption claim in the fourth quarter of 2006, which is included in other income on our Consolidated Statement of Operations.

Outlook - We currently expect our Chemicals Segment's operating income in 2008 will be lower in 2008 compared to than 2007, as the favorable effects of anticipated modest improvements in sales volume, production volume and average TiO2 selling prices are expected to be more than offset by higher productions costs, particularly raw material and energy costs as well as higher freight costs and unfavorable currency effects. Our expectations as to the future of the TiO2 industry are based upon a number of factors beyond our control, including worldwide growth of gross domestic product, competition in the marketplace, unexpected or earlier than expected capacity additions and technological advances. If actual developments differ from our expectations, our results of operations could be unfavorably affected.

Our Chemicals Segment's efforts to debottleneck our production facilities to meet long-term demand continue to prove successful. Recent debottlenecking efforts included, among other things, the addition of finishing capacity in the German chloride process facility and equipment upgrades and enhancements in several locations to allow for reduced downtime for maintenance activities. Our production capacity has increased by approximately 30% over the past ten years due to debottlenecking programs, with only moderate capital expenditures. We believe our annual attainable production capacity for 2008 is approximately 532,000 metric tons, with some slight additional capacity expected to be available in 2009 through our continued debottlenecking efforts.

Component Products –

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

	Years ended December 31,			% Change	
	2005	2006	2007	2005-06	2006-07
	(Dollars in millions)				
Net sales	$ 186.3	$ 190.1	$ 177.7	2%	(7)%
Cost of goods sold	142.6	143.6	132.5	1%	(8)%
Gross margin	$ 43.7	$ 46.5	$ 45.2	6%	(3)%
Operating income	$ 19.3	$ 20.6	$ 16.0	7%	(22)%
Percent of net sales:					
Cost of goods sold	77%	76%	75%		
Gross margin	23%	24%	25%		
Operating income	10%	11%	9%		

Net Sales – Our Component Product Segment's sales decreased in 2007 as compared to 2006 primarily due to lower sales of certain products to the office furniture market where Asian competitors have established selling prices at a level below which we consider would return a minimal margin as well as lower order rates from many of our customers due to unfavorable economic conditions, offset in part by the effect of sales price increases for certain products to mitigate the effect of higher raw material costs.

Our Component Product Segment's sales increased in 2006 as compared to 2005 primarily due to new sales volumes generated from the August 2005 and April 2006 acquisitions of two marine component businesses, which increased sales by $11.3 million in 2006. Other factors contributing to the increase in sales include sales volume increases in security products resulting from improved demand and the favorable effects of currency exchange rates on furniture component sales, offset in part by sales volume decreases for certain furniture components products due to competition from lower priced Asian manufacturers.

Cost of Goods Sold – Our Component Products Segment's cost of sales decreased as a percentage of sales in 2007 compared to 2006, and as a result gross margin increased over the same period. During 2007, we experienced the favorable effects of an improved product mix and improvements in our operating efficiency through cost reductions partially offset by the unfavorable effect of relative changes in foreign currency exchange rates, lower sales to the office furniture industry due to competition from lower priced Asian manufacturers and lower order rates from many of our customers due to unfavorable economic conditions.

Our Component Products Segment's cost of sales decreased as a percentage of sales in 2006 compared to 2005, and as a result gross margin increased over the same period. The gross margin improvement is primarily due to an improved product mix, with a decline in lower-margin furniture components sales and an increase in sales of higher margin security and marine component products, as well as a continued focus on reducing costs, offset in part by higher raw material costs and the unfavorable effect of changes in currency exchange rates.

Operating Income – Our Component Products Segment's operating income decreased in 2007 due to the unfavorable effects of the $2.7 million in costs related to the consolidation of three of Component Products Segment's northern Illinois facilities into one newly completed facility, a $2.4 million unfavorable effect of relative changes in foreign currency exchange rates (including the $1.2 million in foreign exchange transaction losses), and the effect of lower sales.

Our Component Products Segment's gross margin and operating income increased in 2006 primarily due to the increase in sales and the favorable change in product mix, as well as decreased operational costs as a result of a continuous focus on reducing costs across all product lines, partially offset by the negative impact of currency exchange rates and higher raw material costs.

Foreign Currency Exchange Rates – Our Component Products Segment has substantial operations and assets located outside the United States in Canada and Taiwan. The majority of sales generated from our foreign operations are denominated in the U.S. dollar, with the rest denominated in foreign currencies, principally the Canadian dollar and the New Taiwan dollar. Most of our raw materials, labor and other production costs for our foreign operations are denominated primarily in local currencies. Consequently, the translated U.S. dollar values of our foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or unfavorably impact reported earnings and may affect comparability of period-to-period operating results. Overall, fluctuations in foreign currency exchange rates had the following effects on our Component Products Segment's sales and operating income in 2007 and 2006 as compared to the respective prior years.

	Increase (decrease) – Year ended December 31,	
	2005 vs. 2006	2006 vs. 2007
	(In millions)	
Impact on:		
Net sales	$ 1.1	$ .9
Operating income	(1.1)	(2.4)

Outlook – Demand is slowing across most product segments as customers react to the condition of the overall economy. Asian sourced competitive pricing pressures are expected to continue to be a challenge for us as Asian manufacturers, particularly those located in China, gain share in certain markets. We believe the impact of this environment will be mitigated through our on-going initiatives to expand both new products and new market opportunities. Our strategy in responding to the competitive pricing pressure has included reducing production costs through product reengineering, improving manufacturing processes through lean manufacturing techniques and moving production to lower-cost facilities, including our own Asian-based manufacturing facilities. In addition, we continue to develop sources for lower cost components for certain product lines to strengthen our ability to meet competitive pricing when practical. We also emphasize and focus on opportunities where we can provide value-added customer support services that Asian-based manufacturers are generally unable to provide. As a result of pursuing this strategy, we will forego certain segment sales in favor of developing new products and new market opportunities where we believe the combination of our cost control initiatives and value-added approach will produce better results for our shareholders. We also expect raw material cost volatility to continue during 2008, which we may not be able to fully recover through price increases or surcharges due to the competitive nature of the markets we serve.

Waste Management –

	Years ended December 31,		
	2005	2006	2007
		(In millions)	
Net sales	$ 9.8	$ 11.8	$ 4.2

Cost of goods sold	15.4	15.0	11.7
Gross margin	$ (5.6)	$ (3.2)	$ (7.5)
Operating loss	$ (12.1)	$ (9.5)	$ (14.1)

General – We continue to operate WCS's waste management facility on a relatively limited basis while we navigate the regulatory licensing requirements to receive permits for the disposal of byproduct waste material and for a broad range of low-level and mixed low-level radioactive wastes. We have previously filed license applications for such disposal capabilities with the applicable Texas state agencies, and in October 2007 we received notification that the Texas Commission on Environmental Quality has prepared a draft license for the disposal of byproduct material at our facility and made the preliminary decision that this license meets all statutory and regulatory requirements. We are uncertain as to the length of time it will take for the draft byproduct waste material license to become final and for agencies to complete their reviews and act upon our other license applications. We currently believe the applicable state agency will not issue a final decision on our application for byproduct waste material until late 2008, and we do not expect to receive a final decision on our application for low-level and mixed low-level radioactive waste disposal until 2009. We do not know if we will be successful in obtaining these licenses. While the approvals for these licenses are still in progress, we currently have permits that allow us to treat, store and dispose of a broad range of hazardous and toxic wastes, and to treat and store a broad range of low-level and mixed low-level radioactive wastes.

Net sales and operating loss – Our Waste Management Segment's sales decreased during 2007 compared to 2006, and our Waste Management operating loss increased, due to lower utilization of our waste management services, primarily due to the completion in 2006 of a few projects that have not yet been replaced with new business in 2007. Our Waste Management Segment's sales increased in 2006 as compared to 2005, and our Waste Management operating loss decreased over the same periods, as we obtained new customers and existing customers increased their utilization of our waste management services. We continue to seek to increase our Waste Management Segment's sales volumes from waste streams permitted under our current licenses.

Outlook – We are also exploring opportunities to obtain certain types of new business (including disposal and storage of certain types of waste) that, if obtained, could help to increase our Waste Management Segment's sales, and decrease our Waste Management Segment's operating loss, in 2008. Our ability to increase our Waste Management Segment's sales volumes through these waste streams, together with improved operating efficiencies through further cost reductions and increased capacity utilization, are important factors in improving our Waste Management operating results and cash flows. Until we are able to increase our Waste Management Segment's sales volumes, we expect we will continue to generally report operating losses in our Waste Management Segment. While achieving increased sales volumes could result in operating profits, we currently do not believe we will report any significant levels of Waste Management operating profit until we have obtained the licenses discussed above.

We believe WCS can become a viable, profitable operation, even if we are unsuccessful in obtaining a license for the disposal of a broad range of low-level and mixed low-level radioactive wastes. However, we do not know if we will be successful in improving WCS's cash flows. We have in the past, and we may in the future, consider strategic alternatives with respect to WCS. We could report a loss in any such strategic transaction.

Equity in earnings of TIMET – As discussed in Note 3 to the Consolidated Financial Statements, we completed a special dividend of our TIMET common stock on March 26, 2007. We now own approximately 1% of TIMET's common stock, and we account for our investment in TIMET's common stock as available-for-sale marketable securities carried at fair value. Prior to March 31, 2007, we accounted for our interest in TIMET by the equity method.

General Corporate Items, Interest Expense, Provision for Income Taxes, Minority Interest

Interest and Dividend Income – A significant portion of our interest and dividend income in 2005, 2006 and 2007 relates to the distributions we received from The Amalgamated Sugar Company LLC and, in 2005, from the interest income of $3.9 million we earned on our $80 million loan to Snake River Sugar Company that Snake River prepaid in October 2005. We recognized dividend income from the LLC of $45.0 million in 2005, $31.1 million in 2006 and $25.4 million in 2007.

In October 2005, we and Snake River amended the Company Agreement of the LLC pursuant to which, among other things, the LLC is required to make higher minimum levels of distributions to its members (including us) as compared to levels required under the prior Company Agreement. Under the new agreement, we should receive annually aggregate distributions from the LLC of approximately $25.4 million. In addition, because certain specified conditions were met during the 15-month period that commenced on October 1, 2005, the LLC was required to distribute to us an additional $25 million during the 15-month period. This distribution is in addition to the $25.4 million distribution noted above. We received approximately $20 million of this additional amount in the fourth quarter of 2005, and the remaining $6 million during 2006. We did not receive similar additional amounts during 2007, nor do we expect to receive any additional amount during 2008. Therefore, we expect our interest and dividend income from the LLC in 2008 will be similar to the amount we received in 2007. See Notes 4 and 15 to our Consolidated Financial Statements. Other general corporate interest and dividend income in 2008 is expected to be slightly lower than 2007 due to lower expected balances available for investment.

Insurance Recoveries – Insurance recoveries relate primarily to amounts NL received from certain of its former insurance carriers, and relate principally to the recovery of prior lead pigment litigation defense costs incurred by NL. We have agreements with two former insurance carriers pursuant to which the carriers reimburse us for a portion of our past and future lead pigment litigation defense costs, and the insurance recoveries in 2005, 2006 and 2007 include amounts we received from these carriers. We are not able to determine how much we will ultimately recover from the carriers for past defense costs incurred because of certain issues that arise regarding which past defense costs qualify for reimbursement. Insurance recoveries in 2005 and 2006 also include amounts we received for prior legal defense and indemnity coverage for certain of our environmental expenditures. We do not expect to receive any further material insurance settlements relating to environmental remediation matters.

While we continue to seek additional insurance recoveries for lead pigment and asbestos litigation matters, 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 litigation matters. Any additional insurance recoveries would be recognized when the receipt is probable and the amount is determinable. See Note 17 to our Consolidated Financial Statements.

Securities Transactions – Net securities transactions gains in 2005 relate principally to a $14.7 million pre-tax gain related to NL's sales of shares of Kronos common stock in market transactions and a $5.4 pre-tax million gain related to Kronos' sale of its passive interest in a Norwegian smelting operation, which had a nominal carrying value for financial reporting purposes. See Note 15 to our Consolidated Financial Statements.

Other general corporate income items – The gain on disposal of fixed assets in 2006 relates to the sale of certain land in Nevada that was not associated with any of our operations. NL has certain real property, including some subject to environmental remediation, which might be sold in the future for a profit. See Note 15 to our Consolidated Financial Statements.

Corporate Expenses, Net – Corporate expenses were flat in 2006 as compared to 2005 as higher litigation and environmental expenses at NL were offset by lower environmental and pension expenses for other subsidiaries. Corporate expenses were $4.6 million higher in 2007 as compared to 2006 due to higher environmental and litigation expenses at NL, which were offset somewhat by lower pension expenses for other subsidiaries.

We expect corporate expenses in 2008 will be somewhat lower as compared to 2007, in part due to slightly lower expected legal and environmental expenses at NL. However, obligations for environmental remediation costs are difficult to assess and estimate, and it is possible that actual costs for environmental remediation will exceed accrued amounts or that costs will be incurred in the future for sites in which we cannot currently estimate the liability. If these events were to occur during 2008, our corporate expenses would be higher than our current estimates. See Note 17 to our Consolidated Financial Statements.

Loss on Prepayment of Debt – In April 2006, we issued our euro 400 million aggregate principal amount of 6.5% Senior Secured Notes due 2013, and used the proceeds to redeem our euro 375 million aggregate principal amount of 8.875% Senior Secured Notes in May 2006. As a result of this prepayment, we recognized a $22.3 million pre-tax interest expense charge in 2006, representing the call premium on the old Notes and the write-off of deferred financing costs and the existing unamortized premium on the old Notes. See Note 9 to our Consolidated Financial Statements. The annual interest expense on the new 6.5% Notes is approximately euro 6 million less than on the old 8.875% Notes.

Interest Expense – We have a significant amount of indebtedness denominated in the euro, primarily through our subsidiary Kronos International, Inc. ("KII"). From 2005 until May 2006, KII had euro 375 million aggregate principal amount of 8.875% Senior Secured Notes outstanding. KII has had euro 400 million aggregate principal amount of 6.5% Senior Secured Notes outstanding since April 2006. The interest expense we recognize on these fixed rate Notes will vary with fluctuations in the euro exchange rate. See also Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Interest expense decreased slightly to $64.4 million in 2007 from $67.6 million in 2006. Interest expense was lower in 2007 because we replaced the 8.875% Senior Secured Notes with 6.5% Senior Secured Notes during the second quarter of 2006 offset by the effect of having both notes outstanding during May 2006. This interest savings which was partially offset by unfavorable changes in currency exchange rates in 2007 compared to 2006. The interest expense we recognize on our Senior Secured Notes will vary with fluctuations in the euro exchange rate. In the fourth quarter of 2007, CompX issued a $52.6 million promissory note which bears interest at LIBOR plus 1%. See Note 9 to our Consolidated Financial Statements.

Interest expense decreased slightly from 2005 to 2006, from $69.2 million in 2005 to $67.6 million in 2006. Interest expense was lower in 2006 as the decreased interest rate on the new 6.5% Notes offset the effect of the 30 days of interest expense in April 2006 when both issues of the Senior Secured Notes were outstanding and the effect of changes in currency exchange rates.

Assuming currency exchange rates do not change significantly from their current levels, we expect interest expense will be higher in 2008 as compared to 2007 in part due to the new promissory note CompX issued to TIMET in the fourth quarter of 2007.

Provision for Income Taxes – We recognized income tax expense of $104.6 million in 2005, $63.8 million in 2006 and $103.2 million in 2007. See Note 12 to our Consolidated Financial Statements for a tabular reconciliation of our statutory tax expense to our actual tax expense. Some of the more significant items impacting this reconciliation are summarized below.

Our provision for income taxes in 2007 includes:

- a charge of $87.4 million related to the reduction of our net deferred income tax asset in Germany resulting from the reduction in their income tax rates;
- a charge of $8.7 million related to the adjustment of certain German income tax attributes; and
- a $3.8 million benefit resulting from a net reduction in our reserve for uncertain tax positions.

Our income tax expense in 2006 includes:

- an income tax benefit of $21.7 million related to an increase in the amount of our German trade tax net operating loss carryforward, as a result of the resolution of certain income tax audits in Germany;
- an income tax benefit of $10.4 million primarily resulting from the reduction in our income tax contingency reserves related to favorable developments of income tax audit issues in Belgium, Norway and Germany;
- an income tax benefit of $1.4 million related to the favorable resolution of certain income tax audit issues in Germany and Belgium; and
- a $1.3 million benefit resulting from the enactment of a reduction in Canadian income tax rates.

Our income tax expense in 2005 includes:

- an income tax benefit of $11.5 million related to the favorable effects of developments with respect to certain non-U.S. income tax audits of Kronos, principally in Belgium and Canada;
- an income tax benefit of $7.0 million related to the favorable effect of developments with respect to certain income tax items of NL;
- a $17.5 million provision for income taxes related to the loss of certain income tax attributes of Kronos in Germany; and
- a provision for income taxes of $9.0 million related to a change in CompX's permanent reinvestment conclusion regarding certain of its non-U.S. subsidiaries.

In addition, as discussed in Note 1 to our Consolidated Financial Statements, we recognize deferred income taxes with respect to the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos. The amount of such deferred income taxes can vary from period to period and have a significant impact on our overall effective income tax rate. The aggregate amount of such deferred income taxes included in our provision for income taxes was $10.4 million in 2005 and $13.8 million in 2006, and our provision for income taxes in 2007 included a deferred income tax benefit of $13.9 million associated with our investment in Kronos.

Minority Interest in Continuing Operations – Minority interest in earnings (losses) declined from a cost of $12.0 million in 2006 to a benefit of $3.5 million in 2007 due to a losses at Kronos and NL and lower income at CompX. During October 2007, our ownership interest in CompX increased to approximately 86%; and as a result our minority interest in CompX's earnings decreased beginning in the fourth quarter of 2007. See Notes 3 and 13 to the Consolidated Financial Statements.

Minority interest in earnings increased slightly from a cost of $11.6 million in 2005 to $12.0 million in 2006. This increase is due to higher earnings at CompX and Kronos. These increases were mostly offset by an increase in our ownership percentage of Kronos and CompX in 2006 as compared to 2005 through our purchases of their common stock throughout 2005 and 2006 as well as by lower income at NL. In addition, see Note 13 to our Consolidated Financial Statements.

Related Party Transactions – We are a party to certain transactions with related parties. See Note 16 to our Consolidated Financial Statements.

Assumptions on defined benefit pension plans and OPEB plans.

Defined benefit pension plans. We maintain various defined benefit pension plans in the U.S., Europe and Canada. See Note 11 to our Consolidated Financial Statements. At December 31, 2007, the projected benefit obligations for all defined benefit plans comprised $87.4 million related to U.S. plans and $450.7 million related to foreign plans. Substantially, all of the projected benefit obligations attributable to foreign plans related to plans maintained by Kronos, and approximately 16%, 48% and 36% of the projected benefit obligations attributable to U.S. plans related to plans maintained by Kronos, NL, and Medite Corporation, a former business unit of Valhi (the "Medite plan").

We account for our defined benefit pension plans using SFAS No. 87, Employer's Accounting for Pensions, as amended by SFAS No. 158 effective December 31, 2006. Under SFAS No. 87, we recognize defined benefit pension plan expense and prepaid and accrued pension costs based on certain actuarial assumptions, principally the assumed discount rate, the assumed long-term rate of return on plan assets and the assumed increase in future compensation levels. Upon adoption of SFAS No. 158 effective December 31, 2006, we recognize the full funded status of our defined benefit pension plans as either an asset (for overfunded plans) or a liability (for underfunded plans) in our Consolidated Balance Sheet.

We recognized consolidated defined benefit pension plan expense of $13.1 million in 2005, $16.0 million in 2006 and $15.6 million in 2007. The amount of funding requirements for these defined benefit pension plans is generally based upon applicable regulations (such as ERISA in the U.S.), and will generally differ from pension expense recognized under SFAS No. 87 for financial reporting purposes. We made contributions to all of our defined benefit pension plans of $19.2 million in 2005, $28.1 million in 2006 and $28.0 million in 2007.

The discount rates we utilize for determining defined benefit pension expense and the related pension obligations are based on current interest rates earned on long-term bonds that receive one of the two highest ratings given by recognized rating agencies in the applicable country where the defined benefit pension benefits are being paid. In addition, we receive advice about appropriate discount rates from our third-party actuaries, who may in some cases utilize their own market indices. We adjust these discount rates as of each valuation date (December 31st for all plans beginning in 2007) to reflect the then-current interest rates on such long-term bonds. We use these discount rates to determine the actuarial present value of the pension obligations as of December 31st of that year. We also use these discount rates to determine the interest component of defined benefit pension expense for the following year.

Approximately 62%, 18%, 13% and 3% of the projected benefit obligations attributable to plans maintained by Kronos at December 31, 2007 related to plans in Germany, Canada, Norway and the U.S., respectively. The Medite plan and NL's plans are all in the U.S. We use several different discount rate assumptions in determining our consolidated defined benefit pension plan obligations and expense because we maintain defined benefit pension plans in several different countries in North America and Europe and the interest rate environment differs from country to country.

We used the following discount rates for our defined benefit pension plans:

	Discount rates used for:		
	Obligations at December 31, 2005 and expense in 2006	Obligations at December 31, 2006 and expense in 2007	Obligations at December 31, 2007 and expense in 2008
Kronos and NL plans:			
Germany	4.0%	4.5%	5.5%
Canada	5.0	5.0	5.3
Norway	4.5	4.8	5.5
U.S.	5.5	5.8	6.1
Medite plan	5.5	5.8	6.4

The assumed long-term rate of return on plan assets represents the estimated average rate of earnings we expect to be earned on the funds invested or to be invested in the plans' assets provided to fund the benefit payments inherent in the projected benefit obligations. Unlike the discount rate, which is adjusted each year based on changes in current long-term interest rates, the assumed long-term rate of return on plan assets will not necessarily change based upon the actual, short-term performance of the plan assets in any given year. Defined benefit pension expense each year is based upon the assumed long-term rate of return on plan assets for each plan and the actual fair value of the plan assets as of the beginning of the year. Differences between the expected return on plan assets for a given year and the actual return are deferred and amortized over future periods based either upon the expected average remaining service life of the active plan participants (for plans for which benefits are still being earned by active employees) or the average remaining life expectancy of the inactive participants (for plans for which benefits are not still being earned by active employees).

At December 31, 2007, the fair value of plan assets for all defined benefit plans comprised $133.1 million related to U.S. plans and $312.3 million related to foreign plans. All of such plan assets attributable to foreign plans related to plans maintained by Kronos, and approximately 15%, 44% and 41% of the plan assets attributable to U.S. plans related to plans maintained by Kronos, NL and the Medite plan, respectively. Approximately 50%, 23%, 18% and 6% of the plan assets attributable to plans maintained by Kronos at December 31, 2007 related to plans in Germany, Canada, Norway and the U.S., respectively. We use several different long-term rates of return on plan asset assumptions in determining our consolidated defined benefit pension plan expense because we maintain defined benefit pension plans in several different countries in North America and Europe, the plan assets in different countries are invested in a different mix of investments and the long-term rates of return for different investments differs from country to country.

In determining the expected long-term rate of return on plan asset assumptions, we consider the long-term asset mix (e.g. equity vs. fixed income) for the assets for each of its plans and the expected long-term rates of return for such asset components. In addition, we receive advice about appropriate long-term rates of return from our third-party actuaries. Such assumed asset mixes are summarized below:

- During 2007, substantially all of the Kronos, NL and Medite plan, assets in the U.S. were invested in The Combined Master Retirement Trust ("CMRT"), a collective investment trust sponsored by Contran to permit the collective investment by certain master trusts which fund certain employee benefits plans sponsored by Contran and certain of its affiliates. Harold C. Simmons is the sole trustee of the CMRT. The CMRT's long-term investment objective is to provide a rate of return exceeding a composite of broad market equity and fixed income indices (including the S&P 500 and certain Russell indices), while utilizing both third-party investment managers as well as investments directed by Mr. Simmons. During the 19-year history of the CMRT through December 31, 2007, the average annual rate of return of the CMRT (excluding the CMRT's investment in TIMET common stock) has been approximately 14% (including a 17% return during 2006 and an 11% return during 2007).
- In Germany, the composition of our plan assets is established to satisfy the requirements of the German insurance commissioner.
- In Canada, we currently have a plan asset target allocation of 60% to equity securities and 40% to fixed income securities, with an expected long-term rate of return for such investments to average approximately 125 basis points above the applicable equity or fixed income index.
- In Norway, we currently have a plan asset target allocation of 14% to equity securities, 64% to fixed income securities and the remainder primarily to cash and liquid investments. The expected long-term rate of return for such investments is approximately 8.5%, 5.0% and 4.5%, respectively.

Our pension plan weighted average asset allocations by asset category were as follows:

	December 31, 2006			
	CMRT	Germany	Canada	Norway
Equity securities and limited	97%	23%	66%	13%

partnerships				
Fixed income securities	2	48	32	64
Real estate	1	14	-	-
Cash, cash equivalents and other	-	15	2	23
Total	100%	100%	100%	100%

	December 31, 2007			
	CMRT	Germany	Canada	Norway
Equity securities and limited partnerships	98%	28%	60%	18%
Fixed income securities	-	49	34	68
Real estate	2	12	-	-
Cash, cash equivalents and other	-	11	6	14
Total	100%	100%	100%	100%

We regularly review our actual asset allocation for each of our plans, and periodically rebalance the investments in each plan to more accurately reflect the targeted allocation when considered appropriate.

The assumed long-term rates of return on plan assets used for purposes of determining net period pension cost for 2005, 2006 and 2007 were as follows:

	2005	2006	2007
Kronos and NL plans:			
Germany	5.5%	5.3%	5.8%
Canada	7.0	7.0	6.8
Norway	5.5	6.5	5.5
U.S.	10.0	10.0	10.0
Medite plan	10.0	10.0	10.0

We currently expect to utilize the same long-term rates of return on plan asset assumptions in 2008 as we used in 2007 for purposes of determining our 2008 defined benefit pension plan expense.

To the extent that a plan’s particular pension benefit formula calculates the pension benefit in whole or in part based upon future compensation levels, the projected benefit obligations and the pension expense will be based in part upon expected increases in future compensation levels. For all of our plans for which the benefit formula is so calculated, we generally base the assumed expected increase in future compensation levels on the average long-term inflation rates for the applicable country.

In addition to the actuarial assumptions discussed above, because Kronos maintains defined benefit pension plans outside the U.S., the amounts we recognize for defined benefit pension expense and prepaid and accrued pension costs will vary based upon relative changes in foreign currency exchange rates.

As discussed above, assumed discount rates and rates of return on plan assets are re-evaluated annually. A reduction in the assumed discount rate generally results in an actuarial loss, as the actuarially-determined present value of estimated future benefit payments will increase. Conversely, an increase in the assumed discount rate generally results in an actuarial gain. In addition, an actual return on plan assets for a given year that is greater than the assumed return on plan assets results in an actuarial gain, while an actual return on plan assets that is less than the assumed return results in an actuarial loss. Other actual outcomes that differ from previous assumptions, such as individuals living longer or shorter than assumed in mortality tables, which are also used to determine the actuarially-determined present value of estimated future benefit payments, changes in such mortality table themselves or plan amendments, will also result in actuarial losses or gains. Upon adoption of SFAS No. 158 effective December 31, 2006, these amounts are recognized in other comprehensive income. In addition, any actuarial gains generated in future periods would reduce the negative amortization effect included in earnings of any cumulative unrecognized actuarial losses, while any actuarial losses generated in future periods would reduce the favorable amortization effect included in earnings of any cumulative unrecognized actuarial gains.

During 2007, our defined benefit pension plans generated a net actuarial gain of $69.6 million. This actuarial gain, resulted primarily from the general overall increase in the assumed discount rates from 2006 to 2007, offset in part by an expected return on plan assets in excess of the actual return.

Based on the actuarial assumptions described above and our current expectations for what actual average foreign currency exchange rates will be during 2008, we currently expect our aggregate defined benefit pension expense will approximate $10 million in 2008. In comparison, we currently expect to be required to make approximately $28 million of aggregate contributions to such plans during 2008.

As noted above, defined benefit pension expense and the amounts recognized as prepaid and accrued pension costs are based upon the actuarial assumptions discussed above. We believe all of the actuarial assumptions used are reasonable and appropriate. If Kronos and NL had lowered the assumed discount rates by 25 basis points for all of their plans as of December 31, 2007, their aggregate projected benefit obligations would have increased by approximately $26 million at that date, and their aggregate defined benefit pension expense would be expected to increase by approximately $2 million during 2007. Similarly, if Kronos and NL lowered the assumed long-term rates of return on plan assets by 25 basis points for all of their plans, their defined benefit pension expense would be expected to increase by approximately $1 million during 2008. Similar assumed changes with respect to the discount rate and expected long-term rate of return on plan assets for the Medite plan would not be significant.

OPEB plans. We provide certain health care and life insurance benefits for certain of our eligible retired employees. See Note 11 to our Consolidated Financial Statements. At December 31, 2007, approximately 36%, 34% and 30% of our aggregate accrued OPEB costs relate to Tremont, Kronos and NL, respectively. Kronos provides such OPEB benefits to retirees in the U.S. and Canada, and NL and Tremont provide such OPEB benefits to retirees in the U.S. We account for such OPEB costs under SFAS No. 106, Employers Accounting for Postretirement Benefits other than Pensions, as amended by SFAS No. 158. Under SFAS No. 106, OPEB expense and accrued OPEB costs are based on certain actuarial assumptions, principally the assumed discount rate and the assumed rate of increases in future health care costs. Upon adoption of SFAS No. 158 effective December 31, 2006, we recognize the full unfunded status of our OPEB plans as a liability.

We recognized consolidated OPEB expense of $1.2 million in 2005, $2.3 million in 2006 and $2.4 million in 2007. Similar to defined benefit pension benefits, the amount of funding will differ from the expense recognized for financial reporting purposes, and contributions to the plans to cover benefit payments aggregated $5.0 million in 2005, $4.4 million in 2006 and $2.9 million in 2007. Substantially all of our accrued OPEB costs relates to benefits being paid to current retirees and their dependents, and no material amount of OPEB benefits are being earned by current employees. As a result, the amount we recognize for OPEB expense for financial reporting purposes has been, and is expected to continue to be, significantly less than the amount of OPEB benefit payments we make each year. Accordingly, the amount of accrued OPEB costs we recognize has been, and is expected to continue to, decline gradually.

The assumed discount rates we utilize for determining OPEB expense and the related accrued OPEB obligations are generally based on the same discount rates we utilize for our U.S. and Canadian defined benefit pension plans.

In estimating the health care cost trend rate, we consider our actual health care cost experience, future benefit structures, industry trends and advice from third-party actuaries. In certain cases, NL has the right to pass on to retirees all or a portion of any increases in health care costs; for these retirees, any future increase in health care costs will have no effect on the amount of OPEB expense and accrued OPEB costs we recognize. During each of the past three years, we have assumed that the relative increase in health care costs will generally trend downward over the next several years, reflecting, among other things, assumed increases in efficiency in the health care system and industry-wide cost and plan-design containment initiatives. For example, at December 31, 2007, the expected rate of increase in future health care costs range is 5.8% to 8.5% in 2008, declining to a range of 4.0% to 5.5% in 2010 to 2014 and thereafter.

Based on the actuarial assumptions described above and Kronos' current expectation for what actual average foreign currency exchange rates will be during 2008, we expect our consolidated OPEB expense will approximate $2 million in 2008. In comparison, we expect to be required to make approximately $3.5 million of contributions to such plans during 2008.

As noted above, OPEB expense and the amount we recognize as accrued OPEB costs are based upon the actuarial assumptions discussed above. We believe all of the actuarial assumptions we use are reasonable and appropriate. If we had lowered the assumed discount rates by 25 basis points for all of our OPEB plans as of December 31, 2007, our aggregate projected benefit obligations would have increased by approximately $1 million at that date, our OPEB expense would be expected to be approximately the same during 2008. Similarly, if the assumed future health care cost trend rate had been increased by 100 basis points, our accumulated OPEB obligations would have increased by approximately $3.5 million at December 31, 2007, and OPEB expense would be expected to increase by $.3 in 2008.

Foreign operations

We have substantial operations located outside the United States, principally Chemicals operations in Europe and Canada and Component Products operations in Canada and Taiwan. The functional currency of these operations is the local currency. As a result, the reported amount of our assets and liabilities related to these foreign operations will fluctuate based upon changes in currency exchange rates.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Cash Flows

Operating Activities -

Trends in cash flows from operating activities (excluding the impact of significant asset dispositions and relative changes in assets and liabilities) are generally similar to trends in our operating income.

Cash flows provided by our operating activities decreased from $86.3 million in 2006 to $63.5 million in 2007. This $22.8 million decrease in cash provided was due primarily to the net effects of the following items:

- lower consolidated operating income in 2007 of $58.7 million, due to lower earnings across all of our segments, particularly at our Chemicals Segment;
- the $20.9 million call premium we paid in 2006 when we prepaid our 8.85% Senior Secured Notes, which is required to be included in cash flows from operating activities;
- lower net cash used by changes in receivables, inventories, payables and accrued liabilities in 2007 of $11.6 million, due primarily to relative changes in Kronos' inventory levels;
- lower cash paid for income taxes in 2007 of $10.6 million due in part to the 2006 payment of certain income taxes associated with the settlement of prior year income tax audits; and
- higher net cash contributed to our Ti02 joint venture which increased $7.2 million in 2007 as compared to 2006.

Cash flows provided by our operating activities decreased from $104.3 million in 2005 to $86.3 million in 2006. This decrease in cash provided was due primarily to the net effects of the following items:

- higher net cash provided by changes in receivables, inventories, payables and accrued liabilities in 2006 of $39.0 million, due primarily to relative changes in Kronos' inventory levels;
- lower consolidated operating income in 2006 of $23.6 million, due primarily to the lower earnings in our Chemicals Segment;
- the $20.9 million call premium we paid in 2006 when we prepaid our 8.875% Senior Secured Notes, which GAAP requires to be included in the determination of cash flows from operating activities;
- lower general corporate interest and dividends received in 2006 of $16.2 million, primarily due to a lower level of distributions received from The Amalgamated Sugar Company LLC in 2006;
- lower cash paid for environmental remediation expenditures of $6.7 million in 2006;
- lower cash paid for income taxes in 2006 of $11.2 million, due in part to the $21.0 million tax payment we made in 2005 to settle NL's prior-year income tax audit that was offset in part by the 2006 payment of approximately $19.2 million of income taxes associated with the settlement of prior year income tax audits;
- lower cash paid for interest in 2006 of $7.0 million, primarily as a result of the May 2006 redemption of our 8.875% Senior Secured Notes (which paid interest semiannually in June and December) and the April 2006 issuance of our 6.5% Senior Secured Notes (which pay interest semiannually in April and October starting in October 2006); and
- lower distributions received from our Louisiana joint venture of $2.6 million due to relative changes in their cash requirements in 2006.

Relative changes in working capital assets and liabilities can have a significant effect on cash flows from operating activities. Changes in working capital were affected by accounts receivable and inventory changes:

- Kronos' average days sales outstanding ("DSO") increased from 61 days at December 31, 2006 to 63 days at December 31, 2007, due to the timing of collection of higher accounts receivables balances at the end of

2007. CompX's average DSO increased from 41 days at December 31, 2006 to 44 days at December 31, 2007 due to timing of collection on the higher accounts receivable balance at the end of 2007.

- Kronos' average number of days in inventory ("DII") decreased from 68 days at December 31, 2006 to 59 days at December 31, 2007 due to the effects of higher sales volumes and lower production volumes. CompX's average DII increased from 57 days at December 31, 2006 to 66 days at December 31, 2007 due primarily to higher commodity raw material costs during 2007.
- Kronos' average DSO increased from 55 days at December 31, 2005 to 61 days at December 31, 2006 due to the timing of collection on higher accounts receivable balances at the end of December. CompX's average DSO increased slightly from 40 days at December 31, 2005 to 41 days at December 31, 2006 due to slightly higher accounts receivable balance at the end of 2005.
- Kronos' average DII increased from 59 days at December 31, 2005 to 68 days at December 31, 2006, as their record TiO2 production volumes in 2006 exceeded their record TiO2 sales volumes during the period. CompX's average DII decreased slightly from 59 days at December 31, 2005 to 57 days at December 31, 2006 due primarily to reductions in raw materials during 2006 as we utilized the higher than normal balance in inventory at the end of 2005 that was acquired during 2005 as part of our efforts to mitigate the impact of volatility in raw material prices.

We do not have complete access to the cash flows of our majority-owned subsidiaries, due in part to limitations contained in certain credit agreements of our subsidiaries and because we do not own 100% of these subsidiaries. A detail of our consolidated cash flows from operating activities is presented in the table below. Intercompany dividends have been eliminated.

	Years ended December 31,		
	2005	2006	2007
		(In millions)	
Cash provided by (used in) operating activities:			
Kronos	$ 97.8	$ 71.8	$ 89.9
NL Parent	(20.1)	6.9	(11.2)
CompX	20.0	27.4	11.9
Waste Control Specialists	(7.7)	(3.9)	(11.2)
Tremont	(5.0)	(1.5)	(3.1)
Valhi Parent	101.4	96.6	59.9
Other	(.7)	(1.1)	(.7)
Eliminations	(81.4)	(109.9)	(72.0)
Total	$ 104.3	$ 86.3	$ 63.5

Investing Activities –

We disclose capital expenditures by our business segments in Note 2 to our Consolidated Financial Statements.

We purchased the following securities in market transactions during 2007:

- other marketable securities of $23.3 million;
- CompX common stock through their stock repurchase program for $3.3 million; and
- TIMET common stock for $.7 million.

In addition, during 2007 we sold other marketable securities for $28.5 million.

We purchased the following securities in market transactions during 2006:

- shares of Kronos common stock for $25.4 million;
- shares of TIMET common stock for $18.7 million;
- shares of CompX common stock for $2.3 million; and
- other marketable securities for $43.4 million.

In addition, during 2006 we:

- sold other marketable securities for $42.9 million;
- sold certain land holdings in Nevada for $37.9 million;
- acquired a performance marine components products company for $9.8 million; and
- capitalized $8.3 million of expenditures related to WCS' permitting efforts.

We purchased the following securities in market transactions during 2005:

- shares of TIMET common stock for $18.0 million;
- shares of Kronos common stock for $7.0 million;
- shares of CompX common stock for $3.6 million; and
- other marketable securities for $29.4 million.

In addition, during 2005 we:

- sold shares of Kronos common stock for $19.2 million;
- sold other marketable securities for $19.7 million;
- collected $80 million on our loan to Snake River Sugar Company;
- collected $10 million on our loan to one of the Contran family trusts described in Note 1 to the Consolidated Financial Statements;
- collected a net $4.9 million on our short-term loan to Contran;
- received a net $18.1 million from the sale of our European Thomas Regout operations (which had $4.0 million of cash at the date of disposal);
- received $3.5 million from the sale of our Norwegian smelting operation;
- acquired a performance marine components products company for $7.3 million; and
- capitalized $4.1 million of expenditures related to WCS' permitting efforts.

Financing Activities –

In October 2007, CompX's repurchased a net 2.7 million shares of its Class A common stock held by TIMET. CompX purchased for aggregate consideration of $52.6 million, which it paid in the form of a promissory note. The promissory note bears interest at LIBOR plus 1% and provides for quarterly principal repayments of $250,000 commencing in September 2008, with the balance due at maturity in September 2014. CompX may make prepayments on the promissory note at any time, in any amount, without penalty. The promissory note is subordinated to CompX's U.S. revolving bank credit agreement. In addition, during 2007 we had the following debt transactions:

- repaid $2.6 million under CompX's promissory note payable to TIMET; and
- net borrowings of $9 million under Kronos' U.S. bank credit facility.

In April 2006, we issued euro 400 million aggregate principal amount of our 6.5% Senior Secured Notes due 2013 ($498.5 million when issued), and used the proceeds to redeem our euro 375 million aggregate principal amount of 8.875% Senior Secured Notes in May 2006 ($470.5 million when redeemed). In addition, during 2006 we had the following debt transactions:

- borrowed and repaid $4.4 million under Kronos' Canadian revolving credit facility;
- repaid a net $5.1 million under Kronos' U.S. bank credit facility; and
- repaid $1.5 million of certain of CompX's indebtedness.

During 2005, we:

- repaid an aggregate euro 10 million ($12.9 million when repaid) under Kronos' European revolving credit facility;
- borrowed a net $11.5 million under Kronos' U.S. credit facility;
- entered into additional capital lease arrangements for certain mining equipment for the equivalent of $4.4 million; and
- borrowed and repaid $5 million under Valhi's revolving bank credit facility.

We paid aggregate cash dividends on our common stock of $48.8 million in 2005), $48.0 million in 2006 and $45.6 million in 2007 ($.10 per share per quarter). Distributions to minority interest in 2005, 2006 and 2007 are primarily comprised of Kronos cash dividends paid to shareholders other than us or NL, NL dividends paid to shareholders other than us and CompX dividends paid to shareholders other than NL.

We purchased approximately 3.5 million, 1.9 million and .6 million shares of our common stock in 2005, 2006 and 2007, respectively, in market and other transactions for $62.1 million, $43.8 million and $11.1 million, respectively. See Notes 14 and 16 to our Consolidated Financial Statements. We funded these purchases with our available cash on hand. Other cash flows from financing activities in 2005, 2006 and 2007 relate principally to shares of common stock issued by us and our subsidiaries upon the exercise of stock options.

Outstanding Debt Obligations

At December 31, 2007, our consolidated third-party indebtedness was comprised of:

- KII's euro 400 million aggregate principal amount 6.5% Senior Secured Notes ($585.5 million at December 31, 2007, including the effect of the unamortized original issue discount) due in 2013;
- Our $250 million loan from Snake River Sugar Company due in 2027;
- CompX's promissory note payable to TIMET ($50 million outstanding at December 31, 2007) which bears interest at LIBOR plus 1% (6.0% at December 31, 2007) and has quarterly principal repayments of $250,000 commencing in September 2008 due in 2014;
- Kronos' U.S. revolving bank credit facility ($15.4 million outstanding) due in September 2008; and
- $5.7 million of other indebtedness.

We are in compliance with all of our debt covenants at December 31, 2007. See Note 9 to our Consolidated Financial Statements. At December 31, 2007, $16.8 million of our indebtedness is due within the next twelve months, and therefore we do not currently expect we will be required to use a significant amount of our available liquidity to repay indebtedness during the next twelve months.

Certain of our credit agreements contain provisions that could result in the acceleration of indebtedness prior to its stated maturity for reasons other than defaults for failure to comply with applicable covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined in the agreement) of the borrower. The terms of Valhi's revolving bank credit facility could require Valhi to either reduce outstanding borrowings or pledge additional collateral in the event the fair value of the existing pledged collateral falls below specified levels. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business.

Future Cash Requirements

Liquidity –

Our primary source of liquidity on an ongoing basis is our cash flows from operating activities and borrowings under various lines of credit and notes. We generally use these amounts to (i) fund capital expenditures, (ii) repay short-term indebtedness incurred primarily for working capital purposes and (iii) provide for the payment of dividends (including dividends paid to us by our subsidiaries) or treasury stock purchases. From time-to-time we will incur indebtedness, generally to (i) fund short-term working capital needs, (ii) refinance existing indebtedness, (iii) make investments in marketable and other securities (including the acquisition of securities issued by our subsidiaries and affiliates) or (iv) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business. Occasionally we sell assets outside the ordinary course of business, and we generally use the proceeds to (i) repay existing indebtedness (including indebtedness which may have been collateralized by the assets sold), (ii) make investments in marketable and other securities, (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business or (iv) pay dividends.

We routinely compare our liquidity requirements and alternative uses of capital against the estimated future cash flows we expect to receive from our subsidiaries, and the estimated sales value of those units. As a result of this process, we have in the past and may in the future seek to raise additional capital, refinance or restructure indebtedness, repurchase indebtedness in the market or otherwise, modify our dividend policies, consider the sale of our interests in our subsidiaries, affiliates, business units, marketable securities or other assets, or take a combination of these and other steps, to increase liquidity, reduce indebtedness and fund future activities. Such activities have in the past and may in the future involve related companies.

We periodically evaluate acquisitions of interests in or combinations with companies (including our affiliates) that may or may not be engaged in businesses related to our current businesses. We intend to consider such acquisition activities in the future and, in connection with this activity, may consider issuing additional equity securities and increasing indebtedness. From time to time, we also evaluate the restructuring of ownership interests among our respective subsidiaries and related companies.

Based upon our expectations of our operating performance, and the anticipated demands on our cash resources, we expect to have sufficient liquidity to meet our short-term obligations (defined as the twelve-month period ending December 31, 2008) and our long-term obligations (defined as the five-year period ending December 31, 2012, our time period for long-term budgeting). If actual developments differ from our expectations, our liquidity could be adversely affected.

At December 31, 2007, we had credit available under existing facilities of approximately $301 million, which was comprised of:

- $152 million under Kronos' various U.S. and non-U.S. credit facilities;
- $99 million under Valhi's revolving bank credit facility; and
- $50 million under CompX's revolving credit facility.

At December 31, 2007, we had an aggregate of $222.7 million of restricted and unrestricted cash, cash equivalents and marketable securities. A detail by entity is presented in the table below.

	Amount (In millions)
Valhi Parent	$ 40.9
Kronos	77.2
NL Parent	71.9
CompX	18.4
Tremont	10.6
Waste Control Specialists	3.7
Total cash, cash equivalents and marketable securities	$ 222.7

Capital Expenditures –

We currently expect our aggregate capital expenditures for 2008 will be approximately $104 million ($64 million for Kronos, $12 million for CompX and $28 million for WCS). The WCS amount includes approximately $9 million in capitalized permit costs and major infrastructure improvements related to a new disposal contract signed in late 2007. Under the terms of the contract, we expect to be reimbursed for a majority of these infrastructure improvements that we will recognize as revenue over the life of the contract. We expect our 2008 capital expenditures will be financed primarily by cash flows from operating activities or existing cash resources and credit facilities. Our capital expenditures are primarily for improvements and upgrades to existing facilities.

Repurchases of our Common Stock –

We have in the past, and may in the future, make repurchases of our common stock in market or privately-negotiated transactions. At December 31, 2007 we had approximately 4.0 million shares available for repurchase of our common stock under the authorizations described in Note 14 to our Consolidated Financial Statements.

Dividends –

Because our operations are conducted primarily through subsidiaries and affiliates, our long-term ability to meet parent company level corporate obligations is largely dependent on the receipt of dividends or other distributions from our subsidiaries and affiliates. Based on the approximately 29.0 million shares of Kronos we held at December 31, 2007 and Kronos' current quarterly dividend rate of $.25 per share, we would receive aggregate annual dividends from Kronos of $29.0 million. NL's current quarterly cash dividend is $.125 per share, although in the past NL has paid a dividend in the form of Kronos common stock. If NL pays its regular quarterly dividends in cash, based on the 40.4 million shares we held of NL common stock at December 31, 2007, we would receive aggregate annual dividends from NL of $20.2 million. We do not expect to receive any distributions from WCS during 2008.

Our subsidiaries have various credit agreements which contain customary limitations on the payment of dividends, typically a percentage of net income or cash flow; however, these restrictions in the past have not significantly impacted their ability to pay dividends.

Investment in our Subsidiaries and Affiliates and Other Acquisitions –

We have in the past, and may in the future, purchase the securities of our subsidiaries and affiliates or third parties in market or privately-negotiated transactions. We base our purchase decisions on a variety of factors, including an analysis of the optimal use of our capital, taking into account the market value of the securities and the relative value of expected returns on alternative investments. In connection with these activities, we may consider issuing additional equity securities or increasing our indebtedness. We may also evaluate the restructuring of ownership interests of our businesses among our subsidiaries and related companies.

We generally do not guarantee any indebtedness or other obligations of our subsidiaries or affiliates. Our subsidiaries are not required to pay us dividends. If one or more of our subsidiaries were unable to maintain its current level of dividends, either due to restrictions contained in a credit agreement or to satisfy its liabilities or otherwise, our ability to service our liabilities or to pay dividends on our common stock might be adversely impacted. If this were to occur, we might consider reducing or eliminating our dividends or selling interests in subsidiaries or other assets. If we were required to liquidate assets to generate funds to satisfy our liabilities, we might be required to sell at what we believe would be less than the actual value of such assets.

WCS is required to provide certain financial assurances to Texas governmental agencies with respect to certain decommissioning obligations related to its facility in West Texas. The financial assurances may be provided by various means, including a parent company guarantee assuming the parent meets specified financial tests. In March 2005, we agreed to guarantee certain of WCS' specified decommissioning obligations. WCS currently estimates these obligations at approximately $4.4 million. Such obligations would arise only upon a closure of the facility and WCS' failure to perform such activities. We do not currently expect we will have to perform under this guarantee for the foreseeable future.

WCS' primary source of liquidity currently consists of intercompany borrowings from one of our wholly-owned subsidiaries under the terms of a revolving credit facility. We eliminate these intercompany borrowings in our Consolidated Financial Statements. During 2007, WCS borrowed a net $20.1 million from our subsidiary. WCS used these net borrowings primarily to fund its operating loss and capital expenditures. We contributed $19.7 million of these net borrowings to WCS' equity in November 2007. We expect that WCS will likely borrow additional amounts from us during 2008 under the terms of the revolving credit facility, and we may similarly contribute such borrowings to WCS' capital. At December 31, 2007, WCS can borrow an additional $30.2 million under this facility, which matures in March 2009.

Investment in The Amalgamated Sugar Company LLC –

The terms of The Amalgamated Sugar Company LLC Company Agreement provide for an annual "base level" of cash dividend distributions (sometimes referred to as distributable cash) by the LLC of $26.7 million, from which we are entitled to a 95% preferential share. Distributions from the LLC are dependent, in part, upon the operations of the LLC. We record dividend distributions from the LLC as income when they are declared by the LLC, which is generally the same month in which we receive the distributions, although distributions may in certain cases be paid on the first business day of the following month. To the extent the LLC's distributable cash is below this base level in any given year, we are entitled to an additional 95% preferential share of any future annual LLC distributable cash in excess of the base level until such shortfall is recovered. Based on the LLC's current projections for 2008, we expect distributions received from the LLC in 2008 will exceed our debt service requirements under our $250 million loans from Snake River Sugar Company by approximately $1.8 million.

We may, at our option, require the LLC to redeem our interest in the LLC beginning in 2012, and the LLC has the right to redeem our interest in the LLC beginning in 2027. The redemption price is generally $250 million plus the amount of certain undistributed income allocable to us, if any. In the event we require the LLC to redeem our interest in the LLC, Snake River has the right to accelerate the maturity of and call our $250 million loans from Snake River. Redemption of our interest in the LLC would result in us reporting income related to the disposition of our LLC interest for income tax purposes, although we would not be expected to report a gain in earnings for financial reporting purposes at the time our LLC interest is redeemed. However, because of Snake River's ability to call our $250 million loans from Snake River upon redemption of our interest in the LLC, the net cash proceeds (after repayment of the debt) generated by the redemption of our interest in the LLC could be less than the income taxes that we would be required to pay as a result of the disposition.

Off-balance Sheet Financing

We do not have any off-balance sheet financing agreements other than the operating leases discussed in Note 17 to our Consolidated Financial Statements.

Commitments and Contingencies

We are subject to certain commitments and contingencies, as more fully described in the Notes to our Consolidated Financial Statements and in this Management's Discussion and Analysis of Financial Condition and Results of Operations, including:

- certain income tax examinations which are underway in various U.S. and non-U.S. jurisdictions;
- certain environmental remediation matters involving NL, Tremont and Valhi;
- certain litigation related to NL's former involvement in the manufacture of lead pigment and lead-based paint; and
- certain other litigation to which we are a party.

In addition to those legal proceedings described in Note 17 to our Consolidated Financial Statements, various legislation and administrative regulations have, from time to time, been proposed that seek to (i) 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 and (ii) effectively overturn court decisions in which we and other pigment manufacturers have been successful. Examples of such proposed legislation include bills which would permit civil liability for damages on the basis of market share, rather than requiring plaintiffs to prove that the defendant's product caused the alleged damage, and bills which would revive actions barred by the statute of limitations. While no legislation or regulations have been enacted to date that are expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity, enactment of such legislation could have such an effect.

As more fully described in the Notes to our Consolidated Financial Statements, we are a party to various debt, lease and other agreements which contractually and unconditionally commit us to pay certain amounts in the future. See Notes 9 and 17 to our Consolidated Financial Statements. Our obligations related to the long-term supply contract for the purchase of Ti02 feedstock is more fully described in Note 17 to our Consolidated Financial Statements and above in "Business – Chemicals – Kronos Worldwide, Inc. - manufacturing process, properties and raw materials." The following table summarizes our contractual commitments as of December 31, 2007 by the type and date of payment.

	Payment due date				
Contractual commitment	2008	2009/2010	2011/2012	2013 and after	Total
			(In millions)		
Indebtedness:					
Principal	$ 16.8	$ 4.3	$ 4.3	$ 881.2	$ 906.6
Interest	65.9	129.7	129.3	346.5	671.4
Operating leases	9.9	12.5	6.2	21.6	50.2
Kronos' long-term supply contracts for the purchase of TiO2 feedstock	208.0	404.0	100.0	-	712.0
CompX raw material and other purchase commitments	16.2	-	-	-	