ENVOY CAPITAL GROUP INC.
Form 6-K
February 04, 2010

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of February 2010

Commission File Number: 00-30082

Envoy Capital Group Inc.
(Translation of registrant's name into English)
30 St. Patrick St., Ste. 301, Toronto, Ontario, Canada M5T 3A3
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o No x

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Envoy Capital Group Inc.
(Registrant)

By:/s/ Andrew Patient

Name: Andrew Patient
Title: Chief Executive Officer

Dated: February 3, 2010

Exhibit Index

Exhibit	Description
99.1	Press release on first quarter fiscal 2010 results.

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Privately managed limited partnerships	8	**8**
Other, primarily cash	1	**35**
	100%	**100%**

The increase in the relative portion of the CMRT invested in cash and other assets at December 31, 2012 is the result of the CMRT s December 2012 disposition of its shares of TIMET common stock, which generated aggregate proceeds to the CMRT of $254.7 million (or approximately 35% of the CMRT s total asset value at December 31, 2012), and which funds were invested in a cash equivalent at the end of 2012. Subsequently in January 2013, the CMRT redeployed such proceeds into other investments.

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

In Germany, the composition of our plan assets is established to satisfy the requirements of the German insurance commissioner. Our German pension plan assets represent an investment in a large collective investment fund established and maintained by Bayer AG in which several pension plans, including our German pension plan and Bayer s pension plans, have invested. Our plan assets represent a very nominal portion of the total collective investment fund maintained by Bayer. These plan assets are a Level 3 input because there is not an active market that approximates the value of our investment in the Bayer investment fund. We determine the fair value of the Bayer plan assets based on periodic reports we receive from the managers of the Bayer plan. These periodic reports are subject to audit by the German pension regulator.

In Canada, we currently have a plan asset target allocation of 46% to equity securities, 45% to fixed income securities, 9% to other investments and the remainder to cash. We expect the long-term rate of return for such investments to average approximately 125 basis points above the applicable equity or fixed income index. The Canadian assets are Level 1 input because they are traded in active markets.

In Norway, we currently have a plan asset target allocation of 12% to equity securities, 78% to fixed income securities, 9% to real estate and the remainder primarily to other investments and liquid investments such as money markets. The expected long-term rate of return for such investments is approximately 8%, 4%, 6% and 7%, respectively. The majority of Norwegian plan assets are Level 1 inputs because they are traded in active markets; however approximately 10% of our Norwegian plan assets are invested in real estate and other investments not actively traded and are therefore a Level 3 input.

We also have plan assets in Belgium and the United Kingdom. The Belgian plan assets are invested in certain individualized fixed income insurance contracts for the benefit of each plan participant as required by the local regulators and are therefore a Level 3 input. The United Kingdom plan assets consist of marketable securities which are Level 1 inputs because they trade in active markets.
We regularly review our actual asset allocation for each plan, and will periodically rebalance the investments in each plan to more accurately reflect the targeted allocation and/or maximize the overall long-term return when considered appropriate.

The composition of our December 31, 2011 and 2012 pension plan assets by fair value level is shown in the table below. The amounts shown for plan assets invested in the CMRT include a nominal amount of cash held by our U.S. pension plan which is not part of the plan s investment in the CMRT.

	Fair Value Measurements at December 31, 2011			
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(In millions)	
Germany	$ 187.2	$	$	$ 187.2
Canada:				
Local currency equities	18.1	18.1		
Non local currency equities	28.0	28.0		
Local currency fixed income	33.8	33.8		
Cash and other	2.4	2.4		
Norway:				
Local currency equities	2.0	2.0		
Non local currency equities	3.7	3.7		
Local currency fixed income	35.9	35.9		
Non local currency fixed income	4.3	4.3		
Real estate	5.1			5.1
Cash and other	6.3	4.9		1.4
U.S.				
CMRT	12.8	.1	12.7	
Other	9.4	2.5		6.9
Total	$ 349.0	$ 135.7	$ 12.7	$ 200.6

	Fair Value Measurements at December 31, 2012			
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In millions)			
Germany	**$ 224.8**	**$**	**$**	**$ 224.8**
Canada:				
Local currency equities	**22.4**	**22.4**		
Non local currency equities	**30.3**	**30.3**		
Local currency fixed income	**38.0**	**38.0**		
Global mutual fund	**5.6**	**5.6**		
Cash and other	**2.1**	**2.1**		
Norway:				
Local currency equities	**3.2**	**3.2**		
Non local currency equities	**5.2**	**5.2**		
Local currency fixed income	**40.9**	**40.9**		
Non local currency fixed income	**4.8**	**4.8**		
Real estate	**5.5**			**5.5**
Cash and other	**7.6**	**7.0**		**.6**
U.S.				
CMRT	**14.4**		**14.4**	
Other	**10.3**	**3.1**		**7.2**
Total	**$ 415.1**	**$ 162.6**	**$ 14.4**	**$ 238.1**

A rollforward of the change in fair value of Level 3 assets follows.

	2011	2012
	(In millions)	
Fair value at beginning of year	$ 214.9	**$ 200.6**
Gain on assets held at end of year	18.8	**33.0**
Gain on assets sold during the year	1.8	**.1**
Assets purchased	18.6	**15.1**
Assets sold	(18.1)	**(14.3)**
Transfers out	(29.2)	**(1.0)**
Currency exchange rate fluctuations	(6.2)	**4.6**
Fair value at end of year	$ 200.6	**$ 238.1**

Postretirement benefits other than pensions (OPEB) We provide certain health care and life insurance benefits for eligible retired employees. Certain of our Canadian employees may become eligible for such postretirement health care and life insurance benefits if they reach retirement age while working for us. In the U.S., employees who retired after 1998 are not entitled to any such benefits. The majority of all retirees are required to contribute a portion of the cost of their benefits and certain current and future retirees are eligible for reduced health care benefits at age 65. We have no OPEB plan assets, rather, we fund medical claims as they are paid. Contribution to our OPEB plans to cover benefit payments are expected to be the equivalent of:

Years ending December 31,	**Amount (In millions)**
2013	.5
2014	.5
2015	.5
2016	.5
2017	.5
Next 5 years	2.7

The funded status of our OPEB plans is presented in the table below:

	December 31, 2011	**2012**
	(In millions)	
Change in accumulated OPEB obligations:		
Obligations at beginning of the year	$ 11.2	**$ 13.2**
Service cost	.2	**.3**
Interest cost	.6	**.6**
Actuarial losses	1.9	**.5**
Change in currency exchange rates	(.3)	**.4**
Benefits paid from employer contributions	(.4)	**(.4)**
Obligations at end of the year	13.2	**14.6**
Fair value of plan assets		
Funded status	$ (13.2)	**$ (14.6)**
Amounts recognized in the balance sheet:		
Current accrued pension costs	$ (.5)	**$ (.5)**
Noncurrent accrued pension costs	(12.7)	**(14.1)**
Total	$ (13.2)	**$ (14.6)**
Accumulated other comprehensive income:		
Net actuarial losses	$ 4.9	**$ 5.1**
Prior service credit	(5.3)	**(4.7)**
Total	$ (.4)	**$ .4**

The amounts shown in the table above for net actuarial losses and prior service credit at December 31, 2011 and 2012 have not yet been recognized as components of our periodic OPEB cost as of those dates. These amounts will be recognized as components of our periodic OPEB cost in future years and are recognized, net of deferred income taxes, in our accumulated other comprehensive income (loss). We expect to recognize approximately $.3 million of unrecognized actuarial losses and $.6 million of prior service credit as components of our periodic OPEB cost in 2013.

At December 31, 2012, the accumulated OPEB obligations for all OPEB plans was comprised of $1.1 million related to U.S. plans and $13.5 million related to our Canadian plan (2011 $1.2 million and $12.0 million, respectively).

In the fourth quarter of 2010, we amended our benefit formula for most participants of our plans effective January 1, 2011, resulting in a prior service credit of approximately $5.8 million as of December 31, 2010. Key assumptions including the health care cost trend rate as of December 31, 2010 now reflect these plan revisions to the benefit formula.

The components of our periodic OPEB costs are presented in the table below. The amounts shown below for amortization of prior service credit and recognized actuarial losses for 2010, 2011 and 2012 were recognized as components of our accumulated other comprehensive income (loss) at December 31, 2009, 2010 and 2011, respectively, net of deferred income taxes.

	Years ended December 31,		
	2010	**2011**	**2012**
		(In millions)	
Net periodic OPEB cost (income):			
Service cost	$ .4	$ .2	**$ .3**
Interest cost	.8	.6	**.6**
Amortization of prior service credit	(.2)	(.8)	**(.6)**
Recognized actuarial losses	.2	.3	**.3**
Total	$ 1.2	$ .3	**$ .6**

The table below details the changes in benefit obligations recognized in accumulated other comprehensive income (loss) during 2010, 2011 and 2012.

	Years ended December 31,		
	2010	**2011**	**2012**
		(In millions)	
Changes in benefit obligations recognized in other comprehensive income (loss):			
Current year:			
Net actuarial loss	$ (1.6)	$ (2.0)	**$ (.5)**
Plan amendments	5.8		
Amortization of unrecognized:			
Prior service credit	(.2)	(.8)	**(.6)**
Net actuarial loss	.2	.3	**.3**
Total	$ 4.2	$ (2.5)	**$ (.8)**

A summary of our key actuarial assumptions used to determine the net benefit obligation as of December 31, 2011 and 2012 are presented in the table below. The weighted average discount rate was determined using the projected benefit obligation as of such dates. The impact of assumed increases in future compensation levels does not have a material effect on the actuarial present value of the benefit obligation as substantially all of such benefits relate solely to eligible retirees, for which compensation is not applicable.

	2011	**2012**
Healthcare inflation:		
Initial rate	8.0%	7.0%
Ultimate rate	5.0%	5.0%
Year of ultimate rate achievement	2018	2018
Weighted average discount rate	4.1%	3.9%

Assumed health care cost trend rates affect the amounts we report for health care plans. A one percent change in assumed health care trend rates would not have a material effect on the net periodic OPEB cost for 2012 or on the accumulated OPEB obligation at December 31, 2012.

The weighted average discount rate used in determining the net periodic OPEB cost for 2012 was 4.1% (2011 5.1%; 2010 5.8%). Such weighted average rate was determined using the projected benefit obligation as of the beginning of each year. The impact of assumed increases in future compensation levels does not have a material effect on the net periodic OPEB cost as substantially all of such benefits relate solely to eligible retirees, for which compensation is not applicable. The impact of the assumed rate of return on plan assets also does not have a material effect on the net periodic OPEB cost as there were no plan assets as of December 31, 2011 or 2012.

Variances from actuarially-assumed rates will result in additional increases or decreases in accumulated OPEB obligations, net periodic OPEB cost and funding requirements in future periods.

Note 12 Other noncurrent liabilities:

	December 31,	
	2011	2012
	(In millions)	
Reserve for uncertain tax positions	$ 11.9	**$ 13.4**
Employee benefits	10.2	**11.3**
Insurance claims and expenses	.3	**.3**
Other	5.0	**5.3**
Total	$ 27.4	**$ 30.3**

Note 13 Stockholders equity:

Secondary public offering of common stock In November 2010, we completed a secondary public offering of 17.94 million shares of our common stock in an underwritten offering for net proceeds of $337.6 million. The price to the public was $20.00 per share, and the underwriting discount was 5.75% (or $1.15 per share). Costs of the offering (exclusive of the underwriting discount) were approximately $.7 million. The offering took place in two parts, and the first closing occurred on November 2, 2010 of 15.6 million shares of common stock that generated net proceeds of $293.5 million. The second closing (upon exercise of the underwriters over-allotment option) occurred on November 9, 2010 for an additional 2.34 million shares of common stock that generated additional net proceeds of $44.1 million. The shares of common stock issued in the secondary offering are identical to the previously issued outstanding shares in all respects, including par value, liquidation and dividend preference. All shares were sold to third-party investors; none of our affiliated companies purchased any shares in the offering. Upon completion of the offering, the Valhi consolidated aggregate ownership of Kronos was reduced from 95.2% (59.2% held by Valhi directly and 36.0% held by NL directly) to 80.4% (50.0% is held by Valhi directly and 30.4% is held by NL directly).

NL common stock options held by our employees Certain of our employees were granted nonqualified options to purchase NL common stock under the terms of certain option plans sponsored by NL. Generally, the stock options were granted at a price equal to or greater than 100% of the market price of NL s common stock at the date of grant, vested over a five-year period and expired ten years from the date of grant. At December 31, 2012, no options were outstanding as all outstanding options expired or were exercised in 2011. During 2010 and 2011, 10,350 and 25,950 options were exercised, respectively. No options were issued during 2012.

Long-term incentive compensation plan Prior to 2012, we had a long-term incentive compensation plan that provided for the discretionary grant of, among other things, qualified incentive stock options, nonqualified stock options, restricted common stock, stock awards and stock appreciation rights. Up to 150,000 shares of our common stock could be issued pursuant to this plan. During 2010, 2011 and 2012 we awarded an aggregate of 7,000, 3,500 and 4,500 shares, respectively, of our common stock pursuant to this plan to members of our board of directors. In February 2012, our board of directors voted to replace the existing long-term incentive plan with a new plan that would provide for the award of stock to our board of directors, and up to a maximum of 200,000 shares could be awarded. The new plan was approved at our May 2012 shareholder meeting and shortly thereafter the prior long-term incentive compensation plan terminated. No shares were awarded under this new plan in 2012, and 200,000 shares are available for future award under this new plan.

Stock split In May 2011, we amended our certificate of incorporation to increase the authorized number of shares of our common stock from 60 million to 240 million. Also in May 2011, we implemented a 2-for-1 split of our common stock effected in the form of a stock dividend. Other than the disclosure of the authorized number of shares of our common stock discussed in this paragraph, we have adjusted all share and per-share disclosures for all periods presented in our consolidated financial statements to give effect to the stock split.

Special dividend Cash dividends in 2011 include a $.50 per share special dividend paid to stockholders in the first quarter of 2011.

Stock repurchase program In December 2010, our board of directors authorized the repurchase of up to 2.0 million shares of our common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. We may repurchase our common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, we may terminate the program prior to its completion. We would use cash on hand or other sources of liquidity to acquire the shares. Repurchased shares will be added to our treasury and cancelled. To date, we have not made any repurchases under the plan and all 2.0 million shares are available for repurchase.

Accumulated other comprehensive loss Changes in accumulated other comprehensive income for 2010, 2011 and 2012 are presented in the table below.

	Years ended December 31, 2010	2011 (In millions)	2012
Accumulated other comprehensive loss, net of tax:			
Marketable securities:			
Balance at beginning of year	$	$	**$ 5.1**
Other comprehensive income (loss):			
Unrealized gains (losses) arising during the year		5.1	**(5.5)**
Less reclassification adjustment for amounts included in realized loss			**4.6**
Balance at end of year	$	$ 5.1	**$ 4.2**
Currency translation:			
Balance at beginning of year	$ (65.2)	$ (65.1)	**$ (91.8)**
Other comprehensive income (loss)	.1	(26.7)	**28.3**
Balance at end of year	$ (65.1)	$ (91.8)	**$ (63.5)**
Defined benefit pension plans:			
Balance at beginning of year	$ (81.0)	$ (89.0)	**$ (99.2)**
Other comprehensive income (loss):			
Amortization of prior service cost and net losses included in net periodic pension cost	4.9	6.5	**7.0**
Net actuarial loss arising during year	(10.2)	(16.7)	**(45.1)**
Plan amendments	(2.7)		
Balance at end of year	$ (89.0)	$ (99.2)	**$ (137.3)**
OPEB plans:			
Balance at beginning of year	$ (1.1)	$ 1.8	**$ .1**
Other comprehensive income (loss):			
Amortization of prior service credit and net losses included in net periodic OPEB cost		(.3)	**(.2)**
Net actuarial loss arising during year	(1.2)	(1.4)	**(.4)**
Plan amendments	4.1		
Balance at end of year	$ 1.8	$ .1	**$ (.5)**
Total accumulated other comprehensive loss:			
Balance at beginning of year	$ (147.3)	$ (152.3)	**$ (185.8)**
Other comprehensive loss	(5.0)	(33.5)	**(11.3)**
Balance at end of year	$ (152.3)	$ (185.8)	**$ (197.1)**

The marketable securities reclassification adjustment in 2012, all of which was reclassified into net income, consists principally of the securities transaction loss related to the sale of TIMET common stock discussed in Note 6. See Note 11 for amounts related to our defined benefit pension plans and OPEB plans.

Note 14 Related party transactions:

We may be deemed to be controlled by Harold C. Simmons. See Note 1. Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (a) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties and (b) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held noncontrolling interest in another related party. While no transactions of the type described above are planned or proposed with respect to us other than as set forth in these financial statements, we continuously consider, review and evaluate, and understand that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that we might be a party to one or more such transactions in the future.

Current receivables from and payables to affiliates are summarized in the table below.

	December 31,	
	2011	**2012**
	(In millions)	
Current receivable from affiliate LPC	$ 29.6	**$**
Noncurrent note receivable from Valhi	$ 136.1	**$**
Current payables to affiliates:		
LPC	$	**$ 23.5**
Income taxes payable to Valhi	8.6	**18.1**
Total	$ 8.6	**$ 41.6**

From time to time, we will have loans and advances outstanding between us and various related parties pursuant to term and demand notes. We generally enter into these loans and advances for cash management purposes. When we loan funds to related parties, we are generally able to earn a higher rate of return on the loan than we would earn if we invested the funds in other instruments, and when we borrow from related parties, we are generally able to pay a lower rate of interest than we would pay if we had incurred third-party indebtedness. While certain of these loans to affiliates may be of a lesser credit quality than cash equivalent instruments otherwise available to us, we believe we have considered the credit risks in the terms of the applicable loans. In this regard:

In November 2010, we entered into an unsecured revolving demand promissory note with Valhi whereby, as amended, we have agreed to loan Valhi up to $100 million ($225 million at December 31, 2011). Our loan to Valhi bears interest at prime plus 1.00%, payable quarterly, with all principal due on demand, but in any event no earlier than December 31, 2014. The amount of our outstanding loans to Valhi at any time is at our discretion. As of December 31, 2012, we had no outstanding loans to Valhi under this promissory note (2011 $136.1 million);

In April 2010, we entered into an unsecured revolving credit note with Contran pursuant to which we could borrow up to $40 million from Contran. Such revolving credit note terminated upon its maturity in December 2011; and

In February 2013, we borrowed $190 million from Contran under the provisions of a new loan described in Note 9.

Interest income on our loan to Valhi was $.5 million in 2010, $3.7 million in 2011 and $7.1 million in 2012. Interest expense on our loans from Contran was $.2 million in 2010 and nil in 2011.

Amounts payable to LPC are generally for the purchase of TiO_2, while amounts receivable from LPC are generally from the sale of TiO_2 feedstock. See Note 5. Purchases of TiO_2 from LPC were $133.7 million in 2010, $144.8 million in 2011 and $250.2 million in 2012. Sales of feedstock to LPC were $5.2 million in 2010, $93.0 million in 2011 and $143.7 million in 2012.

Under the terms of various intercorporate services agreements (ISAs) entered into between us and various related parties, including Contran, employees of one company will provide certain management, tax planning, financial and administrative services to the other company on a fee basis. Such charges are based upon estimates of the time devoted by the employees of the provider of the services to the affairs of the recipient, and the compensation and associated expenses of such persons. Because of the large number of companies affiliated with Contran, we believe we benefit from cost savings and economies of scale gained by not having certain management, financial and administrative staffs duplicated at each entity, thus allowing certain individuals to provide services to multiple companies but only be compensated by one entity. The net ISA fee charged to us, approved by the independent members of our board of directors, is included in selling, general and administrative expense and corporate expense and was $8.3 million in 2010, $9.6 million in 2011 and $11.2 million in 2012. This agreement is renewed annually and we expect to pay approximately $12.9 million under the ISA during 2013.

Tall Pines Insurance Company and EWI RE, Inc. provide for or broker certain insurance policies for Contran and certain of its subsidiaries and affiliates, including ourselves. Tall Pines and EWI are subsidiaries of Valhi. Consistent with insurance industry practices, Tall Pines and EWI receive commissions from insurance and reinsurance underwriters and/or assess fees for the policies that they provide or broker. The aggregate premiums paid to Tall Pines and EWI by us and our joint venture were $8.0 million in 2010, $9.5 million in 2011 and $12.0 million in 2012. These amounts principally included payments for insurance and reinsurance premiums paid to third parties, but also included commissions paid to Tall Pines and EWI. Tall Pines purchases reinsurance from third-party insurance carriers with an A.M. Best Company rating of generally at least A- (excellent) for substantially all of the risks it underwrites. We expect these relationships with Tall Pines and EWI will continue in 2013.

Contran and certain of its subsidiaries and affiliates, including us, purchase certain of their insurance policies as a group, with the costs of the jointly-owned policies being apportioned among the participating companies. With respect to certain of such policies, it is possible that unusually large losses incurred by one or more insureds during a given policy period could leave the other participating companies without adequate coverage under that policy for the balance of the policy period. As a result, Contran and certain of its subsidiaries and affiliates, including us, have entered into a loss sharing agreement under which any uninsured loss is shared by those entities who have submitted claims under the relevant policy.

We believe the benefits, in the form of reduced premiums and broader coverage associated with the group coverage for such policies, justifies the risk associated with the potential for any uninsured loss.

Note 15 Commitments and contingencies:

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

Litigation matters We are involved in various environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our business. We currently believe the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity.

In March 2010, we were served with two complaints which were subsequently consolidated as Haley Paint et al. v. E.I. Du Pont de Nemours and Company, et al. (United States District Court, for the District of Maryland, Case No. 1:10-cv-00318-RDB). A third plaintiff intervened into the current case in July 2011. The defendants include us, E.I. Du Pont de Nemours & Company, Huntsman International LLC, Millennium Inorganic Chemicals, Inc. and the National Titanium Dioxide Company Limited (d/b/a Cristal). Plaintiffs seek to represent a class consisting of all persons and entities that purchased titanium dioxide in the United States directly from one or more of the defendants on or after March 1, 2002. The complaint alleges that the defendants conspired and combined to fix, raise, maintain, and stabilize the price at which titanium dioxide was sold in the United States and engaged in other anticompetitive conduct. In May 2010, defendants filed a motion to dismiss, which plaintiffs opposed. In March 2011, the court denied the motion to dismiss. In February 2012, the plaintiffs submitted their motion for class certification, which defendants opposed. In August 2012, the court granted the plaintiffs motion for class certification and trial is currently set for September 2013. The case is proceeding in the trial court. We believe the action is without merit, have denied all allegations of wrongdoing and liability and intend to defend against the action vigorously.

Concentrations of credit risk Sales of TiO_2 accounted for approximately 90% of our sales in 2010, 92% in 2011 and 90% in 2012. The remaining sales result from the mining and sale of ilmenite ore (a raw material used in the sulfate pigment production process), and the manufacture and sale of iron-based water treatment chemicals and certain titanium chemical products (derived from co-products of the TiO_2 production processes). TiO_2 is generally sold to the paint, plastics and paper industries. Such markets are generally considered quality-of-life markets whose demand for TiO_2 is influenced by the relative economic well-being of the various geographic regions. We sell TiO_2 to over 4,000 customers, with the top ten customers approximating 27% of net sales in 2010, 30% in 2011 and 34% in 2012. We did not have sales to a single customer comprising over 10% of our net sales in 2010 or 2011. In 2012, one customer, Behr Process Corporation, did account for approximately 10% of our net sales. The table below shows the approximate percentage of our TiO_2 sales by volume for our significant markets, Europe and North America, for the last three years.

	2010	2011	2012
Europe	53%	53%	47%
North America	33%	32%	35%

Long-term contracts We have long-term supply contracts that provide for certain of our TiO_2 feedstock requirements through 2016. The agreements require us to purchase certain minimum quantities of feedstock with minimum purchase commitments aggregating approximately $1.8 billion over the life of the contracts in years subsequent to December 31, 2012. In addition, we have other long-term supply and service contracts that provide for various raw materials and services. These agreements require us to purchase certain minimum quantities or services with minimum purchase commitments aggregating approximately $122 million at December 31, 2012.

Operating leases Our principal German operating subsidiary leases the land under its Leverkusen TiO_2 production facility pursuant to a lease with Bayer AG that expires in 2050. The Leverkusen facility itself, which we own and which represents approximately one-third of our current TiO_2 production capacity, is located within Bayer s extensive manufacturing complex. We periodically establish the amount of rent for the land lease associated with the Leverkusen facility by agreement with Bayer for periods of at least two years at a time. The lease agreement provides for no formula, index or other mechanism to determine changes in the rent for such land lease; rather, any change in the rent is subject solely to periodic negotiation between Bayer and us. We recognize any change in the rent based on such negotiations as part of lease expense starting from the time such change is agreed upon by both parties, as any such change in the rent is deemed contingent rentals under GAAP. Under various supply and services agreements certain majority-owned subsidiaries of Bayer provide raw materials, including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility. In March 2013 we anticipate entering into a new long-term master agreement expiring in 2017 with a majority-owned subsidiary of Bayer which agreement will set forth the master terms and conditions for the separate supply and services agreements.

We also lease various other manufacturing facilities and equipment. Some of the leases contain purchase and/or various term renewal options at fair market and fair rental values, respectively. In most cases we expect that, in the normal course of business, such leases will be renewed or replaced by other leases. Net rent expense approximated $11 million in 2010, $13 million in 2011 and $16 million in 2012. At December 31, 2012, future minimum payments under noncancellable operating leases having an initial or remaining term of more than one year were as follows:

Years ending December 31,	Amount (In millions)
2013	$ 12.2
2014	8.5
2015	5.5
2016	3.5
2017	2.6
2018 and thereafter	23.6
Total	$ 55.9

Approximately $18 million of the $55.9 million aggregate future minimum rental commitments at December 31, 2012 relates to our Leverkusen facility lease discussed above. The minimum commitment amounts for such lease included in the table above for each year through the 2050 expiration of the lease are based upon the current annual rental rate as of December 31, 2012. As discussed above, any change in the rent is based solely on negotiations between Bayer and us, and any such change in the rent is deemed contingent rentals under GAAP which is excluded from the future minimum lease payments disclosed above.

Income taxes We and Valhi have agreed to a policy providing for the allocation of tax liabilities and tax payments as described in Note 1. Under applicable law, we, along with every other member of the Contran Tax Group, are each jointly and severally liable for the aggregate federal income tax liability of Contran and the other companies included in the Contran Tax Group for all periods in which we are included in the Contran Tax Group. Valhi has agreed, however, to indemnify us for any liability for income taxes of the Contran Tax Group in excess of our tax liability computed in accordance with the tax allocation policy.

Note 16 Financial instruments:

The following table summarizes the valuation of our financial instruments recorded on a fair value basis as of December 31, 2011 and 2012:

		Fair Value Measurements		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In millions)		
Asset (liability)				
December 31, 2011				
Currency forward contracts	$ (.8)	$ (.8)	$	$
Current marketable securities (See Note 6)	20.9	20.9		
Noncurrent marketable securities (See Note 6)	98.4	98.4		
December 31, 2012				
Currency forward contracts	**$ 1.8**	**$ 1.8**	**$**	**$**
Noncurrent marketable securities (See Note 6)	**21.6**	**21.6**		

Certain of our sales generated by our non-U.S. operations are denominated in U.S. dollars. We periodically use currency forward contracts to manage a very nominal portion of currency exchange rate risk associated with trade receivables denominated in a currency other than the holder s functional currency or similar exchange rate risk associated with future sales. We have not entered into these contracts for trading or speculative purposes in the past, nor do we currently anticipate entering into such contracts for trading or speculative purposes in the future. Derivatives used to hedge forecasted transactions and specific cash flows associated with financial assets and liabilities denominated in currencies other than the U.S. dollar and which meet the criteria for hedge accounting are designated as cash flow hedges. Consequently, the effective portion of gains and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings. Contracts that do not meet the criteria for hedge accounting are marked-to-market at each balance sheet date with any resulting gain or loss recognized in income currently as part of net currency transactions. The fair value of the currency forward contracts is determined using Level 1 inputs based on the currency spot forward rates quoted by banks or currency dealers.

At December 31, 2012, we had currency forward contracts to exchange an aggregate $20.0 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 6.02 to kroner 6.13 per U.S. dollar. These contracts with DnB Nor Bank ASA mature at a rate of $5.0 million per month in certain months from January 2013 through May 2013. At December 31, 2011, we had currency forward contracts to exchange an aggregate of $48.0 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. $.9969 to Cdn. $1.0283 per U.S. dollar. These contracts with Wells Fargo Bank, National Association matured from January 2012 to December 2012 at a rate of $4.0 million per month, subject to early redemption at our option.

The estimated fair value of such currency forward contracts at December 31, 2012 was a $1.8 million net asset, which is recognized as part of Accounts and Other Receivables in our Consolidated Balance Sheet with a corresponding $1.8 million currency transaction gain in our Consolidated Statement of Operations (2011 $.8 million net liability, recognized as part of Accounts Payable and Accrued Liabilities, with a corresponding $.8 million currency transaction loss in our Consolidated Statement of Operations). We did not use hedge accounting for any of our contracts to the extent we held such contracts during 2010, 2011 and 2012.

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure as of December 31, 2011 and 2012.

	December 31, 2011		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash, cash equivalents and restricted cash	$ 89.8	$ 89.8	**$ 292.9**	**$ 292.9**
Notes payable and long-term debt:				
Fixed rate with market quotes - 6.5% Senior Secured Notes	360.6	362.6		
Variable rate:				
European credit facility			**13.2**	**13.2**
Term loan			**384.5**	**396.8**
Common stockholders equity	924.3	2,090.9	**1,062.1**	**2,260.2**

At December 31, 2011, the estimated market price of the 6.5% Notes was approximately   1,004 per   1,000 principal amount. At December 31, 2012, the estimated market price of our term loan was $1,017.5 per $1,000 principal amount. The fair value of our 6.5% Notes and term loan is based on quoted market prices; however, these quoted market prices represent Level 2 inputs because the markets in which the Notes and term loan trade were not active. The fair value of our European credit facility represents a Level 2 input, and is deemed to approximate book value. The fair value of our common stockholders   equity is based upon quoted market prices at each balance sheet date, which represent Level 1 inputs. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. See Notes 1 and 6.

Note 17   Recent accounting standards:

In June 2011 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option of presenting comprehensive income as a component of the Consolidated Statement of Stockholders   Equity and instead requires comprehensive income to be presented as a component of the Consolidated Statement of Income or in a separate Consolidated Statement of Comprehensive Income immediately following the Consolidated Statement of Income. In accordance with ASU 2011-05, we now present our comprehensive income in a separate Consolidated Statement of Comprehensive Income. Additionally, ASU 2011-05 would have required us to present on the face of our financial statements the effect of reclassifications out of accumulative other comprehensive income on the components of net income and other comprehensive income. However, in December 2011 the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 defers the effective date for the requirement to present on the face of our financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. Adoption of ASU 2011-05, as amended by ASU 2011-12, did not have a material effect on our Consolidated Financial Statements.

In February 2013 the FASB issued ASU 2013-02, *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. ASU 2013-02 does not change current financial reporting requirements, instead an entity is required to cross-reference to other required disclosures that provide additional detail about amounts reclassified out of accumulated other comprehensive income. In addition, ASU 2013-02 requires an entity to present significant amounts reclassified out of accumulated other comprehensive income by line item of net income if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. Adoption of this standard is required for periods beginning after December 15, 2013; however, as permitted by the standard, we have elected to adopt ASU 2013-02 beginning with this report, see Note 13. The adoption of ASU 2013-02 did not have a material effect on our Consolidated Financial Statements.

Note 18 Quarterly results of operations (unaudited):

	Quarter ended			
	March 31	**June 30**	**September 30**	**December 31**
	(In millions, except per share data)			
Year ended December 31, 2011				
Net sales	$ 420.4	$ 537.5	$ 548.0	$ 437.4
Gross margin	146.4	197.0	210.9	194.1
Net income	60.3	89.0	85.9	85.8
Basic and diluted earnings per common share	$ .52	$ .77	$ .74	$ .74
Year ended December 31, 2012				
Net sales	**$ 561.3**	**$ 545.3**	**$ 472.9**	**$ 396.8**
Gross margin	**261.5**	**163.3**	**86.0**	**49.6**
Net income (loss)	**136.9**	**64.5**	**35.2**	**(18.1)**
Basic and diluted earnings (loss) per common share	**$ 1.18**	**$ .56**	**$ .30**	**$ (.16)**

In the second quarter of 2011, we recognized a $3.3 million pre-tax interest charge related to the partial redemption of our Senior Secured Notes. See Note 9.

Our provision for income taxes in the third and fourth quarters of 2011 includes $13.2 million and $4.0 million, respectively, for U.S. incremental income taxes on current earnings repatriated from our German subsidiary, which earnings were used to fund a portion of the repurchases of our Senior Secured Notes discussed in Note 9.

In the second quarter of 2012, we recognized a $7.2 million pre-tax interest charge related to the June redemption of our outstanding Senior Secured Notes. See Note 9.

In the fourth quarter of 2012, we recognized a $3.9 million pre-tax loss on the sale of TIMET stock. See Note 6.

Our provision for income taxes in the third quarter of 2012 includes an incremental tax benefit of $11.1 million as we determined during the third quarter that due to global changes in the business we would not remit certain dividends from non-U.S. jurisdictions. As a result, certain current year tax attributes were available for carryback to offset prior year tax expense. See Note 10.

Our provision for income taxes in the fourth quarter of 2012 includes an incremental tax of $8.0 million. During the fourth quarter as a result of a change in circumstances related to our sale and the sale by certain of our affiliates of their shares of TIMET common stock, which sale provided an opportunity for us and other members of our consolidated U.S. federal income tax group to elect to claim foreign tax credits, we determined that we could tax-efficiently remit non-cash dividends from our non-U.S. jurisdictions before the end of the year that absent the TIMET sale would not have been considered. Such incremental income tax recognized in the fourth quarter is the incremental income tax on the non-cash dividends remitted in the fourth quarter. Our provision for income taxes in the fourth quarter of 2012 also includes a $2.8 million expense related to a net increase in our reserve for uncertain tax positions. See Note 10. In addition, an aggregate $3.5 million of such fourth quarter 2012 provision for income taxes is a correction of amounts that should have been recognized in the third quarter of 2011 and is not material to any current or prior periods.

The sum of the quarterly per share amounts may not equal the annual per share amounts due to relative changes in the weighted average number of shares used in the per share computations.