

VALHI INC /DE/
Form 10-Q
May 10, 2013
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended March 31, 2013

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.)

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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

Indicate by check mark:

Whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of the Registrant's common stock outstanding on May 3, 2013: 339,115,449.

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VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2012	March 31, 2013 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 366.9	\$ 179.7
Restricted cash equivalents	8.1	6.6
Accounts and other receivables, net	302.5	411.2
Inventories, net	650.3	544.0
Other current assets	26.0	20.2
Deferred income taxes	9.6	9.6
Total current assets	1,363.4	1,171.3
Other assets:		
Marketable securities	256.8	256.7
Investment in affiliates	126.1	116.0
Goodwill	379.7	379.7
Deferred income taxes	120.3	168.7
Other noncurrent assets	161.1	165.1
Total other assets	1,044.0	1,086.2
Property and equipment:		
Land	48.3	47.3
Buildings	280.5	271.1
Equipment	1,127.7	1,096.7
Treatment, storage and disposal facility	158.7	158.9
Mining properties	72.3	60.8
Construction in progress	40.7	44.3
	1,728.2	1,679.1
Less accumulated depreciation	965.1	939.8
Net property and equipment	763.1	739.3
Total assets	\$ 3,170.5	\$ 2,996.8

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VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2012	March 31, 2013 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 29.6	\$ 29.6
Accounts payable and accrued liabilities	334.6	340.2
Income taxes	23.1	31.5
Deferred income taxes	11.2	10.8
Total current liabilities	398.5	412.1
Noncurrent liabilities:		
Long-term debt	880.5	770.6
Deferred income taxes	454.8	472.4
Accrued pension costs	202.9	194.6
Accrued environmental remediation and related costs	42.6	43.6
Accrued postretirement benefits costs	21.2	20.8
Other liabilities	78.3	80.1
Total noncurrent liabilities	1,680.3	1,582.1
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	3.6	3.6
Additional paid-in capital	78.9	78.9
Retained earnings	75.4	18.6
Accumulated other comprehensive loss	(42.0)	(61.9)
Treasury stock	(49.6)	(49.6)
Total Valhi stockholders' equity	733.6	656.9
Noncontrolling interest in subsidiaries	358.1	345.7
Total equity	1,091.7	1,002.6
Total liabilities and equity	\$ 3,170.5	\$ 2,996.8

Commitments and contingencies (Notes 13 and 16)

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three months ended March 31, 2012 2013 (unaudited)	
Revenues and other income:		
Net sales	\$ 582.8	\$ 499.2
Other income, net	9.6	8.8
Total revenues and other income	592.4	508.0
Costs and expenses:		
Cost of sales	322.4	486.3
Selling, general and administrative	78.7	69.7
Loss on prepayment of debt		6.6
Interest	13.5	15.4
Total costs and expenses	414.6	578.0
Income (loss) from continuing operations before income taxes	177.8	(70.0)
Income tax expense (benefit)	59.0	(21.8)
Income (loss) from continuing operations	118.8	(48.2)
Income from discontinued operations, net of tax	.7	
Net income (loss)	119.5	(48.2)
Noncontrolling interest in net income (loss) of subsidiaries	30.6	(8.4)
Net income (loss) attributable to Valhi stockholders	\$ 88.9	\$ (39.8)

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**VALHI, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)****(In millions, except per share data)**

	Three months ended March 31,	
	2012	2013
Amounts attributable to Valhi stockholders:		
Income (loss) from continuing operations	\$ 88.4	\$ (39.8)
Income from discontinued operations	.5	
Net income (loss) attributable to Valhi stockholders	\$ 88.9	\$ (39.8)
Basic and diluted net income (loss) per share:		
Income (loss) from continuing operations	\$.26	\$ (.12)
Income from discontinued operations		
Net income (loss) per share	\$.26	\$ (.12)
Cash dividends per share	\$.042	\$.05
Basic and diluted weighted average shares outstanding	342.0	342.0
See accompanying Notes to Condensed Consolidated Financial Statements.		

Table of Contents**VALHI, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In millions)**

	Three months ended March 31, 2012 2013 (unaudited)	
Net income (loss)	\$ 119.5	\$ (48.2)
Other comprehensive income (loss), net of tax:		
Currency translation	18.3	(28.1)
Marketable securities	(11.1)	6.4
Defined benefit pension plans	2.0	2.7
Other postretirement benefit plans	(.3)	(.2)
Total other comprehensive income (loss), net	8.9	(19.2)
Comprehensive income (loss)	128.4	(67.4)
Comprehensive income (loss) attributable to noncontrolling interest	29.4	(7.7)
Comprehensive income (loss) attributable to Valhi stockholders	\$ 99.0	\$ (59.7)

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**VALHI, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)**

	Three months ended	
	March 31,	
	2012	2013
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 119.5	\$ (48.2)
Depreciation and amortization	15.7	18.6
Loss on prepayment of debt		6.6
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension expense	.1	1.3
Other postretirement benefit expense	(.5)	(.4)
Deferred income taxes	25.2	(34.9)
Net distributions from (contributions to) TiO ₂ manufacturing joint venture, net	(18.8)	9.8
Other, net		2.8
Change in assets and liabilities:		
Accounts and other receivables, net	(163.4)	(89.4)
Inventories, net	(126.1)	92.4
Accounts payable and accrued liabilities	(8.0)	29.2
Accounts with affiliates	29.0	(45.4)
Income taxes	11.6	16.4
Other, net	1.3	6.9
Net cash used in operating activities	(114.4)	(34.3)
Cash flows from investing activities:		
Capital expenditures	(34.6)	(20.2)
Capitalized permit costs	(.9)	(.2)
Purchases of marketable securities	(.5)	(3.8)
Proceeds from:		
Disposal of mutual funds	21.1	
Disposal of other marketable securities	2.8	4.0
Disposal of assets held for sale		1.6
Collection of note receivable		1.8
Change in restricted cash equivalents, net	(2.3)	.8
Other, net	2.1	(.3)
Net cash used in investing activities	(12.3)	(16.3)

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Three months ended March 31, 2012 2013 (unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	\$ 108.5	\$ 214.8
Principal payments	(2.1)	(327.9)
Valhi cash dividends paid	(14.1)	(17.0)
Distributions to noncontrolling interest in subsidiaries	(4.7)	(4.7)
Other, net		.2
Net cash provided by (used in) financing activities	87.6	(134.6)
Cash and cash equivalents net change from:		
Operating, investing and financing activities	(39.1)	(185.2)
Effect of exchange rate on cash	.4	(2.0)
Cash and cash equivalents at beginning of period	96.4	366.9
Cash and cash equivalents at end of period	\$ 57.7	\$ 179.7
Supplemental disclosures:		
Cash paid (received) for:		
Interest, net of capitalized interest (including call premium paid)	\$ 7.4	\$ 14.9
Income taxes, net	23.9	(1.6)
Noncash investing activities:		
Accrual for capital expenditures	6.1	4.4
Accrual for capitalized permit costs	3.5	.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Three months ended March 31, 2013

(In millions)

	Valhi Stockholders Equity							
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Non- controlling interest	Total equity
Balance at December 31, 2012	\$ 667.3	\$ 3.6	\$ 78.9	\$ 75.4	\$ (42.0)	\$ (49.6)	\$ 358.1	\$ 1,091.7
Net loss				(39.8)			(8.4)	(48.2)
Other comprehensive income (loss), net					(19.9)		.7	(19.2)
Cash dividends				(17.0)			(4.7)	(21.7)
Balance at March 31, 2013	\$ 667.3	\$ 3.6	\$ 78.9	\$ 18.6	\$ (61.9)	\$ (49.6)	\$ 345.7	\$ 1,002.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2013

(unaudited)

Note 1 Organization and basis of presentation:

Organization We are majority owned by Contran Corporation and one of its subsidiaries, which own approximately 93% of our outstanding common stock at March 31, 2013. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran and us.

Basis of Presentation Consolidated in this Quarterly Report are the results of our majority-owned and wholly-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc., Tremont LLC and Waste Control Specialists LLC (WCS). Kronos (NYSE: KRO), NL (NYSE: NL), and CompX (NYSE MKT: CIX) each file periodic reports with the Securities and Exchange Commission (SEC).

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2012 that we filed with the SEC on March 15, 2013 (the 2012 Annual Report). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2012 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2012) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our results of operations for the interim period ended March 31, 2013 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2012 Consolidated Financial Statements contained in our 2012 Annual Report.

In May 2012, we implemented a 3-for-1 split of our common stock. We have adjusted all share and per-share disclosures for the first quarter 2012 period to give effect to the stock split.

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

Table of Contents**Note 2 Business segment information:**

Business segment	Entity	% controlled at March 31, 2013
Chemicals	Kronos	80%
Component products	CompX	87%
Waste management	WCS	100%

Our control of Kronos includes 50% we hold directly and 30% held directly by NL. We own 83% of NL. Our control of CompX is through NL. At March 31, 2013 we had an aggregate of 12.0 million shares of our Kronos common stock pledged as collateral for certain debt obligations of Contran. We receive a fee from Contran for pledging these Kronos shares, determined by a formula based on the market value of the shares pledged.

	Three months ended March 31, 2012 2013 (In millions)	
Net sales:		
Chemicals	\$ 561.3	\$ 463.6
Component products	20.4	21.5
Waste management	1.1	14.1
Total net sales	\$ 582.8	\$ 499.2
Cost of sales:		
Chemicals	\$ 300.4	\$ 460.3
Component products	14.4	15.5
Waste management	7.6	10.5
Total cost of sales	\$ 322.4	\$ 486.3
Gross margin:		
Chemicals	\$ 260.9	\$ 3.3
Component products	6.0	6.0
Waste management	(6.5)	3.6
Total gross margin	\$ 260.4	\$ 12.9
Operating income (loss):		
Chemicals	\$ 211.3	\$ (45.1)
Component products	1.6	1.5
Waste management	(9.6)	(1.6)
Total operating income (loss)	203.3	(45.2)
Equity in earnings of investee	.1	(.3)
General corporate items:		
Securities earnings	7.1	6.6
Insurance recoveries	1.1	.6
Loss on prepayment of debt		(6.6)
General expenses, net	(20.3)	(9.7)
Interest expense	(13.5)	(15.4)

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Income(loss) from continuing operations before income taxes	\$ 177.8	\$ (70.0)
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Segment results we report may differ from amounts separately reported by our various subsidiaries and affiliates due to purchase accounting adjustments and related amortization or differences in the way we define operating income. Intersegment sales are not material.

Note 3 Discontinued operations:

On December 28, 2012, CompX completed the sale of its furniture components operations to a competitor of that business. Please refer to Note 3 to our 2012 Annual Report for a complete description of the transaction.

Selected financial data for the operations of the disposed furniture components business is presented below:

	Three months ended March 31, 2012 (In millions)
Income statement:	
Net sales	\$ 15.1
Operating income	\$ 1.3
Income from discontinued operations:	
Income before taxes	\$ 1.3
Income tax expense	.6
Income from discontinued operations, net of tax	.7
Noncontrolling interest in income from discontinued operations	.2
Total discontinued operations, net of tax and noncontrolling interest	\$.5

In accordance with generally accepted accounting principles, the assets and liabilities relating to the furniture components reporting unit were eliminated from the 2012 Consolidated Balance Sheet at the date of sale. We have reclassified our March 31, 2012 Consolidated Statement of Operations to reflect the disposed operations as discontinued operations. We have not reclassified our March 31, 2012 Consolidated Statement of Cash Flows to reflect discontinued operations.

In conjunction with the sale of CompX's furniture components reporting unit, the buyer was not interested in retaining certain undeveloped land located in Taiwan owned by CompX's Taiwanese Furniture Component subsidiary. We had no additional use for the undeveloped land in Taiwan and therefore expected the land to be sold to a third party with CompX receiving the net proceeds. Based on the legal form of how we completed the disposal transaction, our interest in such land was represented by a \$3.0 million promissory note receivable at December 31, 2012, issued to CompX by its former Taiwanese subsidiary which retained legal ownership in the land to facilitate the future sale of the land to a third party. The proceeds from a future sale of the land were required to be used to settle the note receivable. During the first quarter of 2013, an agreement was entered into with a third party to sell the land for \$3.0 million, \$1.8 million of which was received during the first quarter with the remaining \$1.2 million received in April 2013. Such note receivable is classified as part of other current assets in our Consolidated Balance Sheet at December 31, 2012 and March 31, 2013.

Table of Contents**Note 4 Marketable securities:**

	Market value	Cost basis (In millions)	Unrealized gains, net
December 31, 2012:			
Current assets:	\$.9	\$.9	\$
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$ 250.0	\$ 250.0	\$
Other	6.8	6.7	.1
Total	\$ 256.8	\$ 256.7	\$.1
March 31, 2013:			
Current assets	\$.9	\$.9	\$
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$ 250.0	\$ 250.0	\$
Other	6.7	6.6	.1
Total	\$ 256.7	\$ 256.6	\$.1

All of our marketable securities are accounted for as available-for-sale, which are carried at fair value, with any unrealized gains or losses recognized through accumulated other comprehensive income. Our marketable securities are carried at fair value using quoted market prices, primarily Level 1 inputs as defined by Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, except for our investment in The Amalgamated Sugar Company LLC (Amalgamated). Our current marketable securities are included with other current assets on our Condensed Consolidated Balance Sheets. Our investment in Amalgamated is measured using significant unobservable inputs, which are Level 3 inputs. Please refer to Note 4 in our 2012 Annual Report for a complete description of the valuation methodology for our investment in Amalgamated. There have been no changes to the carrying value of this investment during the periods presented. See Note 17.

Note 5 Accounts and other receivables, net:

	December 31, 2012	March 31, 2013
	(In millions)	
Trade accounts receivable:		
Kronos	\$ 229.7	\$ 303.9
CompX	8.7	9.7
WCS	4.8	8.4
VAT and other receivables	42.2	43.1
Refundable income taxes	18.3	10.9
Receivable from affiliates:		
LPC		35.4
Contran income taxes, net	.3	1.2
Allowance for doubtful accounts	(1.5)	(1.4)
Total	\$ 302.5	\$ 411.2

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	December 31, 2012	March 31, 2013
	(In millions)	
Raw materials:		
Chemicals	\$ 151.5	\$ 90.5
Component products	3.3	3.7
Total raw materials	154.8	94.2
Work in process:		
Chemicals	27.3	27.6
Component products	5.9	6.1
Total in-process products	33.2	33.7
Finished products:		
Chemicals	395.6	348.4
Component products	2.1	2.2
Total finished products	397.7	350.6
Supplies (chemicals)	64.6	65.5
Total	\$ 650.3	\$ 544.0

Note 7 Other noncurrent assets:

	December 31, 2012	March 31, 2013
	(In millions)	
Investment in affiliates:		
TiO ₂ manufacturing joint venture, Louisiana Pigment Company, L.P. (LPC)	\$ 109.9	\$ 100.1
Other	16.2	15.9
Total	\$ 126.1	\$ 116.0
Other assets:		
Waste disposal site operating permits, net	\$ 65.7	\$ 64.3
Restricted cash	20.9	21.3
Deferred financing costs	7.0	3.9
IBNR receivables	6.7	6.8
Capital lease deposit	6.2	6.2
Pension asset	5.1	4.7
Assets held for sale	2.6	1.0
Other	46.9	56.9
Total	\$ 161.1	\$ 165.1

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In the fourth quarter of 2012, CompX entered into an agreement to sell one of its facilities classified as an asset held for sale. The transaction closed during the first quarter of 2013. The net proceeds from the sale of \$1.6 million approximated the carrying value of the assets as of the date of the sale.

Note 8 Accounts payable and accrued liabilities:

	December 31, 2012	March 31, 2013
	(In millions)	
Accounts payable	\$ 169.6	\$ 186.9
Payable to affiliates:		
Contran income taxes, net	2.6	
Contran trade items	26.8	26.3
LPC	23.4	16.1
Employee benefits	38.5	34.3
Accrued sales discounts and rebates	14.9	11.8
Environmental remediation and related costs	7.6	6.9
Deferred income	5.4	5.7
Reserve for uncertain tax positions	3.0	3.0
Other	42.8	49.2
 Total	 \$ 334.6	 \$ 340.2

Note 9 Other noncurrent liabilities:

	December 31, 2012	March 31, 2013
	(In millions)	
Reserve for uncertain tax positions	\$ 29.4	\$ 31.2
Asset retirement obligations	23.8	24.2
Insurance claims and expenses	9.7	9.7
Employee benefits	11.3	10.8
Deferred income	1.0	1.0
Other	3.1	3.2
 Total	 \$ 78.3	 \$ 80.1

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	December 31, 2012	March 31, 2013
	(In millions)	
Valhi:		
Snake River Sugar Company	\$ 250.0	\$ 250.0
Contran credit facility	157.6	149.0
 Total Valhi debt	 407.6	 399.0
Subsidiary debt:		
Kronos:		
Note payable to Contran		185.0
Term loan	384.5	98.6
Revolving European credit facility	13.2	12.8
CompX:		
Promissory note payable to Timet Finance Management Company	18.5	18.2
WCS:		
Financing capital lease	69.9	69.6
6% promissory notes	7.2	7.2
Other	9.2	9.8
 Total subsidiary debt	 502.5	 401.2
 Total debt	 910.1	 800.2
Less current maturities	29.6	29.6
 Total long-term debt	 \$ 880.5	 \$ 770.6

Valhi Contran credit facility During the first three months of 2013, we had net repayments of \$8.6 million under our Contran credit facility. The average interest rate on the existing balance as of and for the three months ended March 31, 2013 was 4.25%. At March 31, 2013, the equivalent of \$76.0 million was available for borrowing under this facility.

Kronos Term loan In February 2013, Kronos voluntarily prepaid an aggregate \$290 million principal amount of our term loan. We recognized a non-cash pre-tax interest charge of \$6.6 million related to this prepayment consisting of the write-off of the unamortized original issue discount costs and deferred financing costs associated with such prepayment. Funds for such prepayment were provided by \$100 million of Kronos cash on hand as well as borrowings of \$190 million under a new loan from Contran as described below. As a result of this prepayment, the remaining \$100 million principal amount of the term loan is not repayable until final maturity of the term loan in June 2018. The average interest rate on these borrowings as of and for the three months ended March 31, 2013 was 7% and 6.6%, respectively. The carrying amount of the term loan includes unamortized original issue discount of \$1.4 million at March 31, 2013. It is possible Kronos might borrow additional amounts from Contran in the future to voluntarily prepay the remaining \$100 million principal amount outstanding under the term loan.

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Note payable to Contran As discussed above, in February 2013 Kronos entered into a promissory note with Contran that allows it to borrow up to \$290 million. This new loan from Contran contains terms and conditions similar to the terms and conditions of the term loan, except that the loan from Contran is unsecured and contains no financial maintenance covenant. The independent members of Kronos' board of directors approved the terms and conditions of the loan from Contran. The note requires quarterly principal payments of \$5.0 million which commenced in March 2013, with any remaining outstanding principal due by June 2018. Voluntary principal prepayments are permitted at any time without penalty. The note bears interest at LIBOR (with LIBOR no less than 1%) plus 4.125%, or the base rate (as defined in the agreement) plus 5.125%. Kronos is required to use the base rate method until such time as both (1) the term loan discussed above has been fully repaid and (2) the European credit facility has been amended on terms satisfactory to Contran, at which time we would have the option to use either the base rate or LIBOR rate methods. The average interest rate on these borrowings as of and for the period from issuance to March 31, 2013 was 7.375%.

Revolving European credit facility - During the first three months of 2013, Kronos had no borrowings or repayments under our European credit facility. The average interest rate on the existing balance as of and for the three months ended March 31, 2013 was 2.03% and 2.01%, respectively. At March 31, 2013, the equivalent of \$140.5 million was available for borrowing under this facility.

Revolving North American credit facility Kronos had no borrowings or repayments under its North American credit facility for the three months ended March 31, 2013. At March 31, 2013 there were no outstanding borrowings under this revolving facility and approximately \$125 million was available for borrowing.

Canada At March 31, 2013, an aggregate of Cdn. \$7.5 million letters of credit were outstanding under Kronos' Canadian subsidiary's loan agreement with the Bank of Montreal which exists solely for the issuance of up to Cdn. \$10.0 million in letters of credit.

In January 2013, Kronos borrowed Cdn. \$1.8 million (USD \$1.8 million) under its Canadian subsidiary's agreement with an economic development agency of the Province of Quebec, Canada which was recorded net of Cdn. \$.5 million (USD \$.5 million) imputed interest.

CompX The average interest rate on the promissory note payable as of and for the three-month period ended March 31, 2013 was 1.3%.

Restrictions and other Certain of the credit facilities with unrelated, third-party lenders described above require the respective borrowers to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. We are in compliance with all of our debt covenants at March 31, 2013.

Table of Contents**Note 11 Employee benefit plans:**

Defined benefit plans The components of our net periodic defined benefit pension cost are presented in the table below.

	Three months ended March 31,	
	2012	2013
	(In millions)	
Service cost	\$ 2.6	\$ 3.3
Interest cost	6.4	6.1
Expected return on plan assets	(5.5)	(6.1)
Amortization of unrecognized:		
Prior service cost	.4	.4
Net transition obligations	.1	.1
Actuarial losses	2.3	3.4
 Total	 \$ 6.3	 \$ 7.2

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

	Three months ended March 31,	
	2012	2013
	(In millions)	
Service cost	\$.1	\$.1
Interest cost	.2	.2
Amortization of prior service credit	(.5)	(.5)
 Total	 \$ (.2)	 \$ (.2)

Contributions We expect to contribute the equivalent of \$28.5 million and \$1.6 million, respectively, to all of our defined benefit pension plans and other postretirement benefit plans during 2013.

Note 12 Other income, net:

	Three months ended March 31,	
	2012	2013
	(In millions)	
Securities earnings:		
Dividends and interest	\$ 7.1	\$ 6.5
Securities transactions, net		.1
 Total	 7.1	 6.6
Equity in earnings of investee	.1	(.3)
Currency transactions, net	.1	1.7
Insurance recoveries	1.1	.6
Other, net	1.2	.2

Total	\$ 9.6	\$ 8.8
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Insurance recoveries reflect, in part, amounts we received from certain of our former insurance carriers and relate to the recovery of prior lead pigment and asbestos litigation defense costs incurred by NL.

Note 13 Income taxes:

	Three months ended March 31,	
	2012	2013
	(In millions)	
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35%	\$ 62.2	\$ (24.5)
Incremental tax on earnings of non-U.S. companies	4.0	(1.4)
Non-U.S. tax rates	(7.7)	(.4)
Adjustment to the reserve for uncertain tax positions, net	.5	2.0
Nondeductible expenses	.6	2.5
U.S. state income taxes and other, net	(.6)	
Income tax expense (benefit)	\$ 59.0	\$ (21.8)

	Three months ended March 31,	
	2012	2013
	(In millions)	
Comprehensive provision for income taxes (benefit) allocable to:		
Continuing operations	\$ 59.0	\$ (21.8)
Discontinued operations	.6	
Other comprehensive income (loss):		
Marketable securities	(5.6)	3.6
Currency translation		(3.8)
Pension plans	.8	1.2
OPEB plans	(.2)	(.2)
Total	\$ 54.6	\$ (21.0)

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. Because of the inherent uncertainties involved in settlement initiatives and court and tax proceedings, we cannot guarantee that these matters will be resolved in our favor, and therefore our potential exposure, if any, is also uncertain. In 2011 and 2012, Kronos received notices of re-assessment from the Canadian federal and provincial tax authorities related to the years 2002 through 2004. We object to the re-assessments and believe the position is without merit. Accordingly, we are appealing the re-assessments and in connection with such appeal we were required to post letters of credit aggregating Cdn. \$7.5 million (see Note 10). If the full amount of the proposed adjustment were ultimately to be assessed against us, the cash tax liability would be approximately \$15.7 million. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will change by \$4.4 million during the next twelve months related to certain adjustments to our prior year returns and the expiration of certain statutes of limitations.

Table of Contents**Note 14 Noncontrolling interest in subsidiaries:**

	December 31, 2012	March 31, 2013
	(In millions)	
Noncontrolling interest in net assets:		
Kronos	\$ 267.0	\$ 251.2
NL	77.8	81.3
CompX	13.3	13.2
Total	\$ 358.1	\$ 345.7

	Three months ended March 31,	
	2012	2013
	(In millions)	
Noncontrolling interest in net income (loss) of subsidiaries:		
Kronos	\$ 26.8	\$ (8.1)
NL	3.6	(.4)
CompX	.2	.1
Total	\$ 30.6	\$ (8.4)

A portion of the noncontrolling interest in the net income of CompX in 2012 relates to discontinued operations. See Note 3.

Table of Contents**Note 15 Accumulated other comprehensive loss:**

Changes in accumulated other comprehensive loss attributable to Valhi stockholders for the three months ended March 31, 2012 and 2013 are presented in the table below, net of related deferred income taxes.

	Three months ended	
	March 31,	
	2012	2013
	(In millions)	
Accumulated other comprehensive income (loss), net of tax:		
Marketable securities:		
Balance at beginning of year	\$ 6.4	\$ 2.1
Other comprehensive loss unrealized losses during the year	(5.2)	(2)
Balance at end of period	\$ 1.2	\$ 1.9
Currency translation adjustment:		
Balance at beginning of year	\$ 37.5	\$ 53.3
Other comprehensive income (loss)	14.1	(21.5)
Balance at end of period	\$ 51.6	\$ 31.8
Defined benefit pension plans:		
Balance at beginning of year	\$ (72.6)	\$ (101.5)
Other comprehensive income amortization of prior service cost and net losses included in net periodic pension cost	1.5	2.1
Balance at end of period	\$ (71.1)	\$ (99.4)
OPEB plans:		
Balance at beginning of year	\$ 5.4	\$ 4.1
Other comprehensive loss amortization of prior service credit	(.3)	(.3)
Balance at end of period	\$ 5.1	\$ 3.8
Total accumulated other comprehensive loss:		
Balance at beginning of period	\$ (23.3)	\$ (42.0)
Other comprehensive income (loss)	10.1	(19.9)
Balance at end of period	\$ (13.2)	\$ (61.9)

See Note 11 for amounts related to our defined benefit pension plans and OPEB plans.

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Note 16 Commitments and contingencies:

Lead pigment litigation NL

NL's former operations included the manufacture of lead pigments for use in paint and lead-based paint. NL, other former manufacturers of lead pigments for use in paint and lead-based paint, and the Lead Industries Association (which discontinued business operations in 2002), have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, counties, cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share or risk contribution liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. To the extent the plaintiffs seek compensatory or punitive damages in these actions, such damages are generally unspecified. In some cases, the damages are unspecified pursuant to the requirements of applicable state law. A number of cases are inactive or have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of either the defendants or the plaintiffs. In addition, various other cases (in which we are not a defendant) are pending that seek recovery for injury allegedly caused by lead pigment and lead-based paint. Although NL is not a defendant in these cases, the outcome of these cases may have an impact on cases that might be filed against NL in the future.

We believe that these actions are without merit, and we intend to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. We do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

NL has never settled any of the market share, risk contribution, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases;

no final, non-appealable adverse verdicts have ever been entered against NL; and

NL has never ultimately been found liable with respect to any such litigation matters, including over 100 cases over a twenty-year period for which NL was previously a party and for which NL has been dismissed without any finding of liability.

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Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases. In addition, we have determined that liability to us which may result, if any, cannot be reasonably estimated because there is no prior history of a loss of this nature on which an estimate could be made, and there is no substantive information available upon which an estimate could be based.

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. In the future, if new information regarding such matters becomes available to us (such as a final, non-appealable adverse verdict against us or NL otherwise ultimately being found liable with respect to such matters), at that time we would consider such information in evaluating any remaining cases then-pending against us as to whether it might then have become probable we have incurred liability with respect to these matters, and whether such liability, if any, could have become reasonably estimable. The resolution of any of these cases could result in the recognition of a loss contingency accrual that could have a material adverse impact on our net income for the interim or annual period during which such liability is recognized and a material adverse impact on our consolidated financial condition and liquidity.

Environmental matters and related litigation

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

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws and common law. Additionally, in connection with past operating practices, we are currently involved as a defendant, potentially responsible party (PRP) or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act (CERCLA), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities we or our predecessors, or our subsidiaries or their predecessors currently or previously owned, operated or used, certain of which are on the United States Environmental Protection Agency s (EPA) Superfund National Priorities List or

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similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable, and among whom costs may be shared or allocated. In addition, we are also a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

Obligations associated with environmental remediation and related matters are difficult to assess and estimate for numerous reasons including the:

complexity and differing interpretations of governmental regulations,

number of PRPs and their ability or willingness to fund such allocation of costs,

financial capabilities of the PRPs and the allocation of costs among them,

solvency of other PRPs,

multiplicity of possible solutions,

number of years of investigatory, remedial and monitoring activity required,

uncertainty over the extent, if any, to which our former operations might have contributed to the conditions allegedly giving rise to such personal injury, property damage, natural resource and related claims, and

number of years between former operations and notice of claims and lack of information and documents about the former operations.

In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or the 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. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental and related matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation and related matters when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available to us or as circumstances change. Unless the amounts and timing of such estimated future expenditures are fixed and reasonably determinable, 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 costs from other parties, if any, as assets when their receipt is deemed probable. At December 31, 2012 and March 31, 2013, we have not recognized any receivables for recoveries.

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We do not know and cannot estimate the exact time frame over which we will make payments for our accrued environmental and related costs. The timing of payments depends upon a number of factors, including but not limited to 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 and related costs which we expect to pay within the next twelve months, and we classify this estimate as a current liability. We classify the remaining accrued environmental costs as a noncurrent liability.

Changes in the accrued environmental remediation and related costs during the first three months of 2013 are presented in the table below.

	Amount (In millions)
Balance at the beginning of the year	\$ 50.2
Additions charged to expense, net	1.2
Payments, net	(.8)
Changes in currency exchange rates	(.1)
Balance at the end of period	\$ 50.5
Amounts recognized in our Condensed Consolidated Balance Sheet at the end of the period:	
Current liabilities	\$ 6.9
Noncurrent liabilities	43.6
Total	\$ 50.5

NL On a quarterly basis, *NL* evaluates the potential range of its liability for environmental remediation and related costs at sites where it has been named as a PRP or defendant. At March 31, 2013, *NL* had accrued approximately \$48 million related to approximately 50 sites associated with remediation and related matters that it believes are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to *NL* for remediation and related matters for which we believe it is possible to estimate costs is approximately \$139 million, including the amount currently accrued.

NL believes that it is not possible to estimate the range of costs for certain sites. At March 31, 2013, there were approximately 5 sites for which *NL* is not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and *NL* is unable to determine whether or not it actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of *NL*'s control, such as when the party alleging liability provides information to *NL*. At certain of these previously inactive sites, *NL* has received general and special notices of liability from the EPA and/or state agencies alleging that *NL*, sometimes with other PRPs, is liable for past and future costs of remediating environmental contamination allegedly caused by former operations. These notifications may assert that *NL*, along with any other alleged PRPs, is liable for past and/or future clean-up costs. As further information becomes available to *NL* for any of these sites which would allow *NL* to estimate a range of costs, we would at that time adjust our accruals. Any such adjustment could result in the recognition of an accrual that would have a material effect on our consolidated financial statements, results of operations and liquidity.

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Other We have also accrued approximately \$2.1 million at March 31, 2013 for other environmental cleanup matters. This accrual is near the upper end of the range of our estimate of reasonably possible costs for such matters.

Insurance coverage claims

We are involved in certain legal proceedings with a number of our former insurance carriers regarding the nature and extent of the carriers obligations to us under insurance policies with respect to certain lead pigment and asbestos lawsuits. The issue of whether insurance coverage for defense costs or indemnity or both will be found to exist for our lead pigment and asbestos litigation depends upon a variety of factors and we cannot assure you that such insurance coverage will be available.

We have agreements with three former insurance carriers pursuant to which the carriers reimburse us for a portion of our future lead pigment litigation defense costs, and one such carrier reimburses us for a portion of our future asbestos litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. While we continue to seek additional insurance recoveries, we do not know if we will be successful in obtaining reimbursement for either defense costs or indemnity. Accordingly, we recognize insurance recoveries in income only when receipt of the recovery is probable and we are able to reasonably estimate the amount of the recovery.

For additional discussion of certain litigation involving NL and certain of its former insurance carriers, please refer to our 2012 Annual Report.

Other litigation

NL NL has been named as a defendant in various lawsuits in several jurisdictions, alleging personal injuries as a result of occupational exposure primarily to products manufactured by our former operations containing asbestos, silica and/or mixed dust. In addition, some plaintiffs allege exposure to asbestos from working in various facilities previously owned and/or operated by NL. There are 1,125 of these types of cases pending, involving a total of approximately 1,643 plaintiffs. In addition, the claims of approximately 8,298 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio, Indiana and Texas state courts. We do not expect these claims will be re-opened unless the plaintiffs meet the courts' medical criteria for asbestos-related claims. We have not accrued any amounts for this litigation because of the uncertainty of liability and inability to reasonably estimate the liability, if any. To date, we have not been adjudicated liable in any of these matters. Based on information available to us, including:

facts concerning historical operations,

the rate of new claims,

the number of claims from which we have been dismissed and

our prior experience in the defense of these matters.

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We believe that the range of reasonably possible outcomes of these matters will be consistent with our historical costs (which are not material). Furthermore, we do not expect any reasonably possible outcome would involve amounts material to our consolidated financial position, results of operations or liquidity. We have sought and will continue to vigorously seek, dismissal and/or a finding of no liability from each claim. In addition, from time to time, we have received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries, including notices provided to insurers with which we have entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from us.

WCS Previously, the Lone Star Chapter of the Sierra Club has filed various lawsuits in Texas District Court against the Texas Commission on Environmental Quality (TCEQ). These lawsuits challenge WCS by-product and low-level radioactive waste disposal licenses. Subsequently, the District Court upheld the TCEQ's determination that the Sierra Club lacked standing to pursue a challenge to the by-product disposal license, the Sierra Club appealed, and WCS by-product disposal license remains in effect pending resolution of the appeal. In May 2012, the same District Court subsequently held that, contrary to the TCEQ's determination, the Sierra Club had standing to pursue a challenge to the low-level radioactive waste disposal license, and ordered the TCEQ to undertake a contested case hearing in which the Sierra Club could participate. Shortly thereafter, both the TCEQ and WCS appealed the District Court's order in respect to the low-level radioactive waste disposal license, and the District Court's order is suspended, and WCS low-level radioactive waste disposal license remains in effect, pending resolution of this appeal. On the same day that WCS filed its appeal with regards to the District Court's order in respect of its low-level radioactive waste disposal license, the Sierra Club filed another lawsuit in the same Texas District Court, making a challenge to WCS low-level radioactive waste disposal license substantially identical to its prior challenge that was the subject of the District Court's May 2012 ruling. Both the TCEQ and WCS filed a motion to dismiss this latest lawsuit filed by the Sierra Club for lack of jurisdiction, which the District Court denied. TCEQ and WCS took an interlocutory appeal to the denial of their plea to jurisdiction, and Sierra Club has filed a petition for writ of injunction with the same Third Court of Appeals in Austin. WCS believes all of these actions by the Sierra Club are without merit and that the Sierra Club has no proper standing to challenge any of its licenses and permits. WCS intends to continue to defend against any and all such actions vigorously, and to continue to operate its West Texas facilities in accordance with the terms of its licenses and permits.

Other For a discussion of other legal proceedings to which we are a party, please refer to our 2012 Annual Report.

In addition to the litigation described above, we and certain of our affiliates are also involved in various other environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our present and former businesses. In certain cases, we have insurance coverage for these items, although we do not expect any additional material insurance coverage for our environmental claims.

We currently believe that the disposition of all of these various other claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial position, results of operations or liquidity beyond the accruals already provided.

Table of Contents**Note 17 Financial instruments and fair value measurements:**

The following table summarizes the valuation of our marketable securities, financial instruments and other items recorded on a fair value basis as of:

	Total	Fair Value Measurements		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In millions)				
Asset (liability)				
December 31, 2012:				
Marketable securities:				
Current	\$.9	\$	\$.9	\$
Noncurrent	256.8	3.5	3.3	250.0
Currency forward contracts	1.8	1.8		
March 31, 2013:				
Marketable securities:				
Current	\$.9	\$	\$.9	\$
Noncurrent	256.7	3.6	3.1	250.0
Currency forward contracts	(.1)	(.1)		

See Note 4 for information on how we determine fair value of our noncurrent marketable securities.

Certain of Chemicals Segment's sales generated by its non-U.S. operations are denominated in U.S. dollars. Our Chemicals Segment periodically uses 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.

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At March 31, 2013, our Chemicals Segment had currency forward contracts to exchange:

an aggregate of \$33.0 million for an equivalent value of Canadian dollars at an exchange rate of Cdn. \$1.02 per U.S. dollar. These contracts with Wells Fargo Bank, N.A. mature from April 2013 through February 2014 at a rate of \$3.0 million per month, subject to early redemption provisions at our option;

an aggregate \$20.0 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 5.84 to kroner 6.02 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 May 2013 through December 2013; and

an aggregate 18.0 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 7.48 to kroner 7.57 per euro. These contracts with DnB Nor Bank ASA mature at a rate of 2.0 million per month in certain months from April 2013 through December 2013.

The estimated fair value of our currency forward contracts at March 31, 2013 was a \$.1 million loss, of which \$.1 million is recognized as part of accounts and other receivables and \$.2 million is recognized as part of accounts payable and accrued liabilities. There is also a corresponding \$.1 million currency transaction loss recognized in our Condensed Consolidated Statement of Income. Our Chemicals Segment is not currently using hedge accounting for its outstanding currency forward contracts at March 31, 2013, and it did not use hedge accounting for any of such contracts previously held in 2012.

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

	December 31, 2012		March 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
(In millions)				
Cash, cash equivalents and restricted cash equivalents	\$ 395.9	\$ 395.9	\$ 207.5	\$ 207.5
Long-term debt (excluding capitalized leases):				
Kronos note payable to Contran	\$	\$	\$ 185.0	\$ 185.0
Kronos term loan	384.5	396.8	98.6	101.6
Snake River Sugar Company fixed rate loans	250.0	250.0	250.0	250.0
WCS fixed rate debt	77.1	77.1	76.8	76.8
Valhi credit facility with Contran	157.6	157.6	149.0	149.0
Kronos variable rate bank credit facility	13.2	13.2	12.8	12.8
CompX variable rate promissory note	18.5	18.5	18.2	18.2
Noncontrolling interest in:				
Kronos common stock	\$ 267.0	\$ 442.6	\$ 251.2	\$ 355.2
NL common stock	77.8	94.8	81.3	102.9
CompX common stock	13.3	23.4	13.2	20.7
Valhi stockholders' equity	\$ 733.6	\$ 4,238.9	\$ 656.9	\$ 5,442.8

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The fair value of our publicly-traded marketable securities, noncontrolling interest in NL, Kronos and CompX and our common stockholders equity are all based upon quoted market prices, Level 1 inputs at each balance sheet date. At December 31, 2012 and March 31, 2013, the estimated market price of Kronos term loan was \$1,017.5 per \$1,000 principal amount and \$1,016.3 per \$1,000 principal amount, respectively. The fair value of Kronos term loan was based on quoted market prices; however, these quoted market prices represent Level 2 inputs because the markets in which the term loan trade were not active. The fair value of our fixed-rate nonrecourse loans from Snake River Sugar Company is based upon the \$250 million redemption price of our investment in Amalgamated, which collateralizes the nonrecourse loans (this is a Level 3 input). Fair value variable interest debt and other fixed-rate debt are deemed to approximate book value, which represents Level 2 inputs. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. See Notes 5 and 8.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
RESULTS OF OPERATIONS**

Business Overview

We are primarily a holding company. We operate through our wholly-owned and majority-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc., Tremont LLC and Waste Control Specialists LLC (WCS). Kronos (NYSE: KRO), NL (NYSE: NL) and CompX (NYSE MKT: CIX) each file periodic reports with the U.S. Securities and Exchange Commission (SEC).

We have three consolidated operating segments:

Chemicals Our chemicals segment is operated through our majority control of Kronos. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments (TiO_2), TiO_2 is used to impart whiteness, brightness, opacity and durability to a wide variety of products, including paints, plastics, paper, fibers and ceramics. Additionally, TiO_2 is a critical component of everyday applications, such as coatings, plastics and paper, as well as many specialty products such as inks, foods and cosmetics.

Component Products We operate in the component products industry through our majority control of CompX. CompX is a leading manufacturer of engineered components utilized in a variety of applications and industries. CompX manufactures engineered components that are sold to a variety of industries including recreational transportation (including boats), office and institutional furniture, cabinetry, tool storage and healthcare.

Waste Management WCS is our subsidiary which operates a West Texas facility for the processing, treatment, storage and disposal of a broad range of low-level radioactive, hazardous, toxic and other wastes. WCS obtained a byproduct disposal license in 2008 and began disposal operations at this facility in October 2009. WCS received a low-level radioactive waste (LLRW) disposal license in September 2009. The Compact LLRW disposal facility was fully certified and operational in April 2012, and the Federal LLRW site was fully certified and operational in September 2012.

General

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Quarterly Report that are not historical facts are forward-looking in nature and represent management's beliefs and assumptions based on currently available information. In some cases, you can identify forward-looking statements by the use of words such as believes, intends, may, should, could, anticipates, expects or comparable terminology, or by discussions of strategies or plans. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will be correct. Such statements by their nature involve substantial risks and uncertainties that

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could significantly impact expected results. Actual future results could differ materially from those predicted. The factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in our other filings with the SEC include, but are not limited to, the following:

Future supply and demand for our products;

The extent of the dependence of certain of our businesses on certain market sectors;

The cyclical nature of certain of our businesses (such as Kronos TiO₂ Operations);

Customer and producer inventory levels;

Unexpected or earlier-than-expected industry expansion;

Changes in raw material and other operating costs (such as energy, ore and steel costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs;

Changes in the availability of raw materials (such as ore);

General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO₂ and component products);

Competitive products and prices, including increased competition from low-cost manufacturing sources (such as China);

Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts;

Customer and competitor strategies;

Potential consolidation of our competitors;

Potential consolidation of our customers;

The impact of pricing and production decisions;

Competitive technology positions;

The introduction of trade barriers;

The ability of our subsidiaries to pay us dividends;

The impact of current or future government regulations (including employee healthcare benefit related regulations);

Uncertainties associated with new product development and the development of new product features;

Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian krone, and the Canadian dollar) or possible disruptions to our business resulting from potential instability resulting from uncertainties associated with the euro;

Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions);

The timing and amounts of insurance recoveries;

Our ability to renew, amend, refinance or establish credit facilities;

Our ability to maintain sufficient liquidity;

The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters;

Our ultimate ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which have 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 former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products);

The ultimate resolution of pending litigation (such as NL's lead pigment litigation, environmental and other litigation and Kronos' class action litigation);

Our ability to comply with covenants contained in our revolving bank credit facilities;

Our ability to complete and comply with the conditions of our licenses and permits;

Our ability to successfully defend against any currently-pending or possible future challenge to WCS' operating licenses and permits; 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.

Operations Overview

Quarter Ended March 31, 2013 Compared to the Quarter Ended March 31, 2012

Net loss from continuing operations attributable to Valhi stockholders was \$39.8 million, or \$.12 per diluted share, in the first quarter of 2013 compared to net income from continuing operations attributable to Valhi stockholders of \$88.4 million, or \$.26 per diluted share, in the first quarter of 2012. As more fully discussed below, our diluted income per share decreased from 2012 to 2013 primarily due to the net effects of:

an operating loss from our Chemicals Segment in 2013 compared to operating income in 2012;

a loss on the prepayment of debt in the first quarter of 2013;

lower operating losses at our Waste Management segment in 2013 compared to 2012; and

lower general expenses in 2013, primarily due to decreased environmental remediation and related costs.

Our net income attributable to Valhi stockholders in 2013 includes a charge of \$.01 per diluted share related to the voluntary prepayment of \$290 million principal amount of Kronos' term loan.

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In December 2012, our Component Products Segment completed the sale of its furniture components business. See Note 3 to our Condensed Consolidated Financial Statements. Unless otherwise noted, the results of operations in management's discussion and analysis is focused on our continuing operations.

Current Forecast for 2013

We currently expect to report lower net income from continuing operations attributable to Valhi stockholders in 2013 as compared to the same period in 2012 primarily due to the net effects of:

lower expected operating income from our Chemicals and Component Products Segments; partially offset by

lower expected operating losses at WCS as we expect more revenue from the opening of our Compact LLRW disposal facility in April 2012 and the anticipated receipt of waste at the Federal LLRW disposal facility in the summer of 2013.

Segment Operating Results 2012 Compared to 2013

Chemicals

We consider TiO₂ to be a quality of life product, with demand affected by gross domestic product, or GDP, and overall economic conditions in our markets located in various regions of the world. Over the long-term, we expect 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 that our customers' inventory levels are influenced in part by their expectations for future changes in market TiO₂ selling prices as well as their expectations for future availability of product. Although certain of our TiO₂ grades are considered specialty pigments, the majority of our grades and substantially all of our production are considered commodity pigment products, with price and availability being the most significant competitive factors along with quality and customer service.

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

our TiO₂ sales and production volumes,

TiO₂ selling prices,

currency exchange rates (particularly the exchange rate for the U.S. dollar relative to the euro, the Norwegian krone and the Canadian dollar) and

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

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

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	2012	Three months ended March 31, 2013 (Dollars in millions)	% Change
Net sales	\$ 561.3	\$ 463.6	(17)%
Cost of sales	300.4	460.3	53
Gross margin	\$ 260.9	\$ 3.3	(99)%
Operating income (loss)	\$ 211.3	\$ (45.1)	(121)%
Percent of net sales:			
Cost of sales	54%	99%	
Gross margin	46	1	
Operating income	38	(10)	
TiO ₂ operating statistics:			
Sales volumes*	130	132	1%
Production volumes*	140	122	(13)
Percent change in net sales:			
TiO ₂ product pricing			(21)%
TiO ₂ sales volumes			1
TiO ₂ product mix			3
Changes in currency exchange rates			
Total			(17)%

* Thousands of metric tons

Current Industry Conditions The TiO₂ industry has experienced decreased selling prices and production volumes as the majority of TiO₂ producers and consumers have been undertaking inventory correction initiatives in response to continued global economic weakness and uncertainty. While we operated our production facilities at full practical capacity rates in the first quarter of 2012, we operated our facilities at reduced rates during the remainder of 2012 (approximately 86% of practical capacity in the second quarter, approximately 71% in the third quarter and approximately 80% in the fourth quarter) to align production levels and inventories to current and anticipated near-term customer demand levels. We continued to operate our production facilities at reduced capacity rates in the first quarter of 2013 (approximately 92% of practical capacity).

Our average selling prices declined during the second half of 2012, and continued to decline during the first quarter of 2013. Our average selling prices at the end of the first quarter of 2013 were 7% lower than at the end of 2012, and were 22% lower than at the end of the first quarter of 2012.

We experienced significantly higher costs for our raw materials such as third party feedstock ore and petroleum coke in 2012. As one of the few vertically-integrated producers of sulfate process TiO₂, we operate two ilmenite mines in Norway which provide all of the feedstock for our European sulfate process facilities. Overall, the cost per metric ton of TiO₂ we produced during 2012 was approximately 50% higher as compared to 2011,

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primarily due to the higher feedstock ore costs procured from third parties and unabsorbed fixed production costs resulting from reduced production volumes. However, as a substantial portion of the TiO₂ products we sold in the first quarter of 2012 were produced with lower-cost feedstock ore purchased in 2011, our cost of sales per metric ton in the first quarter of 2012 was significantly lower as compared to the cost per metric ton for products we sold in the second, third and fourth quarters of 2012. We experienced some moderation in the cost of TiO₂ feedstock ore procured from third parties in 2013, however our cost of sales per metric ton of TiO₂ sold in the first quarter of 2013 was significantly higher than what we expect our cost of sales per metric ton of TiO₂ to be in the remainder of 2013, as a substantial portion of the TiO₂ products we sold in the first quarter of 2013 was produced with the higher-cost feedstock ore procured in 2012.

Net Sales Our Chemicals Segment's net sales in the first quarter of 2013 decreased 17% compared to the first quarter of 2012 primarily due to the effects of a 21% decrease in sales prices (which decreased net sales by approximately \$118 million). TiO₂ selling prices will increase or decrease generally as a result of competitive market pressures, changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs.

Our sales volumes increased 1% in the first quarter of 2013 as compared to the first quarter of 2012 due to increased customer demand in export markets offset in part by slightly lower demand in North American and European markets. Our sales volumes in the first quarter of 2013 set a new record for a first quarter. We estimate that changes in currency exchange rates increased net sales by approximately \$1 million as compared to the first quarter of 2012.

Cost of Sales Our Chemicals Segment's cost of sales increased 53% in the first quarter of 2013 compared to 2012 primarily due to the net impact of higher raw material costs of approximately \$110 million (primarily feedstock ore and petroleum coke) and a 13% decrease in TiO₂ production volumes. Our cost of sales per metric ton of TiO₂ sold in the first quarter of 2013 was significantly higher than TiO₂ sold in the first quarter of 2012, as a substantial portion of the TiO₂ products we sold in the first quarter of 2012 was produced with lower-cost feedstock ore purchased in 2011, while a substantial portion of the TiO₂ products we sold in 2013 was produced with higher-cost feedstock ore purchased in 2012. Overall and as discussed above, the cost per metric ton of TiO₂ we produced during 2012 was approximately 50% higher as compared to 2011, primarily due to the higher feedstock ore costs and unabsorbed fixed production costs resulting from reduced production volumes. Cost of sales as a percentage of net sales increased to 99% in the first quarter of 2013 compared to 54% in the same period of 2012 primarily due to the effects of higher raw materials costs as discussed above.

Gross Margin and Operating Income (Loss) Our Chemicals Segment's results decreased from operating income of \$211.3 million in the first quarter of 2012 to an operating loss of \$45.1 million in the first quarter of 2013 and operating income as a percentage of net sales decreased to (10)% in the first quarter of 2013 from 38% in the same period of 2012. This decrease was driven by the decline in gross margin, which decreased to 1% for the first quarter of 2013 compared to 46% for the first quarter of 2012. As discussed and quantified above, our gross margin decreased primarily due to the effects of lower selling prices and higher manufacturing costs (primarily raw materials). Additionally, changes in currency exchange rates have negatively affected our gross margin and operating income. We estimate that changes in currency exchange rates decreased operating income by approximately \$6 million in the first quarter of 2013 as compared to the same period in 2012.

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Our Chemicals Segment's operating income is net of amortization of purchase accounting adjustments made in conjunction with our acquisitions of interests in NL and Kronos. As a result, we recognize additional depreciation expense above the amounts Kronos reports separately, substantially all of which is included within cost of sales. We recognized additional depreciation expense of \$.7 million in each of the first three months of 2012 and 2013 which reduced our reported Chemicals Segment operating income as compared to amounts reported by Kronos.

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

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

Impact of changes in currency exchange rates**Three months ended March 31, 2013 vs. March 31, 2012**

	Transaction gains recognized			Translation gain (loss)	Total currency impact
	2012	2013	Change	impact of rate changes	2013 vs. 2012
(In millions)					
Impact on:					
Net sales	\$	\$	\$	\$ 1	\$ 1
Operating income		2	2	(8)	(6)

Outlook During the first quarter of 2013 we operated our Chemicals Segment's production facilities at 92% of practical capacity, which was a higher utilization rate as compared to our utilization rates during the last three quarters of 2012. If economic conditions improve in the various regions of the world in the remainder of 2013, we expect demand for our TiO₂ products would increase and our sales volumes would be expected to be higher in 2013 as compared to 2012. During 2013, we will continue to monitor current and anticipated near-term customer demand levels and align our production and inventories accordingly.

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We experienced some moderation in the cost of TiO₂ feedstock ore procured in 2013, however our cost of sales per metric ton of TiO₂ sold in the first quarter of 2013 was significantly higher than what we expect our cost of sales per metric ton of TiO₂ to be in the remainder of 2013, as a substantial portion of the TiO₂ products we sold in the first quarter of 2013 was produced with the higher-cost feedstock ore procured in 2012. Although the cost of feedstock ore has moderated recently, such reductions have been inadequate to compensate for the decline in selling prices for our products. We started 2013 with selling prices 16% lower than as compared to the start of 2012, and prices declined by an additional 7% in the first quarter of 2013. Our Chemicals Segment expects to implement increases in its selling prices during 2013 in order to adequately compensate for our raw material production costs, and in this regard, in February 2013 our Chemicals Segment announced certain price increases for all of its markets, implementation of which would begin in the second quarter of 2013. Industry data indicates that overall TiO₂ inventory held by producers has been significantly decreased. In addition, we believe most customers hold very low inventories of TiO₂ with many operating on a just-in-time basis. Shortages of certain TiO₂ grades have recently occurred, and lead times for delivery are increasing. We also believe TiO₂ prices have generally stabilized, and price increases have been realized in some accounts. The extent to which we will be able to achieve these and other possible additional price increases during 2013 will depend on market conditions.

Overall, we expect that our Chemicals Segment's operating income in 2013 will be significantly lower as compared to 2012. The first quarter of 2012 operating income was positively affected by the sale of TiO₂ produced with lower-cost feedstock ore purchased in 2011, as compared to our first quarter 2013 operating loss which was negatively impacted by the sale of TiO₂ produced with higher-cost feedstock ore purchased in 2012. This negative fluctuation in operating income between the first quarter of 2012 and the first quarter of 2013 would more than offset any favorable effect of higher sales and production volumes that would result assuming demand levels continue to improve, as well as the favorable impact of increases in our selling prices that we may be able to achieve during the remainder of 2013.

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

Component Products

Our Component Products Segment's product offerings consist of a significantly large number of products that have a wide variation in selling price and manufacturing cost, which results in certain practical limitations on our ability to quantify the impact of changes in individual product sales quantities and selling prices on our net sales, cost of goods sold and gross margin. In addition, small variations in period-to-period net sales, cost of goods sold and gross margin can result from changes in the relative mix of our products sold. The key performance indicator for our Component Products Segment is operating income margins.

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	2012	Three months ended	
		March 31, 2013	% Change
		(Dollars in millions)	
Net sales	\$ 20.4	\$ 21.5	5%
Cost of sales	14.4	15.5	7
Gross margin	\$ 6.0	\$ 6.0	%
Operating income	\$ 1.6	\$ 1.5	(8)%
Percent of net sales:			
Cost of sales	71%	72%	
Gross margin	29	28	
Operating income	8	7	

Net Sales Our Component Products Segment's net sales increased \$1.1 million in the first quarter of 2013 compared to the same period of 2012 principally due to higher postal market demand within security products and an increase in marine components sales outside of the high performance boat market through gains in market share. Relative changes in selling prices did not have a material impact on net sales comparisons.

Cost of Sales Our Component Products Segment's cost of sales percentage increased by 1% in the first quarter of 2013 compared to the same period in 2012. As a result, gross profit and related margin decreased over the same period. The decrease in gross profit is primarily due to higher self-insured medical expenses of \$315,000 in 2013, \$260,000 of which impacted cost of goods sold.

Gross Margin and Operating Income Gross margin and operating income decreased by 1% in the first quarter of 2013 compared to 2012 primarily due to the factors impacting cost of sales above. As a percentage of net sales, operating costs and expenses for the first quarter of 2013 are comparable to the same period in 2012.

Outlook Consistent with the current state of the North American economy, overall demand from our Component Products' customers continues to be subject to instability. While we experienced a total increase in sales in the first quarter of 2013, this was the net result of sales growth in certain markets and flat or slightly down sales in other markets. As a result, it is uncertain to the extent that total sales will continue to grow for the remainder of 2013. While changes in market demand are not within our control, we are focused on the areas we can impact. Staffing levels are continuously evaluated in relation to sales order rates which may result in headcount adjustments, to the extent possible, to match staffing levels with demand. We expect our continuous lean manufacturing and cost improvement initiatives to positively impact our productivity and result in a more efficient infrastructure. Additionally, we continue to seek opportunities to gain market share in markets we currently serve, to expand into new markets and to develop new product features in order to broaden our sales base and mitigate the impact of changes in demand.

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Volatility in the costs of commodity raw materials is ongoing. Our primary commodity raw materials are zinc, brass and stainless steel, which together represent approximately 10% of our total cost of sales. We generally seek to mitigate the impact of fluctuations in commodity raw material costs on our margins through improvements in production efficiencies or other operating cost reductions. In the event we are unable to offset commodity raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or surcharges due to the competitive nature of the markets served by our products. Consequently, overall operating margins may be negatively affected by commodity raw material cost pressures.

Waste Management

	Three months ended	
	March 31,	
	2012	2013
	(In millions)	
Net sales	\$ 1.1	\$ 14.1
Cost of sales	7.6	10.5
Gross margin	\$ (6.5)	\$ 3.6
Operating loss	\$ (9.6)	\$ (1.6)

General We have operated our Waste Management Segment's waste management facility on a relatively limited basis while we navigated the regulatory licensing requirements to receive permits for the disposal of byproduct waste material and a broad range of LLRW and mixed LLRW. In May 2008, the TCEQ issued us a license for the disposal of byproduct material. Byproduct material includes uranium or thorium mill tailings as well as equipment, pipe and other materials used to handle and process the mill tailings. We began construction of the byproduct facility infrastructure at our site in Andrews County, Texas in the first quarter of 2008, and this facility began disposal operations in October 2009. In January 2009, the TCEQ issued a near-surface LLRW disposal license to us. This license was signed in September 2009. Construction of the Compact and Federal LLRW sites began in January 2011. The Compact LLRW site was fully certified and operational in April 2012, and the Federal LLRW site was fully certified and operational in September 2012.

Net Sales and Operating Loss The Waste Management Segment's sales increased significantly in the first quarter of 2013 compared to 2012, as we continued to accept shipments for disposal at our recently-completed Compact LLRW disposal facility during the first quarter. We recognized a positive gross margin in the first quarter of 2013 as compared to a negative gross margin in 2012 as a result of increased sales. Our Waste Management operating loss was lower in the first quarter of 2013 compared to 2012 due to our increased sales; however we still recognized an operating loss in the first quarter of 2013 because we have not yet achieved sufficient revenues to offset the high cost structure associated with operating under our byproduct and LLRW disposal licenses relative to the waste treatment and disposal volume, in part because we had not received LLRW for disposal in the Federal LLRW disposal facility by the end of the first quarter 2013. We continue to seek to increase our Waste Management Segment's sales volumes from waste streams permitted under our current licenses.

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Outlook Having obtained the final regulatory license we need to commence full scale operations, and with the Compact LLRW disposal facility certified for operation in April 2012 and the Federal LLRW disposal facility certified for operation in September 2012, we are poised to provide one-stop shopping for hazardous, toxic and LLRW and radioactive byproduct material. WCS has the broadest range of capabilities of any commercial enterprise in the U.S. for the storage, treatment and permanent disposal of these materials, which we believe gives WCS a significant and valuable competitive advantage in the industry. We are also exploring opportunities to obtain certain types of new business (including disposal and storage of certain other types of waste) that, if obtained, could increase our Waste Management Segment's sales, and decrease our Waste Management Segment's operating loss. Our ability to increase our Waste Management Segment's sales volumes through these waste streams, particularly as it relates to the Compact and Federal LLRW disposal facilities, 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. We have obtained long term disposal contracts with several waste generators and are actively pursuing additional contracts. 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 started to generate revenues sufficient to cover the high fixed costs of operating our disposal facilities. We received a national disposal contract for our Federal LLRW disposal facility in April 2013. The contract is for a period of five years and up to \$300 million, however, no tasks have been awarded under the contract and no amounts have been authorized. Until such time that we begin receiving waste for our Federal facility it may be difficult for us to generate positive operating results. However, WCS was able to generate positive operating cash flow in the first quarter of 2013 even without Federal waste streams.

We believe WCS can become a viable, profitable operation; however, we do not know if we will be successful in improving WCS' 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.

General Corporate Items, Other Items, Interest Expense, Income Taxes and Noncontrolling Interest 2013 Compared to 2012

Interest and Dividend Income A significant portion of our interest and dividend income in both 2013 and 2012 relates to the distributions we received from The Amalgamated Sugar Company LLC. We recognized dividend income from the LLC of \$6.3 million in each of the first quarters of 2012 and 2013.

Insurance Recoveries Insurance recoveries relate to amounts NL received from certain of its former insurance carriers, and relate principally to the recovery of prior lead pigment and asbestos litigation defense costs incurred by NL. NL has agreements with certain former insurance carriers pursuant to which the carriers reimburse NL for a portion of its future lead pigment litigation defense costs, and one such carrier reimburses NL for a portion of its future asbestos litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by NL because of certain issues that arise regarding which defense costs qualify for reimbursement.

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Corporate Expenses and Other Items, Net Corporate expenses were 53% lower at \$9.7 million in the first quarter of 2013 compared to \$20.3 million in the same period in 2012, primarily due to lower environmental remediation and related costs recognized in the first quarter of 2013. Included in corporate expense are:

litigation and related costs at NL of \$2.0 million in the first quarter of 2013 compared to \$1.9 million in first quarter of 2012, and

environmental remediation and related costs of \$1.2 million in the first quarter of 2013 compared to \$12.8 million in first quarter of 2012.

The level of our litigation and related costs varies from period to period depending upon, among other things, the number of cases in which we are currently involved, the nature of such cases and the current stage of such cases (e.g. discovery, pre-trial motions, trial or appeal, if applicable). See Note 16 to our Condensed Consolidated Financial Statements.

Obligations associated with environmental remediation and related matters are difficult to assess and estimate, and it is possible that actual costs will exceed accrued amounts or that costs will be incurred in the future for sites in which we cannot currently estimate our liability. If these events were to occur in the remainder of 2013, our corporate expenses would be higher than we currently estimate. In addition, we adjust our accruals for environmental remediation and related matters as further information becomes available to us or as circumstances change. Further information or changed circumstances could result in an increase or reduction in our accrued costs. See Note 16 to our Condensed Consolidated Financial Statements.

Overall, we currently expect that our net general corporate expenses in 2013 will be lower than 2012, as higher expected litigation and related costs would be more than offset by lower environmental remediation and related costs. If our current expectations regarding the number of cases or sites in which we expect to be involved during 2013, or if the nature of such cases or sites were to change, our corporate expenses could be higher than we currently estimate and involve amounts that are material.

Loss on Prepayment of Debt and Interest Expense We recognized an aggregate \$6.6 million pre-tax charge, consisting of the write-off of unamortized original issue discount costs and deferred financing costs, in the first quarter of 2013 related to Kronos' voluntary prepayment of \$290 million of its term loan. See Note 10 to our Condensed Consolidated Financial Statements.

Interest expense increased to \$15.4 million in the first quarter of 2013 from \$13.5 million in the first quarter of 2012 primarily due to the refinancing of a Valhi credit facility. During substantially all of 2012, Valhi had a credit facility with borrowings from Kronos, and interest expense associated with Valhi's borrowings from Kronos was eliminated in consolidation. In December 2012, Valhi repaid the Kronos facility with borrowings under a similar facility from Contran. Interest expense on Valhi's credit facility with Contran was approximately \$1.7 million in the first quarter of 2013.

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Income Tax Expense (Benefit) Our tax rate varies as the contribution of income from our business units change. We had an income tax benefit of \$21.8 million in the first quarter of 2013 compared to income tax provision of \$59.0 million in the first quarter of 2012, primarily due to operating losses during the first quarter of 2013 compared to operating income in the first quarter of 2012.

We have substantial net operating loss carryforwards in Germany (the equivalent of \$744 million and \$100 million for German corporate and trade tax purposes, respectively, at December 31, 2012). At March 31, 2013, we have concluded that no deferred income tax asset valuation allowance is required to be recognized with respect to such carryforwards, principally because (i) such carryforwards have an indefinite carryforward period, (ii) we have utilized a portion of such carryforwards during the most recent three-year period ended December 31, 2012 and (iii) we currently expect to utilize the remainder of such carryforwards over the long term. However, prior to the complete utilization of such carryforwards, particularly if the economic recovery were to be short-lived or we were to generate losses in our German operations for an extended period of time, it is possible that we might conclude the benefit of such carryforwards would no longer meet the more-likely-than-not recognition criteria, at which point we would be required to recognize a valuation allowance against some or all of the then-remaining tax benefit associated with the carryforwards.

See Note 13 to our Condensed Consolidated Financial Statements for more information about our 2013 income tax items and a tabular reconciliation of our statutory tax expense to our actual tax expense.

Noncontrolling Interest in Net Income (Loss) of Subsidiaries Noncontrolling interest in net loss was \$8.4 million in the first quarter of 2013, compared to noncontrolling interest in net income of \$30.6 million in the same period of 2012. The decrease is primarily due to an operating loss of Kronos in the first quarter of 2013 compared to operating income in the first quarter of 2012.

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 earnings.

Cash flows from operating activities improved from \$114.4 million cash used in operations in the first three months of 2012 to \$34.3 million in the first three months of 2013. This \$80.1 million net improvement in the amount of cash from operations was primarily due to the net effects of the following items:

consolidated operating loss in the first quarter of 2013 of \$45.2 million, a \$248.5 million decline compared to operating income of \$203.3 million in the first quarter of 2012;

a \$256.1 million reduction in the amount of net cash used in relative changes in receivables, inventories, payables and accrued liabilities in 2013, primarily due to the relative changes in Kronos inventories and receivables, as discussed below;

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higher net distributions from our TiO₂ manufacturing joint venture in 2013 of \$28.6 million, primarily due to the timing of the joint venture's working capital needs;

lower net cash paid for income taxes in 2013 of \$25.5 million resulting from our decreased profitability; and

higher cash paid for interest in 2013 of \$7.5 million, primarily due to the timing of interest payments on Kronos' term loan in 2013. As shown below, changes in working capital were affected by accounts receivable and inventory changes.

Kronos' average days sales outstanding (DSO) increased from December 31, 2012 to March 31, 2013 due to higher average daily net sales resulting from higher sales volumes partially offset by lower selling prices in the first quarter of 2013.

Kronos' average days sales in inventory (DSI) decreased from December 31, 2012 to March 31, 2013 principally due to lower inventory costs and lower inventory volumes in the first quarter of 2013.

CompX's average DSO was flat from December 31, 2012 to March 31, 2013 and is in line with our expectations.

CompX's average DSI decreased from December 31, 2012 to March 31, 2013 and is in line with our expectations. For comparative purposes, we have also provided comparable prior period numbers below.

	December 31, 2011	March 31, 2012	December 31, 2012	March 31, 2013
Kronos:				
Days sales outstanding	55 days	69 days	61 days	65 days
Days sales in inventory	104 days	110 days	102 days	68 days
CompX:				
Days sales outstanding	40 days	40 days	40 days	40 days
Days sales in inventory	83 days	74 days	74 days	70 days

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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.

	Three months ended March 31,	
	2012	2013
	(In millions)	
Cash provided by (used in) operating activities:		
Valhi exclusive of subsidiaries	\$ 19.1	\$ 26.8
Kronos	(104.7)	(39.4)
NL exclusive of its subsidiaries	2.5	13.0
CompX	(2.9)	(14.6)
WCS	(7.9)	.4
Tremont	.7	
Other	(.1)	(.1)
Eliminations	(21.1)	(20.4)
Total	\$ (114.4)	\$ (34.3)

Investing Activities

We spent \$20.2 million in capital expenditures during the first three months of 2013 including:

\$19.0 million in our Chemicals Segment;

\$.5 million in our Waste Management Segment; and

\$.7 million in our Component Products Segment.

Our Waste Management Segment also had \$.2 million in expenditures for capitalized permit costs.

During the three months of 2013 we sold a net \$.2 million of marketable securities, collected \$1.8 million on a note receivable and had proceeds of \$1.6 million from the disposal of assets held for sale.

Financing Activities

During the three months ended March 31, 2013, we:

Voluntarily prepaid \$290.0 million principal amount Kronos our term loan,

borrowed \$190.0 million under Kronos new note payable with Contran, and subsequently repaid \$5.0 million,

borrowed \$1.8 million from a Canadian economic development agency;

repaid at net \$8.6 million on Valhi's credit facility with Contran; and

paid quarterly dividends to Valhi stockholders aggregating \$.05 per share (\$17.0 million).

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Distributions to noncontrolling interest in subsidiaries in the first three months of 2013 are primarily comprised of CompX dividends paid to shareholders other than NL, NL dividends paid to shareholders other than us and Kronos dividends paid to shareholders other than us and NL.

Outstanding Debt Obligations

At March 31, 2013, our consolidated indebtedness was comprised of:

Valhi's \$250 million loan from Snake River Sugar Company due in 2027;

Valhi's \$149.0 million outstanding on its \$225 million credit facility with Contran which is due no earlier than December 31, 2014;

\$185.0 million under Kronos' note payable to Contran due in June 2018;

\$100.0 million outstanding (\$98.6 million carrying value, net of unamortized original issue discount) under Kronos' term loan due in June 2018;

10 million (\$12.8 million) under our European revolving credit facility which matures in September 2017

CompX's promissory note payable to TIMET (\$18.2 million outstanding) which is due in 2014;

WCS' financing capital lease with Andrews County, Texas (\$69.6 million outstanding) which has an effective interest rate of 7.0% and is due in monthly installments through August 2035;

WCS' two 6.0% promissory notes (\$7.2 million outstanding) due in 2013 through 2014; and

approximately \$9.8 million of other indebtedness, primarily capital lease obligations.

Certain of our credit facilities require the respective borrowers to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. Kronos' term loan requires that a specified financial covenant (leverage to EBITDA, as defined) be maintained at a ratio less than or equal to 3.5 to 1.0, and our European revolving credit facility also requires the maintenance of certain financial ratios. Certain of our credit agreements also contain provisions which could result in the acceleration of indebtedness prior to their stated maturity for reasons other than defaults for failure to comply with typical financial or payment 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. 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. We are in compliance with all of our debt covenants at March 31, 2013. We believe we will be able to continue to comply with the financial covenants contained in all of our credit facilities through the maturity of the respective facilities; however if future operating results differ materially from our expectations we may be unable to maintain compliance. In such an event, we believe we have alternate sources of liquidity, including cash on hand and borrowings under Kronos' North American revolver or additional borrowings from Contran (neither of which contain any financial maintenance covenants) in order to adequately address any compliance issues which might arise. See Note 10 to our Consolidated Financial Statements.

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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 sought, 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. From time to time we and our subsidiaries may enter into intercompany loans as a cash management tool. Such notes are structured as revolving demand notes and pay and receive interest on terms we believe are generally more favorable than current debt and investment market rates. The companies that borrow under these notes have sufficient borrowing capacity to repay the notes at anytime upon demand. All of these notes and related interest expense and income are eliminated in our Condensed Consolidated Financial Statements.

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 March 31, 2013) and our long-term obligations (defined as the five-year period ending March 31, 2018, our time period for long-term budgeting). In this regard, see the discussion above in *Outstanding Debt Obligations*. If actual developments differ from our expectations, our liquidity could be adversely affected.

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At March 31, 2013, we had credit available under existing facilities of approximately \$363 million, which was comprised of:

\$125 million under Kronos North American revolving credit facility;

110 million (\$140.5 million) under Kronos European credit facility; and

\$76⁽¹⁾ million under Valhi's Contran credit facility.

⁽¹⁾ Amounts available under this facility are at the sole discretion of Contran.

We could borrow all of the amounts noted above without violating any covenants of the credit facilities.

At March 31, 2013, we had an aggregate of \$215.1 million of restricted and unrestricted cash, cash equivalents and marketable securities, including \$62.7 million held by our non-U.S. subsidiaries. A detail by entity is presented in the table below.

	Total	Amount held outside U.S.
	(In millions)	
Kronos	\$ 111.4	\$ 62.7
CompX	50.1	
NL exclusive of its subsidiaries	28.9	
WCS	13.7	
Tremont	9.2	
Valhi exclusive of its subsidiaries	1.8	
Total restricted and unrestricted cash, cash equivalents and marketable securities	\$ 215.1	\$ 62.7

Capital Expenditures

We currently expect our aggregate capital expenditures for 2013 will be approximately \$70 million as follows:

\$60 million by our Chemicals Segment, including approximately \$26 million in the area of environmental protection and compliance;

\$4 million by our Component Products Segment; and

\$6 million by our Waste Management Segment.

The WCS amount includes approximately \$1 million in capitalized operating permit costs. Capital spending for 2013 is expected to be funded through cash generated from operations and borrowings from existing credit facilities.

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Planned capital expenditures in 2013 at Kronos and CompX will primarily be to maintain and improve the cost-effectiveness of our facilities. A significant portion of the increase in our Component Products Segment's expected capital expenditures for 2013 relates to the implementation of new manufacturing and accounting systems.

Repurchases of Common Stock

We, Kronos and CompX have programs to repurchase common stock from time to time as market conditions permit. These stock repurchase programs do not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, these programs may be terminated prior to completion. Cash on hand will be used to acquire the shares and repurchased shares will be added to treasury shares and cancelled.

At March 31, 2013 Valhi had approximately 4.0 million shares available to repurchase shares of our common stock under the authorizations made by our board of directors.

In December 2010, Kronos's board of directors authorized the repurchase of up to 2.0 million shares of its common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. To date Kronos has not made any repurchases under the plan and at March 31, 2013 all 2.0 million shares are available for repurchase.

CompX's board of directors authorized the repurchase of its Class A common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. At March 31, 2013 approximately 678,000 shares were available for purchase under these authorizations.

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. If Kronos pays its regular dividend of \$.15 per share in each quarter of 2013, based on the 58.0 million shares we held of Kronos common stock at March 31, 2013, we would receive aggregate annual regular dividends from Kronos of \$34.8 million. NL's current quarterly cash dividend is \$.125 per share. If NL pays its regular quarterly dividends in cash, based on the 40.4 million shares we held of NL common stock at March 31, 2013, we would receive aggregate annual dividends from NL of \$20.2 million. We do not expect to receive any distributions from WCS during 2013. All of our ownership interest in CompX is held through our ownership in NL, as such we do not receive any dividends from CompX. Instead any dividend CompX declares is paid to NL.

Our subsidiaries have various credit agreements with unrelated third-party lenders 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.

In May 2012, we implemented a 3-for-1 split of our common stock. We have adjusted all share and per-share disclosures for the first quarter 2012 period to give effect to the stock split.

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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 decision 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 could 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 long-term value of such assets.

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. It is possible WCS will borrow additional amounts from us during 2013 under the terms of the revolving credit facility. At March 31, 2013, WCS had no balance outstanding and could borrow an additional \$20 million under this facility, which matures in March 2014.

We have an unsecured revolving demand promissory note with NL whereby, as amended, we agreed to loan NL up to \$40 million. We also eliminate any such intercompany borrowings in our Consolidated Financial Statements. At March 31, 2013, NL had no balance outstanding and could borrow an additional \$40 million under this facility, which as amended matures no earlier than March 31, 2014 and no later than December 31, 2014.

We have an unsecured revolving credit facility with Kronos which, as amended, provides for borrowings from Kronos of up to \$100 million. We also eliminate any such intercompany borrowings in our Consolidated Financial Statements. At March 31, 2013 we had no balance outstanding and could borrow an additional \$100 million under this facility, which, as amended is due on demand, but in any event no earlier than December 31, 2014.

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

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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 2013, we expect distributions received from the LLC in 2013 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 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 aggregate 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 our 2012 Annual Report.

Commitments and Contingencies

We are subject to certain commitments and contingencies, as more fully described in Notes 12 and 17 to our 2012 Annual Report, or in Notes 13 and 16 to our Condensed Consolidated Financial Statements and in Part II, Item 1 of this Quarterly Report, 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 such legal proceedings 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 NL 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.

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Recent Accounting Pronouncements

Not applicable.

Critical Accounting Policies

There have been no changes in the first three months of 2013 with respect to our critical accounting policies presented in Management's Discussion and Analysis of Financial Condition and Results of Operation in our 2012 Annual Report.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including currency exchange rates, interest rates and security prices, and raw material prices. There have been no material changes in these market risks since we filed our 2012 Annual Report, and refer you to Part I, Item 7A. Quantitative and Qualitative Disclosure About Market Risk in our 2012 Annual Report. See also Note 17 to our Condensed Consolidated Financial Statements.

We have substantial operations located outside the United States for which the functional currency is not the U.S. dollar. As a result, our assets and liabilities, results of operations and cash flows will fluctuate based upon changes in currency exchange rates.

We periodically use currency forward contracts to manage a nominal portion of currency exchange rate market risk associated with trade receivables, or similar exchange rate risk associated with future sales, denominated in a currency other than the holder's functional currency. These contracts generally relate to our Chemicals operations. We have not entered into these contracts for trading or speculative purposes in the past, nor do we currently anticipate entering into such contracts for trading or speculative purposes in the future. Some of the currency forward contracts we enter into meet the criteria for hedge accounting under GAAP and are designated as cash flow hedges. For these currency forward contracts, gains and losses representing the effective portion of our hedges are deferred as a component of accumulated other comprehensive income, and are subsequently recognized in earnings at the time the hedged item affects earnings. For the currency forward contracts we enter into which do not meet the criteria for hedge accounting, we mark-to-market the estimated fair value of such contracts at each balance sheet date, with any resulting gain or loss recognized in income currently as part of net currency transactions. See Note 17 to our Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by Exchange Act Rule 13a-15(e), means controls and other procedures that are designed to ensure that information required to be disclosed in the reports we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the Act), is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports we file or submit to the SEC under the Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Steven L. Watson, our President and Chief Executive Officer, and Bobby D. O'Brien, our Vice President and Chief Financial Officer, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of March 31, 2013. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were effective as of March 31, 2013.

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Internal Control Over Financial Reporting

We also maintain internal control over financial reporting. The term internal control over financial reporting, as defined by regulations of the SEC, means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of our assets,

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are made only in accordance with authorizations of our management and directors, and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our Condensed Consolidated Financial Statements.

As permitted by the SEC, our assessment of internal control over financial reporting excludes (i) internal control over financial reporting of our equity method investees and (ii) internal control over the preparation of our financial statement schedules required by Article 12 of Regulation S-X. However, our assessment of internal control over financial reporting with respect to our equity method investees did include our controls over the recording of amounts related to our investment that are recorded in our Condensed Consolidated Financial Statements, including controls over the selection of accounting methods for our investments, the recognition of equity method earnings and losses and the determination, valuation and recording of our investment account balances.

Changes in Internal Control Over Financial Reporting

There has been no change to our internal control over financial reporting during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings.

In addition to the matters discussed below, please refer to Note 17 to our Consolidated Financial Statements included in our 2012 Annual Report.

County of Santa Clara v. Atlantic Richfield Company, et al. (Superior Court of the State of California, County of Santa Clara, Case No. 1-00-CV-788657). In the first quarter of 2013, NL filed a motion for summary judgment.

New Jersey Department of Environmental Protection v. Occidental Chemical Corp., et al. (L-009868-05, Superior Court of New Jersey, Essex County). In March 2013, 244 third-party defendants entered into a Consent Judgment with the State of New Jersey that, if approved by the Court, will resolve certain of the claims alleged in the third-party complaint. NL is one of approximately 25 Third-Party Defendants that did not join the Consent Judgment. In April 2013, NL received a settlement offer from the Third-Party Plaintiffs. NL is continuing to defend the matter.

ASARCO LLC v. NL Industries, Inc., et al. (United States District Court, Western District of Missouri, Case No. 4:11-cv-00138-DGK). In the first quarter of 2013, NL's motion was granted and the court entered an indefinite stay.

ASARCO LLC v. NL Industries, Inc., et al. (United States District Court, Eastern District of Missouri, Case No. 4:11-cv-00864). In the first quarter of 2013, the court granted NL's motion and entered an indefinite stay, but has allowed limited discovery on liability issues to proceed.

Lewis, et al. v. Lead Industries Association, et al. (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800). In March 2013, the appellate court agreed with the trial court's rationale regarding legislative requirements to screen children's blood lead levels and remanded the case for further proceedings in the trial court.

In March 2013, NL received Special Notice from EPA for OU 1 (residential area) at the Big River Mine Tailings Superfund Site in St. Francois County, Missouri. The site encompasses approximately eight former mine and mill areas, only one of which is associated with former NL operations, as well as adjacent residential areas.

Item 1A. Risk Factors.

For a discussion of the risk factors related to our businesses, please refer to Part I, Item 1A, Risk Factors, in our 2012 Annual report. There have been no material changes to such risk factors during the first three months of 2013.

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Item 6. Exhibits.

Item No.	Exhibit Index
10.1*	Restated and Amended Agreement by and between Richards Bay Titanium (Proprietary) Limited (acting through its sales agent Rio Tinto Iron & Titanium Limited) and Kronos (US), Inc effective January 1, 2012 incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Kronos Worldwide, Inc. (File No. 001-31763) for the quarter ended March 31, 2013.
31.1	Certification
31.2	Certification
32.1	Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Portions of the exhibit have been omitted pursuant to a request for confidential treatment.

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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.

VALHI, INC.
(Registrant)

Date May 10, 2013

/s/ Bobby D. O'Brien
Bobby D. O'Brien

(Vice President and Chief

Financial Officer)

Date May 10, 2013

/s/ Gregory M. Swalwell
Gregory M. Swalwell

(Vice President and Controller,

Principal Accounting Officer)