

VALHI INC /DE/
Form 10-K
March 13, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934—For the fiscal year ended December 31, 2014
Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware	87-0110150
(State or other jurisdiction of	(IRS Employer
Incorporation or organization)	Identification No.)
5430 LBJ Freeway, Suite 1700, Dallas, Texas	75240-2697
(Address of principal executive offices)	(Zip Code)

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

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

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

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

None.

Indicate by check mark:

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

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

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

If disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes 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

The aggregate market value of the 19.1 million shares of voting common stock held by nonaffiliates of Valhi, Inc. as of June 30, 2014 (the last business day of the Registrant's most recently-completed second fiscal quarter) approximated \$122.6 million.

As of March 6, 2015, 339,132,449 shares of the Registrant's common stock were outstanding.

Documents incorporated by reference

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

PART I

ITEM 1. BUSINESS

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

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

Brief History

LLC Corporation, our legal predecessor, was incorporated in Delaware in 1932. We are the successor company of the 1987 merger of LLC Corporation and another entity controlled by Contran Corporation. One of Contran’s wholly-owned subsidiaries held approximately 93% of Valhi’s outstanding common stock at December 31, 2014. As discussed in Note 1 to our Consolidated Financial Statements, Lisa K. Simmons, Serena Simmons Connelly and Annette Simmons may be deemed to control Contran and us.

Key events in our history include:

- 1979—Contran acquires control of LLC;
- 1981—Contran acquires control of our other predecessor company;
- 1982—Contran acquires control of Keystone Consolidated Industries, Inc., a predecessor to CompX;
- 1984—Keystone spins-off an entity that includes what is to become CompX; this entity subsequently merges with LLC;
- 1986—Contran acquires control of NL, which at the time owns 100% of Kronos and a 50% interest in Titanium Metals Corporation (“TIMET”);
- 1987—LLC and another Contran controlled company merge to form Valhi, our current corporate structure;
- 1988—NL spins-off an entity that includes its investment in TIMET;
- 1995—WCS begins start-up operations;
- 1996—TIMET completes an initial public offering;
- 2003—NL completes the spin-off of Kronos through the pro-rata distribution of Kronos shares to its shareholders including us;
- 2004 through 2005—NL distributes Kronos shares to its shareholders, including us, through quarterly dividends;
- 2007—We distribute all of our TIMET common stock to our shareholders through a stock dividend;
- 2008—WCS receives a license for the disposal of byproduct material and begins construction of the byproduct facility infrastructure;
- 2009—WCS receives a license for the disposal of Class A, B and C low-level radioactive waste and completes construction of the byproduct facility;
- 2010—Kronos completes a secondary offering of its common stock lowering our ownership of Kronos to 80%;
- 2011—WCS begins construction on its Compact and Federal low-level radioactive waste (“LLRW”) and mixed LLRW disposal facilities;
- 2012—WCS completes construction of its Compact and Federal LLRW disposal facilities and commences operations at the Compact facility;
- 2012—In December we sell all of our remaining interest in TIMET and TIMET is no longer our affiliate;
- 2012—In December CompX completes the sale of its furniture components business;
- 2013—WCS commences operations at the Federal LLRW facility; and

· 2013—In December we purchased an additional ownership interest in and became the majority owner of Basic Management, Inc. and The LandWell Company; both companies are now included in our Consolidated Financial Statements effective December 31, 2013.

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

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Annual 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 trends. 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 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 Annual 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 capacity expansion (such as the TiO₂ industry);
- Changes in raw material and other operating costs (such as energy, ore, zinc and brass 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 and substitute products, 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 difficulties in integrating future acquisitions;
- Potential difficulties in upgrading or implementing new manufacturing and accounting software systems;
- 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, transportation interruptions and cyber attacks);
- Decisions to sell operating assets other than in the ordinary course of business;
- 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);
- 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;
- Changes in real estate values and construction costs in Henderson, Nevada;
- Water levels in Lake Mead; and
- Possible future litigation.

Should one or more of these risks materialize (or the consequences of such development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

Segments

We have four consolidated reportable operating segments at December 31, 2014:

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 ("TiQ"), TiQ is used to impart
Kronos	whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper,
Worldwide,	fibers and ceramics. Additionally, TiO ₂ is a critical component of everyday applications, such as
Inc.	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

CompX International Inc. sold to a variety of industries including recreational transportation (including boats), postal, office and institutional furniture, cabinetry, tool storage, healthcare, gas stations and vending equipment.

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 LLRW disposal license in September 2009. The Compact Waste Control Specialists LLC LLRW disposal facility commenced operations in 2012, and the Federal LLRW commenced operations in 2013.

Real Estate Management and Development We operate in real estate management and development through our majority control of BMI and LandWell. BMI provides utility services to certain industrial and municipal customers and owns real property in Henderson, Nevada. LandWell is engaged in efforts to develop certain land holdings for commercial, industrial and residential purposes in Henderson, Nevada. In December 2013, we acquired a controlling interest in each of these companies, and they are included in our results of operations and cash flows beginning on January 1, 2014. See Note 3 to our Consolidated Financial Statements. For additional information about our segments and equity investments see “Part II—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Notes 2 and 7 to our Consolidated Financial Statements.

CHEMICALS SEGMENT—KRONOS WORLDWIDE, INC.

Business Overview

Through our majority-controlled subsidiary, Kronos, we are a leading global producer and marketer of value-added titanium dioxide pigments, or TiO₂, a base industrial product used in a wide range of applications. We, along with our distributors and agents, sell and provide technical services for our products to approximately 4,000 customers in 100 countries with the majority of sales in Europe and North America. We believe we have developed considerable expertise and efficiency in the manufacture, sale, shipment and service of our products in domestic and international markets.

TiO₂ is a white inorganic pigment used in a wide range of products for its exceptional durability and its ability to impart whiteness, brightness and opacity. TiO₂ is a critical component of everyday applications, such as coatings, plastics and paper, as well as many specialty products such as inks, food and cosmetics. TiO₂ is widely considered to be superior to alternative white pigments in large part due to its hiding power (or opacity), which is the ability to cover or mask other materials effectively and efficiently. TiO₂ is designed, marketed and sold based on specific end-use applications.

TiO₂ is the largest commercially used whitening pigment because it has a high refractive rating, giving it more hiding power than any other commercially produced white pigment. In addition, TiO₂ has excellent resistance to interaction with other chemicals, good thermal stability and resistance to ultraviolet degradation. Although there are other white pigments on the market, we believe there are no effective substitutes for TiO₂ because no other white pigment has the

physical properties for achieving comparable opacity and brightness or can be incorporated in as cost-effective a manner. Pigment extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used together with TiO_2 in a number of end-use markets. However, these products are not able to duplicate the opacity performance characteristics of TiO_2 and we believe these products are unlikely to have a significant impact on the use of TiO_2 .

TiO_2 is considered a “quality-of-life” product. Demand for TiO_2 has generally been driven by worldwide gross domestic product and has generally increased with rising standards of living in various regions of the world. According to industry estimates, TiO_2 consumption has grown at a compound annual growth rate of approximately 3.0% since 1990. Per capita consumption of TiO_2 in Western Europe and the United States far exceeds that in other areas of the world, and these regions are expected to continue to be the largest consumers of TiO_2 on a per capita basis. We believe that Western Europe and North America currently account for approximately 19% and 17% of global TiO_2 consumption, respectively. Markets for TiO_2 are generally increasing in South America,

Eastern Europe, the Asia Pacific region and China and we believe these are significant markets where we expect continued growth as economies in these regions continue to develop and quality-of-life products, including TiO₂, experience greater demand.

Products and End-use Markets

Including our predecessors, we have produced and marketed TiO₂ in North America and Europe, our primary markets, for over 90 years. We believe that we are the largest producer of TiO₂ in Europe with approximately one-half of our sales volumes attributable to markets in Europe. The table below shows our market share for our significant markets, Europe and North America, for the last three years.

	2012	2013	2014
Europe	19 %	18 %	18 %
North America	19 %	18 %	17 %

We believe that we are the leading seller of TiO₂ in several countries, including Germany, with an estimated 9% share of worldwide TiO₂ sales volume in 2014. Overall, we are one of the top five producers of TiO₂ in the world.

We offer our customers a broad portfolio of products that include over 40 different TiO₂ pigment grades under the Kronos® trademark, which provide a variety of performance properties to meet customers' specific requirements. Our major customers include domestic and international paint, plastics, decorative laminate and paper manufacturers. We ship TiO₂ to our customers in either a powder or slurry form via rail, truck and/or ocean carrier. Sales of our core TiO₂ pigments represented approximately 90% of our net sales in 2014. We and our agents and distributors primarily sell and provide technical services for our products in three major end-use markets: coatings, plastics and paper.

The following tables show our approximate TiO₂ sales volume by geographic region and end use for the year ended December 31, 2014:

Sales volumes percentages		Sales volumes percentages	
by geographic region		by end-use	
Europe	50%	Coatings	56%
North America	33%	Plastics	31%
Asia Pacific	7%	Other	8%
Rest of World	10%	Paper	5%

Some of the principal applications for our products include the following.

TiO₂ for coatings - Our TiO₂ is used to provide opacity, durability, tinting strength and brightness in industrial coatings, as well as coatings for home commercial and residential interiors and exteriors, automobiles, aircraft, machines, appliances, traffic paint and other special purpose coatings. The amount of TiO₂ used in coatings varies widely depending on the opacity, color and quality desired. In general, the higher the opacity requirement of the coating, the greater the TiO₂ content.

TiO₂ for plastics - We produce TiO₂ pigments that improve the optical and physical properties in plastics, including whiteness and opacity. TiO₂ is used to provide opacity in items such as containers and packaging materials, and vinyl products such as windows, door profiles and siding. TiO₂ also generally provides hiding power, neutral undertone, brightness and surface durability for housewares, appliances, toys, computer cases and food packages. TiO₂'s high brightness along with its opacity, is used in some engineering plastics to help mask their undesirable natural color. TiO₂ is also used in masterbatch, which is a concentrate of TiO₂ and other additives and is one of the largest uses for TiO₂ in the plastics end-use market. In masterbatch, the TiO₂ is dispersed at high concentrations into a plastic resin and is then used by manufacturers of plastic containers, bottles, packaging and agricultural films.

TiO₂ for paper - Our TiO₂ is used in the production of several types of paper, including laminate (decorative) paper, filled paper and coated paper to provide whiteness, brightness, opacity and color stability. Although we sell our TiO₂ to all segments of the paper end-use market, our primary focus is on the TiO₂ grades used in paper laminates, where several layers of paper are laminated together using melamine resin under high temperature and pressure. The top layer of paper contains TiO₂ and plastic resin and is the layer that is printed with decorative patterns. Paper laminates are used to replace materials such as wood and tile for such applications as counter tops, furniture and wallboard. TiO₂ is beneficial in these applications because it assists in preventing the material from fading or changing color after prolonged exposure to sunlight and other weathering agents.

TiO₂ for other applications - We produce TiO₂ to improve the opacity and hiding power of printing inks. TiO₂ allows inks to achieve very high print quality while not interfering with the technical requirements of printing machinery, including low abrasion, high printing speed and high temperatures. Our TiO₂ is also used in textile applications where TiO₂ functions as an opacifying and delustering agent. In man-made fibers such as rayon and polyester, TiO₂ corrects an otherwise undesirable glossy and translucent appearance. Without the presence of TiO₂, these materials would be unsuitable for use in many textile applications.

We produce high purity sulfate process anatase TiO₂ used to provide opacity, whiteness and brightness in a variety of cosmetic and personal care products, such as skin cream, lipstick, eye shadow and toothpaste. Our TiO₂ is also found in food products, such as candy and confectionaries, and in pet foods where it is used to obtain uniformity of color and appearance. In pharmaceuticals, our TiO₂ is used commonly as a colorant in pill and capsule coatings as well as in liquid medicines to provide uniformity of color and appearance. Kronos® purified anatase grades meet the applicable requirements of the CTFA (Cosmetics, Toiletries and Fragrances Association), USP and BP (United States Pharmacopoeia and British Pharmacopoeia) and the FDA (United States Food and Drug Administration).

Our TiO₂ business is enhanced by the following three complementary businesses, which comprised approximately 10% of our net sales in 2014:

We own and operate two ilmenite mines in Norway pursuant to a governmental concession with an unlimited term. Ilmenite is a raw material used directly as a feedstock by some sulfate-process TiO₂ plants. We believe that we have a significant competitive advantage because our mines supply our feedstock requirements for all of our European sulfate-process plants. We also sell ilmenite ore to third-parties, some of whom are our competitors. The mines have estimated ilmenite reserves that are expected to last at least 50 years.

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

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

Manufacturing, Operations and Properties

We produce TiO₂ in two crystalline forms: rutile and anatase. Rutile TiO₂ is manufactured using both a chloride production process and a sulfate production process, whereas anatase TiO₂ is only produced using a sulfate production process. Manufacturers of many end-use applications can use either form, especially during periods of tight supply for TiO₂. The chloride process is the preferred form for use in coatings and plastics, the two largest end-use markets. Due to environmental factors and customer considerations, the proportion of TiO₂ industry sales represented by chloride process pigments has increased relative to sulfate process pigments, and in 2014, chloride process production facilities represented approximately 45% of industry capacity. The sulfate process is preferred for use in selected paper products, ceramics, rubber tires, man-made fibers, food products and cosmetics. Once an intermediate TiO₂ pigment has been produced by either the chloride or sulfate process, it is “finished” into products with specific performance characteristics for particular end-use applications through proprietary processes involving various chemical surface treatments and intensive micronizing (milling).

Chloride process - The chloride process is a continuous process in which chlorine is used to extract rutile TiO₂. The chloride process produces less waste than the sulfate process because much of the chlorine is recycled and feedstock bearing higher titanium content is used. The chloride process also has lower energy requirements and is less labor-intensive than the sulfate process, although the chloride process requires a higher-skilled labor force. The chloride process produces an intermediate base pigment with a wide range of properties.

Sulfate process - The Sulfate process is a batch process in which sulfuric acid is used to extract the TiO_2 from ilmenite or titanium slag. After separation from the impurities in the ore (mainly iron), the TiO_2 is precipitated and calcined to form an intermediate base pigment ready for sale or can be upgraded through finishing treatments.

We produced 511,000 metric tons of TiO_2 in 2014, up from the 474,000 metric tons we produced in 2013. Our production amounts include our share of the output produced by our TiO_2 manufacturing joint venture discussed below in "TiQ Manufacturing Joint Venture." Our average production capacity utilization rates were approximately 85%, 86% and 92% of capacity in 2012, 2013 and 2014, respectively. Our production utilization rates in 2013 were impacted by the previously-reported lockout at our Canadian production facility that began in June 2013. We operated our Canadian plant at approximately 15% of the plant's capacity with non-union management employees during the lockout. Our production rates in 2014 were also impacted by such lockout, as restart of production at the facility did not begin until February 2014. Our production rates in 2014 were also impacted by the implementation

of certain productivity-enhancing improvement projects at other facilities, as well as necessary improvements to ensure continued compliance with our permit regulations, which resulted in longer-than-normal maintenance shutdowns in some instances.

Our Chemicals Segment operates four TiO₂ plants in Europe (one in each of Leverkusen, Germany; Nordenham, Germany; Langerbrugge, Belgium; and Fredrikstad, Norway). In North America, our Chemicals Segment has a TiO₂ plant in Varennes, Quebec, Canada and, through the manufacturing joint venture described below in “TiQ Manufacturing Joint Venture,” a 50% interest in a TiQ plant in Lake Charles, Louisiana.

Kronos’ production capacity in 2014 was 555,000 metric tons, approximately three-fourths of which was from the chloride production process.

The following table presents the division of Kronos’ expected 2015 manufacturing capacity by plant location and type of manufacturing process:

Facility	Description	% of capacity by TiO ₂ manufacturing process			
		Chloride		Sulfate	
Leverkusen, Germany (1)	TiO ₂ production, chloride and sulfate process, co-products	39	%	25	%
Nordenham, Germany	TiO ₂ production, sulfate process, co-products	—		40	
Langerbrugge, Belgium	TiO ₂ production, chloride process, co-products, titanium chemicals products	21		—	
Fredrikstad, Norway (2)	TiO ₂ production, sulfate process, co-products	—		22	
Varennes, Canada	TiO ₂ production, chloride and sulfate process, slurry facility, titanium chemicals products	21		13	
Lake Charles, LA, US (3)	TiO ₂ production, chloride process	19		—	
Total		100	%	100	%

(1) The Leverkusen facility is located within an extensive manufacturing complex owned by Bayer AG. We own the Leverkusen facility, which represents about one-third of our current TiO₂ production capacity, but we lease the land under the facility from Bayer under a long-term agreement which expires in 2050. Lease payments are periodically negotiated with Bayer for periods of at least two years at a time. A majority-owned subsidiary of Bayer provides some raw materials including chlorine, auxiliary and operating materials, utilities and services necessary to operate the Leverkusen facility under separate supplies and services agreements.

(2) The Fredrikstad plant is located on public land and is leased until 2063.

(3) We operate the Lake Charles facility in a joint venture with Tioxide Americas LLC (Tioxide), a subsidiary of Huntsman Corporation and the amount indicated in the table above represents the share of TiO₂ produced by the joint venture to which we are entitled. See Note 7 to our Consolidated Financial Statements and “TiQ Manufacturing Joint Venture.”

We own the land underlying all of our principle production facilities unless otherwise indicated in the table above.

Our production capacity has increased by approximately 16% over the past ten years due to debottlenecking programs, with only moderate capital expenditures. We believe that our annual attainable production capacity for 2015 is approximately 555,000 metric tons. While we expect our production capacity rate to be higher in 2015 as compared to 2014, we expect that we will operate at less-than-full production capacity in 2015, due principally to completing the implementation of certain productivity-enhancing capital improvement projects at certain facilities which will result in

longer-than-normal maintenance shutdowns in some instances.

We also operate two ilmenite mines in Norway pursuant to a governmental concession with an unlimited term. In addition, we operate a rutile slurry manufacturing plant in Lake Charles, Louisiana, which converts dry pigment manufactured for us at the Lake Charles TiO₂ facility into a slurry form that is then shipped to customers.

We have various corporate and administrative offices located in the U.S., Germany, Norway, Canada and Belgium and various sales offices located in the U.S., Canada, Belgium, France, the Netherlands and the United Kingdom.

TiO₂ Manufacturing Joint Venture

Kronos Louisiana, Inc., one of our subsidiaries, and Tioxide each own a 50% interest in a manufacturing joint venture, Louisiana Pigment Company, L.P., or LPC. LPC owns and operates a chloride-process TiO₂ plant located in Lake Charles, Louisiana. We and Huntsman share production from the plant equally pursuant to separate offtake agreements.

A supervisory committee directs the business and affairs of the joint venture, including production and output decisions. This committee is composed of four members, two of whom we appoint and two of whom Huntsman appoints. Two general managers manage the operations of the joint venture acting under the direction of the supervisory committee. We appoint one general manager and Huntsman appoints the other.

The joint venture is not consolidated in our financial statements, because we do not control it. We account for our interest in the joint venture by the equity method. The joint venture operates on a break-even basis and therefore we do not have any equity in earnings of the joint venture. We are required to purchase one half of the TiO₂ produced by the joint venture. All costs and capital expenditures are shared equally with Huntsman with the exception of feedstock (purchased natural rutile ore or slag) and packaging costs for the pigment grades produced. Our share of net costs is reported as cost of sales as the TiO₂ is sold. See Notes 7 and 16 to our Consolidated Financial Statements.

Raw Materials

The primary raw materials used in chloride process TiO₂ are titanium-containing feedstock (purchased natural rutile ore or slag), chlorine and coke. Chlorine is available from a number of suppliers, while petroleum coke is available from a limited number of suppliers. Titanium-containing feedstock suitable for use in the chloride process is available from a limited but increasing number of suppliers principally in Australia, South Africa, Canada, India and the United States. We purchase chloride process grade slag from Rio Tinto Iron and Titanium under a long-term supply contract that expires at the end of 2016 and from Tronox Mineral Sands (PTY) LTD under a supply contract that expires in December 2015. We purchase upgraded slag from Q.I.T. Fer et Titane Inc. (a subsidiary of Rio Tinto Iron and Titanium) under a long-term supply contract that expires at the end of 2015. We purchase natural rutile ore under contracts primarily from Iluka Resources, Limited (under a new contract entered into in January 2015) and Sierra Rutile Limited both of which expire in 2015. In the past we have been, and we expect that we will continue to be, successful in obtaining short-term and long-term extensions to these and other existing supply contracts prior to their expiration. We expect the raw materials purchased under these contracts, and contracts that we may enter into, will meet our chloride process feedstock requirements over the next several years.

The primary raw materials used in sulfate process TiO₂ are titanium-containing feedstock, primarily ilmenite or purchased sulfate grade slag and sulfuric acid. Sulfuric acid is available from a number of suppliers. Titanium-containing feedstock suitable for use in the sulfate process is available from a limited number of suppliers principally in Norway, Canada, Australia, India and South Africa. As one of the few vertically-integrated producers of sulfate process TiO₂, we operate two rock ilmenite mines in Norway, which provided all of the feedstock for our European sulfate process TiO₂ plants in 2014. We expect ilmenite production from our mines to meet our European sulfate process feedstock requirements for the foreseeable future. For our Canadian sulfate process plant, we purchase sulfate grade slag primarily from Q.I.T. Fer et Titane Inc. (a subsidiary of Rio Tinto Iron and Titanium), under a supply contract that expires at the end of 2015. We expect the raw materials purchased under these contracts, and contracts that we may enter into, to meet our sulfate process feedstock requirements over the next several years.

Many of our raw material contracts contain fixed quantities we are required to purchase, or specify a range of quantities within which we are required to purchase. The pricing under these agreements is generally negotiated quarterly.

The following table summarizes Kronos' raw materials purchased or mined in 2014.

Production process/raw material	Raw materials procured or mined (In thousands of metric tons)
---------------------------------	--

Chloride process plants—	
Purchased slag or rutile ore	460
Sulfate process plants:	
Ilmenite ore mined and used internally	330
Purchased slag	29

Sales and Marketing

Our marketing strategy is aimed at developing and maintaining strong customer relationships with new and existing accounts. Because TiO_2 represents a significant raw material cost for our customers, the purchasing decisions are often made by our customers' senior management. We work to maintain close relationships with the key decision makers, through in-depth and frequent in-person meetings. We endeavor to extend these commercial and technical relationships to multiple levels within our customers' organization using our direct sales force and technical service group to accomplish this objective. We believe this has helped build customer

loyalty to Kronos and strengthened our competitive position. Close cooperation and strong customer relationships enable us to stay closely attuned to trends in our customers' businesses. Where appropriate, we work in conjunction with our customers to solve formulation or application problems by modifying specific product properties or developing new pigment grades. We also focus our sales and marketing efforts on those geographic and end-use market segments where we believe we can realize higher selling prices. This focus includes continuously reviewing and optimizing our customer and product portfolios.

Our marketing strategy is also aimed at working directly with customers to monitor the success of our products in their end-use applications, evaluate the need for improvements in product and process technology and identify opportunities to develop new product solutions for our customers. Our marketing staff closely coordinates with our sales force and technical specialists to ensure that the needs of our customers are met, and to help develop and commercialize new grades where appropriate.

We sell a majority of our products through our direct sales force operating from six sales offices in Europe and one sales office in North America. We also utilize sales agents and distributors who are authorized to sell our products in specific geographic areas. In Europe, our sales efforts are conducted primarily through our direct sales force and our sales agents. Our agents do not sell any TiO₂ products other than Kronos® brand products. In North America, our sales are made primarily through our direct sales force and supported by a network of distributors. In addition to our direct sales force and sales agents, many of our sales agents also act as distributors to service our smaller customers in all regions. We offer customer and technical service to the customers who purchase our products through distributors as well as to our larger customers serviced by our direct sales force.

Kronos sells to a diverse customer base with only one customer representing 10% or more of our Chemicals Segments' sales in 2014 (Behr Process Corporation – 10%). Kronos' largest ten customers accounted for approximately 35% of our Chemicals Segment's sales in 2014.

Neither our business as a whole nor any of our principal product groups is seasonal to any significant extent. However, TiO₂ sales are generally higher in the second and third quarters of the year, due in part to the increase in paint production in the spring to meet demand during the spring and summer painting seasons. With certain exceptions, we have historically operated our production facilities at near full capacity rates throughout the entire year, which among other things helps to minimize our per-unit production costs. As a result, we normally will build inventories during the first and fourth quarters of each year, in order to maximize our product availability during the higher demand periods normally experienced in the second and third quarters.

Competition

The TiO₂ industry is highly competitive. We compete primarily on the basis of price, product quality, technical service and the availability of high performance pigment grades. Since TiO₂ is not a traded commodity, its pricing is largely a product of negotiation between suppliers and their respective customers. Although certain TiO₂ grades are considered specialty pigments, the majority of our grades and substantially all of our production are considered commodity pigments with price and availability being the most significant competitive factors along with quality and customer service. During 2014, we had an estimated 9% share of worldwide TiO₂ sales volume, and based on sales volumes, we believe we are the leading seller of TiO₂ in several countries, including Germany.

Our principal competitors are E.I. du Pont de Nemours & Co., or Dupont; Millennium Inorganic Chemicals, Inc. (a subsidiary of National Titanium Dioxide Company Ltd.), or Cristal; Huntsman Corporation; and Tronox Incorporated. The top five TiO₂ producers account for approximately 54% of the world's production capacity. Huntsman completed its purchase of the TiO₂ business of Sachtleben Chemie GmbH in 2014, and has also announced its intent to spin-off the consolidated TiO₂ business within two years of the acquisition. In February 2015, Huntsman announced a plan to reduce its TiO₂ capacity by approximately 100,000 metric tons at one of its European sulfate process facilities. DuPont has announced its intent to spin-off its TiO₂ operations into a separate publicly

traded company by mid-2015.

The following chart shows our estimate of worldwide production capacity in 2014:

Worldwide production capacity—2014	
DuPont	16%
Huntsman	13%
Cristal	11%
Kronos	8%
Tronox	6%
Other	46%

DuPont has over one-half of total North American TiO_2 production capacity and is our principal North American competitor.

Over the past ten years, we and our competitors increased industry capacity through debottlenecking projects, which in part compensated for the shut down of various TiO₂ plants in France, the United States, the United Kingdom and China. In addition, in May 2011, DuPont announced a comprehensive plan to add approximately 350,000 metric tons of global capacity. Although overall industry demand is expected to be generally higher in 2015 as compared to 2014 as a result of improving worldwide economic conditions, we do not expect any other significant efforts will be undertaken by us or our principal competitors to further increase capacity for the foreseeable future, other than through debottlenecking projects. If actual developments differ from our expectations, the TiO₂ industry's performance and that of our own could be unfavorably affected.

The TiO₂ industry is characterized by high barriers to entry consisting of high capital costs, proprietary technology and significant lead times (typically three to five years in our experience) required to construct new facilities or to expand existing capacity. We believe it is unlikely any new TiO₂ plants will be constructed in Europe or North America in the foreseeable future.

Research and development

We employ scientists, chemists, process engineers and technicians who are engaged in research and development, process technology and quality assurance activities in Leverkusen, Germany. These individuals have the responsibility for improving our chloride and sulfate production processes, improving product quality and strengthening our competitive position by developing new applications. Our expenditures for these activities were approximately \$19 million in 2012, \$18 million in 2013 and \$19 million in 2014. We expect to spend approximately \$21 million on research and development in 2015.

We continually seek to improve the quality of our grades and have been successful at developing new grades for existing and new applications to meet the needs of our customers and increase product life cycles. Since 2009, we have added four new grades for pigments and other applications.

Patents, trademarks, trade secrets and other intellectual property rights

We have a comprehensive intellectual property protection strategy that includes obtaining, maintaining and enforcing our patents, primarily in the United States, Canada and Europe. We also protect our trademark and trade secret rights and have entered into license agreements with third parties concerning various intellectual property matters. We have also from time to time been involved in disputes over intellectual property.

Patents - We have obtained patents and have numerous patent applications pending that cover our products and the technology used in the manufacture of our products. Our patent strategy is important to us and our continuing business activities. In addition to maintaining our patent portfolio, we seek patent protection for our technical developments, principally in the United States, Canada and Europe. U.S. Patents are generally in effect for 20 years from the date of filing. Our U.S. patent portfolio includes patents having remaining terms ranging from one year to 19 years.

Trademarks and trade secrets - Our trademarks, including Kronos®, are covered by issued and/or pending registrations, including in Canada and the United States. We protect the trademarks that we use in connection with the products we manufacture and sell and have developed goodwill in connection with our long-term use of our trademarks. We conduct research activities in secret and we protect the confidentiality of our trade secrets through reasonable measures, including confidentiality agreements and security procedures, including data security. We rely upon unpatented proprietary knowledge and continuing technological innovation and other trade secrets to develop and maintain our competitive position. Our proprietary chloride production process is an important part of our technology and our business could be harmed if we fail to maintain confidentiality of our trade secrets used in this technology.

Employees

As of December 31, 2014, we employed the following number of people:

Europe	2,110
Canada	330
United States (1)	45
Total	2,485

(1) Excludes employees of our Louisiana joint venture

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Certain employees at each of Kronos' production facilities are organized by labor unions. In Europe, our union employees are covered by master collective bargaining agreements for the chemical industry that are generally renewed annually. In Canada, our union employees are covered by a collective bargaining agreement that expires in June 2018. At December 31, 2014, approximately 85% of Kronos' worldwide workforce is organized under collective bargaining agreements. It is possible that there could be future work stoppages or other labor disruptions that could materially and adversely affect our business, results of operations, financial position or liquidity.

Regulatory and environmental matters

Our operations and properties are governed by various environmental laws and regulations, which are complex, change frequently and have tended to become stricter over time. These environmental laws govern, among other things, the generation, storage, handling, use and transportation of hazardous materials; the emission and discharge of hazardous materials into the ground, air or water; and the health and safety of our employees. Certain of our operations are, or have been, engaged in the generation, storage, 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 comply with applicable environmental laws and regulations at all our facilities and to strive to improve our environmental performance. It is possible that future developments, such as stricter requirements in environmental laws and enforcement policies, could adversely affect our operations, including production, handling, use, storage, transportation, sale or disposal of hazardous or toxic substances or require us to make capital and other expenditures to comply, and could adversely affect our consolidated financial position and results of operations or liquidity.

Our U.S. manufacturing operations are governed by federal, state and local environmental and worker health and safety laws and regulations. These include the Resource Conservation and Recovery Act, or RCRA, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act and the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act, or CERCLA, as well as the state counterparts of these statutes. Some of these laws hold current or previous owners or operators of real property liable for the costs of cleaning up contamination, even if these owners or operators did not know of, and were not responsible for, such contamination. These laws also assess liability on any person who arranges for the disposal or treatment of hazardous substances, regardless of whether the affected site is owned or operated by such person. Although we have not incurred and do not currently anticipate any material liabilities in connection with such environmental laws, we may be required to make expenditures for environmental remediation in the future.

While the laws regulating operations of industrial facilities in Europe vary from country to country, a common regulatory framework is provided by the European Union, or the EU. Germany and Belgium are members of the EU and follow its initiatives. Norway is not a member but generally patterns its environmental regulatory actions after the EU.

At Kronos' sulfate plant facilities in Germany, we recycle spent sulfuric acid either through contracts with third parties or at our own facilities. In addition, at our German locations we have a contract with a third-party to treat certain sulfate-process effluents. At our Norwegian plant, we ship spent acid to a third party location where it is used as a neutralization agent. These contracts may be terminated by either party after giving three or four years advance notice, depending on the contract.

From time to time, our facilities may be subject to environmental regulatory enforcement under U.S. and non-U.S. statutes. Typically we establish compliance programs to resolve these matters. Occasionally, we may pay penalties. To date such penalties have not involved amounts having a material adverse effect on our financial position, results of operations or liquidity. We believe that all of our facilities are in substantial compliance with

applicable environmental laws.

Our Chemicals Segment's capital expenditures related to ongoing environmental compliance, protection and improvement programs, including capital expenditures which are primarily focused on increased operating efficiency but also result in improved environmental protection such as lower emissions from our manufacturing facilities, were \$12.3 million in 2014 and are currently expected to be approximately \$14 million in 2015.

COMPONENT PRODUCTS SEGMENT—COMPX INTERNATIONAL INC.

Business Overview

Through our majority-controlled subsidiary, CompX, we are a leading manufacturer of security products used in recreational transportation, postal, office and institutional furniture, cabinetry, tool storage, healthcare and a variety of other industries. We are also a leading manufacturer of stainless steel exhaust systems, gauges, and throttle controls primarily for the marine industry. Our products are principally designed for use in medium to high-end product applications, where design, quality and durability are

valued by our customers. In December 2012, CompX sold its furniture components reporting unit which included two manufacturing facilities.

Manufacturing, Operations and Products

Security Products. CompX’s security products reporting unit, with one manufacturing facility in Mauldin, South Carolina and one in Grayslake, Illinois shared with CompX’s marine components reporting unit, manufactures mechanical and electrical cabinet locks and other locking mechanisms used in a variety of applications including ignition systems, mailboxes, file cabinets, desk drawers, tool storage cabinets, vending and gaming machines, high security medical cabinetry, electrical circuit panels, storage compartments and gas station security. We believe we are a North American market leader in the manufacture and sale of cabinet locks and other locking mechanisms. These products include:

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

A substantial portion of our security products reporting unit’s sales consist of products with specialized adaptations to an individual customer’s specifications, some of which are listed above. We also have a standardized product line suitable for many customers, which is offered through a North American distribution network to locksmith distributors and smaller original equipment manufacturers (“OEMs”) via our STOCK LOCKS® distribution program.

Marine Components. CompX’s marine components reporting unit, with a facility in Neenah, Wisconsin and a facility in Grayslake, Illinois shared with CompX’s security products reporting unit, manufactures and distributes stainless steel exhaust components, gauges, throttle controls, hardware and accessories primarily for performance and ski/wakeboard boats. Our specialty Marine Component products are high precision components designed to operate within tight tolerances in the highly demanding marine environment. These products include:

- original equipment and aftermarket stainless steel exhaust headers, exhaust pipes, mufflers and other exhaust components;
- high performance gauges such as GPS speedometers and tachometers;
- mechanical and electronic controls and throttles;
- steering wheels and other billet aluminum accessories; and
- dash panels, LED lighting, wire harnesses and other accessories.

Our Component Products Segment operated three manufacturing facilities at December 31, 2014 as shown below. For additional information, see also “Item 2 – Properties”, including information regarding leased and distribution-only facilities.

Security Products	Marine Components
Mauldin, South Carolina	Neenah, Wisconsin
Grayslake, Illinois	Grayslake, Illinois

Raw Materials

CompX’s primary raw materials are:

- zinc and brass (used in the security products for the manufacture of locking mechanisms); and

·stainless steel (used primarily in the marine components for the manufacture of exhaust headers and pipes and other components).

These raw materials are purchased from several suppliers, are readily available from numerous sources and accounted for approximately 10% of our total cost of sales for 2014. Total material costs, including purchased components, represented approximately 49% of our cost of sales in 2014.

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We occasionally enter into short-term commodity-related raw material supply arrangements to mitigate the impact of future increases in commodity-related raw material costs. These arrangements generally provide for stated unit prices based upon specified purchase volumes, which help us to stabilize our commodity related raw material costs to a certain extent. We periodically enter into such arrangements for zinc and brass. We expect commodity related raw material prices to remain relatively stable during 2015; however, these raw materials purchased on the spot market are sometimes subject to unanticipated and sudden price increases. Commodity related raw materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. We generally seek to mitigate the impact of fluctuations in these raw material costs on our margins through improvements in production efficiencies or other operating cost reductions. In the event we are unable to offset raw material cost increases with other cost reductions, it may be difficult to recover those cost increases through increased product selling prices or raw material surcharges due to the competitive nature of the markets served by our products. Consequently, overall operating margins can be affected by commodity related raw material cost pressures. Commodity market prices are cyclical, reflecting overall economic trends, specific developments in consuming industries and speculative investor activities.

Patents and Trademarks

CompX holds a number of patents relating to our component products, certain of which we believe to be important to us and our continuing business activity. Patents generally have a term of 20 years, and our patents have remaining terms ranging from less than 1 year to 18 years at December 31, 2014. Our major trademarks and brand names include:

Security Products	Marine Components
CompX [®] Security Products [™]	Custom Marine [®]
National Cabinet Lock [®]	Livorsi [®] Marine
Fort Lock [®]	Livorsi II [®] Marine
Fort [®]	CMI [™] Industrial Mufflers
Timberline [®]	Custom Marine [®] Stainless Exhaust
Chicago Lock [®]	The #1 Choice in Performance Boating [®]
STOCK LOCKS [®]	Mega Rim [®]
KeSet [®]	Race Rim [®]
TuBar [®]	CompX Marine [®]
StealthLock [®]	Vantage View [®]
ACE [®]	GEN-X [®]
ACE [®] II	
CompX eLock [®]	
Lockview [®]	
System 64 [®]	
SlamCAM [®]	
RegulatoR [®]	
CompXpress [®]	
GEM [®]	

Sales, Marketing and Distribution.

A majority of our component sales are direct to large OEM customers through our factory-based sales and marketing professionals supported by engineers working in concert with field salespeople and independent manufacturer's representatives. We select manufacturer's representatives based on special skills in certain markets or relationships with current or potential customers.

In addition to sales to large OEM customers, a significant portion of our security products sales are made through distributors. We have a significant North American market share of cabinet lock security product sales as a result of the locksmith distribution channel. We support our locksmith distributor sales with a line of standardized products used by the largest segments of the marketplace. These products are packaged and merchandised for easy availability and handling by distributors and end users.

In 2014, CompX's ten largest customers, all customers of its security products reporting unit, accounted for approximately 47% of our Component Product Segment's total sales. United States Postal Service and Harley Davidson accounted for approximately 13% and 12%, respectively, of our Component Product Segment's total sales for the year ended December 31, 2014. Overall, our customer base is diverse and the loss of any single customer would not in itself have a material adverse effect on our operations.

Competition

The markets in which we participate are highly competitive. We compete primarily on the basis of product design, including space utilization and aesthetic factors, product quality and durability, price, on-time delivery, service and technical support. We focus our efforts on the middle and high-end segments of the market, where product design, quality, durability and service are valued by the customer. Our security products reporting unit competes against a number of domestic and foreign manufacturers. Our marine components reporting unit competes with small domestic manufacturers and is minimally affected by foreign competitors.

Regulatory and Environmental Matters

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

Discontinued Operations

On December 28, 2012, CompX completed the sale of its furniture components reporting unit. See Note 3 to our Consolidated Financial Statements.

Employees

As of December 31, 2014, we employed 532 people, all in the United States. We believe our labor relations are good at all of our facilities.

WASTE MANAGEMENT SEGMENT—WASTE CONTROL SPECIALISTS LLC

Business Overview

Our Waste Management Segment was formed in 1995, and in early 1997 we completed construction of the initial phase of our waste management facility in West Texas. The original facility was initially designed for the processing, treatment, storage and disposal of certain hazardous and toxic wastes. We received the first wastes for disposal in 1997. Subsequently, we expanded our authorizations to include the processing, treatment and storage of LLRW and mixed LLRW and the disposal of certain types of exempt LLRW. In May 2008, the Texas Commission on Environmental Quality (“TCEQ”) issued a byproduct materials disposal license to us. In January 2009, TCEQ issued a near-surface LLRW disposal license to us. This license was signed in September 2009.

We began construction of the byproduct facility infrastructure at our site in Andrews County, Texas in the third quarter of 2008, and this facility began disposal operations in October 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. The Federal LLRW site was fully certified and operational in September 2012 and received its first waste for disposal in the latter part of the second quarter of 2013.

Facility, Operations and Services

Our Waste Management Segment operates one waste management facility located on a 1,338-acre site in West Texas. The facility is permitted for 6.5 million cubic yards of airspace landfill capacity for the disposal of RCRA,

Toxic Substance Control Act (“TSCA”), Byproduct and LLRW and mixed LLRW wastes. We also own approximately 13,500 acres of additional land surrounding the permitted site, a small portion of which is located in New Mexico, which is available for future expansion. We believe our facility has superior geological characteristics which make it an environmentally-desirable location for this type of waste disposal. The facility is located in a relatively remote and arid section of West Texas. The possibility of leakage into any underground water table is considered highly remote because the ground is composed of Triassic red bed clay, and we do not believe there are any underground aquifers or other usable sources of water below the site based in part on extensive drilling by the oil and gas industry and our own test wells. Pursuant to the requirements of WCS’ LLRW disposal license, the State of Texas, acting by and through the TCEQ, owns the real property for WCS’ licensed “compact waste disposal facility” and leases it back to WCS; and WCS owns the real property for its licensed “federal waste disposal facility”. The remainder of WCS’ permitted site, and the Texas portion of the surrounding land described above, is subject to the sale-leaseback transaction WCS entered into with the County of Andrews, Texas, as discussed in Note 9 to our Consolidated Financial Statements.

The waste management facility operates under various licenses and permits, including in the following categories:

- **LLRW Disposal.** The LLRW disposal license allows WCS to dispose of Class A, B and C LLRW in the Compact LLRW disposal facility and the Federal LLRW disposal facility. The Federal LLRW disposal facility is for LLRW that is the responsibility of the U.S. government under applicable law, and is also permitted for disposal of mixed LLRW. The Compact LLRW disposal facility is licensed to accept LLRW that was either generated in Texas or Vermont, or has been approved for importation to Texas by the Texas Low-Level Radioactive Waste Disposal Compact Commission. Construction of the Compact and Federal LLRW disposal facilities began in January 2011. Both facilities were fully certified and operational in 2012. We accepted our first Compact waste disposal shipments in April 2012, but routine Compact disposal receipts did not occur until July 2012. We received a national disposal contract for our Federal LLRW disposal facility from the Department of Energy (“DOE”) in April 2013, and we have regularly received waste for disposal in the Federal LLRW disposal facility since the end of the second quarter of 2013.
- **LLRW Treatment/Storage.** In November 1997, the Texas Department of State Health Services (“TDSHS”) issued a license to us for the treatment and storage, but not disposal, of LLRW and mixed LLRW. In June 2007, the TDSHS regulatory authority for this license was transferred to TCEQ. The current provisions of this license generally enable us to accept such wastes for treatment and storage from U.S. commercial and federal generators, including the DOE and other governmental agencies. We accepted the first shipments of such wastes in 1998.
- **RCRA/Exempt.** Our Waste Management Segment has permits from the TCEQ to accept hazardous wastes governed by RCRA, for treatment, storage and/or disposal. In October 2005, our RCRA permit was renewed for a new ten-year period. We have obtained additional authority to dispose of certain categories of LLRW, including naturally-occurring radioactive material (“NORM”) and exempt-level materials (radioactive materials that do not exceed certain specified radioactive concentrations and are exempt from licensing). Materials disposed of under these permits and authorizations are disposed of in what we call the “RCRA landfill.”
- **TSCA.** Our Waste Management Segment has permits from the U.S. Environmental Protection Agency (“EPA”) to accept toxic wastes governed TSCA, for treatment, storage and/or disposal. In December 2010, our five-year TSCA authorization was renewed for a new five-year period and in 2012 our TSCA authorization was amended to include our Federal LLRW disposal facility.
- **Byproduct Disposal.** In May 2008, 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 completed construction of the byproduct facility infrastructure at our site in Andrews County, Texas in the third quarter of 2009, and this facility began disposal operations in October 2009. Byproduct materials are disposed of in what we call the “Byproduct landfill.”

Our LLRW Treatment/Storage facility also serves as a staging and processing location for material that requires other forms of treatment prior to final disposal as mandated by the EPA or other regulatory bodies. Our 20,000 square foot treatment facility provides for waste treatment/stabilization, warehouse storage and treatment facilities for hazardous, toxic and mixed LLRW, drum to bulk, and bulk to drum materials handling and repackaging capabilities. Treatment operations involve processing wastes through one or more chemical or other treatment methods, depending upon the particular waste being disposed and regulatory and customer requirements. Chemical treatment uses chemical oxidation and reduction, chemical precipitation of heavy metals, hydrolysis and neutralization of acid and alkaline wastes, and results in the transformation of waste into inert materials through one or more of these chemical processes. Certain treatment processes involve technology which we may acquire, license or subcontract from third parties. Once treated and stabilized, waste currently is either: (i) placed in our landfills, (ii) stored onsite in drums or other specialized containers or (iii) shipped to third-party facilities for final disposition. Only waste that meets certain specified regulatory requirements can be disposed of in our landfills.

In February 2015, we sent a notification to the Nuclear Regulatory Commission (“NRC”) expressing our intent to apply for a license for the interim storage of used nuclear fuel at our facility. Currently used nuclear fuel is stored at 63 locations in 33 states. If approved and constructed, we would become the nation’s first centralized storage facility for such high level waste. We currently expect to submit a final license application by April 2016, and currently expect the licensing, regulatory requirements and construction process to be completed by December 2020. If approved and

completed, we believe the storage facility will further enhance our one-stop shop for radioactive waste to provide a comprehensive disposal and storage solution for the entire range of waste produced in the nuclear fuel cycle for our customers. There can be no assurance that we would be successful in obtaining any license for such interim storage of used nuclear fuel.

Sales

Our Waste Management Segment's target customers are industrial companies, including nuclear utilities, chemical, aerospace and electronics businesses and governmental agencies, including the DOE, which generate low-level radioactive, hazardous,

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mixed low-level radioactive and other wastes. We employ our own salespeople to market our services to potential customers. During 2013 we had sales to three customers that each exceeded 10% of our Waste Management Segment's total sales: Tennessee Valley Authority (30%), Studsvik, Inc. (15%) and the DOE (10%). During 2014 we had sales to two customers that each exceeded 10% of our Waste Management Segment's total sales: Zion Solutions (18%), and Sacramento Municipal Utility District (23%). We have long term agreements with many of our customers.

Competition

The hazardous waste industry (other than LLRW and mixed LLRW) currently has excess industry capacity caused by a number of factors, including a relative decline in the number of environmental remediation projects generating hazardous waste and efforts on the part of waste generators to reduce the volume of waste and/or manage waste onsite at their facilities. These factors have led to reduced demand and increased price pressure for non-radioactive hazardous waste management services.

Competition within the hazardous waste industry is diverse and based primarily on facility location/proximity to customers, pricing and customer service. We expect price competition to continue to be intense for RCRA- and TSCA-related wastes.

This price competition resulted in minimal use of our RCRA landfill in the past. Beginning in 2014, we gained the ability to accept a broader range of waste for disposal in the RCRA landfill. This has increased the use of our RCRA landfill because it has allowed us to be more competitive for "exempt waste," which is hazardous waste that possesses very low levels of radioactivity and has been exempted by law from management and disposal requirements applicable to LLRW. We believe our broad range of permits for the treatment, storage and disposal of exempt waste, LLRW and mixed LLRW streams may position us better than our competitors and are a key element of our long-term strategy to provide "one-stop shopping" for exempt waste, LLRW and mixed LLRW.

The LLRW industry is very competitive. Our principal competitors with respect to LLRW are EnergySolutions, Inc., US Ecology Inc., and Perma-Fix Environmental Services, Inc. These competitors are well established, and some may have significantly greater resources than we do, which could be important factors to our potential customers. We believe we may be better positioned than our competitors due to our environmentally-desirable location, a broad level of local community support, a rail transportation network leading to our facility, our capability for future site expansion and the fact that the State of Texas takes title to the LLRW in our Compact disposal facility.

LLRW, mixed LLRW and exempt waste can be and currently is stored in numerous sites around the country and, alternatively, generators can dispose of LLRW, mixed LLRW and exempt waste in facilities operated by us and our competitors. Many of our customers store these waste streams onsite, which serves as an alternative to our and our competitors' disposal services.

Facilities that dispose of LLRW, mixed LLRW and exempt waste, such as our facility in Texas, are generally subject to the following requirements:(i) commercial LLRW disposal facilities can only be licensed by the NRC or states that have an agreement with NRC to assume portions of its regulatory authority ("Agreement States"); (ii) the facilities must be designed, constructed and operated to meet strict safety standards and (iii) the operator of a facility must extensively characterize the site on which the facility is located and analyze how the facility will perform for thousands of years into the future. Further, certain LLRW disposal sites are restricted from accepting Class B or C LLRW from generators located in states which do not have a formal agreement with the state in which the disposal facility is located (the "Compact"). Our facility may accept Class B or C LLRW from generators that are not located in a Compact.

Other commercial options are, and may in the future become, available for the disposal of Class B and C LLRW. One such option offered by one of our competitors is the "downblending" of Class B and C LLRW in order to permit the reclassification and disposal of this waste as Class A LLRW. WCS does not offer a downblending option to its

customers, and WCS does not support downblending because we believe that direct disposal of Class B and C LLRW results in a more environmentally safe solution that is less complex and less likely to be subject to regulatory changes. In addition, the State of Texas does not permit LLRW to be reclassified as a result of downblending.

Regulatory and Environmental Matters

While the waste management industry has benefited from increased governmental regulation, it has also become subject to extensive and evolving regulation by federal, state and local authorities. The regulatory process requires waste management businesses to obtain and retain numerous operating permits covering various aspects of their operations, any of which could be subject to revocation, modification or denial. Regulations also allow public participation in the permitting process. Individuals as well as companies may oppose the granting of permits. In addition, governmental policies and the exercise of broad discretion by regulators are subject to change. It is possible our ability to modify, obtain or retain permits on a timely basis could be impaired in the future. The loss of an individual permit or the failure to modify or obtain a permit could have a significant impact on our Waste Management Segment's future operating plans, financial condition, results of operations or liquidity, especially because we only operate one disposal site. For example, adverse decisions by governmental authorities on our permit applications could cause us to abandon

projects, prematurely close our facility or restrict operations. See “Facility, Operations and Services” above for a discussion of some of our Waste Management Segment’s permits. Our RCRA permit for the RCRA landfill expires in 2015. The TSCA authorization for the RCRA landfill and Federal LLRW disposal facility expires in 2015. We believe our permits will be renewed in the ordinary course of business. Our byproduct material disposal license expires in 2018 and our LLRW disposal license expires in 2024. Our RCRA permit for the Federal LLRW disposal facility expires in 2018. Our LLRW treatment/storage license was combined into one license with our LLRW disposal license and now expires in 2024. Such permits, licenses and authorizations can be renewed subject to compliance with the requirements of the application process and approval by the TCEQ or the EPA, as applicable.

The Texas Low-Level Radioactive Waste Disposal Compact Commission (“Texas Compact Commission”) is responsible for managing the disposal capacity of the Compact LLRW disposal facility. They do this by approving or denying export petitions from Texas Compact generators that wish to ship their waste to a different disposal site or approving or denying import petitions from out-of-compact generators that wish to ship their waste to the Compact LLRW disposal facility. The Texas Compact Commission has approved rules for the export and import of LLRW and began approving import agreements in 2012.

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

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

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

Employees

At December 31, 2014, WCS had 193 employees. We believe our labor relations are good.

REAL ESTATE MANAGEMENT AND DEVELOPMENT SEGMENT—BASIC MANAGEMENT, INC. AND THE LANDWELL COMPANY

Business Overview

We obtained a controlling interest in our Real Estate Management and Development Segment in December 2013. Prior to December 2013, we owned a 32% interest in BMI, which among other things provides utility services to an industrial park located in Henderson, Nevada, and is responsible for the delivery of water to the city of Henderson and various other users through a water distribution system owned by BMI. We also had a 12% interest in LandWell, which is actively engaged in efforts to develop certain real estate in Henderson, Nevada including approximately 2,100 acres zoned for residential/planned community purposes and approximately 400 acres zoned for commercial and light industrial use. BMI owns an additional 50% interest in LandWell. In December 2013 we completed the acquisition of an additional 31% ownership interest in BMI and 15% ownership interest in LandWell. We completed this acquisition to obtain control of BMI and LandWell (with the consent of BMI and LandWell and their other owners), which increased our direct ownership interest of BMI to 63% and our direct ownership of LandWell to 27%, which also resulted in our control of 77% of LandWell including the 50% ownership interest held by BMI. See Notes 3 and 7 to our Consolidated Financial Statements.

Operations and Services

Over the years, LandWell and BMI have focused on developing and selling the land transferred to LandWell as part of its formation in the early 1950's as well as additional land holdings acquired by LandWell in the surrounding area subsequent to LandWell's formation (although BMI and LandWell have not had significant real property acquisitions since 2004). Since LandWell's formation, LandWell and BMI have a history of successfully developing and selling over 1,200 acres of retail, light industrial, commercial and residential projects in the Henderson, Nevada area. However, a substantial portion of such projects, had been completed prior to the 2008 economic downturn which was particularly acute in the Las Vegas area real estate market which includes Henderson. Following such economic downturn, LandWell's land sales were substantially reduced as compared to prior years, and LandWell did not recognize any material amount of land sales in the 2008 to 2013 time period. During this time period, LandWell had been primarily focusing on the development of a large tract of land in Henderson zoned for residential/planned community purposes (approximately 2,100 acres). Planning and zoning work on such project began in 2007, but LandWell delayed significant development efforts until economic conditions had improved. As general economic conditions improved in 2011 and 2012, LandWell began intensive development efforts of the residential/planned community in 2013 (with LandWell acting as the master developer for all such development efforts). We market and sell our residential/planned community to established home builders in tracts of land that are pre-zoned for a maximum number of home lots. We support the builders efforts to market and sell specific residential homes within our residential/planned community through joint marketing campaign and community wide education efforts.

In addition, BMI delivers utility services to an industrial park located in Henderson, Nevada and is also responsible for the delivery of water to the city of Henderson and various other users through a water delivery system owned by BMI.

Sales

Through December 31, 2014, LandWell has closed or entered into escrow on approximately 300 acres of the residential/planned community and certain other acreage. Contracts for land sales are negotiated on an individual basis and sales terms and prices will vary based on such factors as location (including location within a planned community), expected development work, and individual buyer needs. Although land may be under contract, we do not recognize revenue until we have satisfied the criteria for revenue recognition set forth in Accounting Standards Codification ("ASC") Topic 976. In some instances, we will receive cash proceeds at the time the contract closes and record deferred revenue for some or all of the cash amount received, with such deferred revenue being recognized in subsequent periods. Because land held for development was initially recognized at estimated fair value at the acquisition date as required by ASC Topic 805, we do not expect to recognize significant operating income on land sales for the land currently under contract. We expect the development work to continue for 10 to 15 years on the rest of the land held for development, especially the remainder of the residential/planned community.

Our Real Estate Management and Development Segment's sales consist principally of land sales and water and electric delivery fees. During 2014 we had sales to four customers that each exceeded 10% of our Real Estate Management and Development Segment's total sales: Greystone Nevada (23%), Woodside Homes of Nevada (25%), and Richmond Homes of Nevada (20%) all relate to land sales; the City of Henderson (12%) related to our water delivery services.

Competition

There are multiple new construction residential communities in the greater Las Vegas, Nevada area. We compete with these communities on the basis of location; planned community amenities and features; proximity to major retail and recreational activities; and the perception of quality of life within the new community. We believe our residential/planned community is unique within the greater Las Vegas area due to its location and planned amenities which include: 490 acres of major and neighborhood parks and open space interconnected with major regional trails and parks; and features that no other new construction residential community currently offers including builder

floorplans designed exclusively for our community. We are marketing our residential/planned community to builders who target a range of home buyers to maximize sales.

Regulatory and Environmental Matters

We and the subcontractors we use must comply with many federal, state and local laws and regulations, including zoning, density and development requirements, building, environmental, advertising, labor and real estate sales rules and regulations. These regulations and requirements affect substantially all aspects of our land development. Our operations are subject to federal, state and local laws and regulations relating to the use, storage, handling, generation, transportation, treatment, emission, discharge, disposal, remediation of and exposure to hazardous and non-hazardous substances, materials and wastes. Our operations also are subject to federal, state and local laws and regulations relating to worker health and safety. We believe we are in substantial compliance with all such laws and regulations. To date, the costs of maintaining compliance with such laws and regulations have not significantly impacted our results. We currently do not anticipate any significant costs or expenses relating to such matters; however, it is possible future laws and regulations may require us to incur significant additional expenditures.

Employees

At December 31, 2014, BMI had 23 employees. We believe our labor relations are good.

OTHER

NL Industries, Inc.—At December 31, 2014, NL owned 87% of CompX and 30% of Kronos. NL also owns 100% of EWI RE, Inc., an insurance brokerage and risk management services company and also holds certain marketable securities and other investments. See Note 16 to our Consolidated Financial Statements for additional information.

Tremont LLC—Tremont is primarily a holding company through which we hold our 63% ownership interest in BMI and our 77% ownership interest in LandWell. Such 77% ownership interest in LandWell includes 27% we hold directly and 50% held by a subsidiary of BMI.

In addition, we also own real property related to certain of our former business units.

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

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

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

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

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

ITEM 1A. RISK FACTORS

Listed below are certain risk factors associated with us and our businesses. See also certain risk factors discussed in Item 7 — “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates.” In addition to the potential effect of these risk factors, any risk factor which could result in reduced earnings or increased operating losses, or reduced liquidity, could in turn adversely affect our ability to service our liabilities or pay dividends on our common stock or adversely affect the quoted market prices for our securities.

Our assets consist primarily of investments in our operating subsidiaries, and we are dependent upon distributions from our subsidiaries to service our liabilities.

The majority of our operating cash flows are generated by our operating subsidiaries, and our ability to service liabilities and to pay dividends on our common stock depends to a large extent upon the cash dividends or other distributions we receive from our subsidiaries. Our subsidiaries are separate and distinct legal entities and they have no obligation, contingent or otherwise, to pay such cash dividends or other distributions to us. In addition, the payment of dividends or other distributions from our subsidiaries could be subject to restrictions on, or taxation of, dividends or repatriation of earnings under applicable law, monetary transfer restrictions, currency exchange regulations in jurisdictions in which our subsidiaries operate or any other restrictions imposed by current or future agreements to which our subsidiaries may be a party, including debt instruments. Events beyond our control, including changes in general business and economic conditions, could adversely impact the ability of our subsidiaries to pay dividends or make other distributions to us. If our subsidiaries were to become unable to make sufficient cash dividends or other distributions to us, our ability to service our liabilities and to pay dividends on our common stock could be adversely affected.

In addition, a significant portion of our assets consist of ownership interests in our subsidiaries. If we were required to liquidate any of such securities in order to generate funds to satisfy our liabilities, we may be required to sell such securities at a time or times at which we would not be able to realize what we believe to be the long-term value of such assets.

Demand for, and prices of, certain of our products are influenced by changing market conditions for our products, which may result in reduced earnings or operating losses.

Approximately 90% of our Chemicals Segment’s revenues are attributable to sales of TiO₂. Pricing within the global TiO₂ industry over the long term is cyclical and changes in economic conditions, especially in Western industrialized nations, can significantly impact our earnings and operating cash flows. Historically, the markets for many of our products have experienced alternating periods of increasing and decreasing demand. Relative changes in the selling prices for our products are one of the main factors that affect the level of our profitability. In periods of increasing demand, our Chemicals Segment’s selling prices and profit margins generally will tend to increase, while in periods of decreasing demand our Chemicals Segment’s selling prices and profit margins generally tend to decrease. In addition, pricing may affect customer inventory levels as customers may from time to time accelerate purchases of TiO₂ in advance of anticipated price increases or defer purchases of TiO₂ in advance of anticipated price decreases. Our ability to further increase capacity without additional investment in greenfield or brownfield capacity increases may be limited and as a result, our profitability may become even more dependent upon the selling prices of our products.

The TiO₂ industry is concentrated and highly competitive and we face price pressures in the markets in which we operate, which may result in reduced earnings or operating losses.

The global market in which we operate our Chemicals business is concentrated with the top five TiO₂ producers accounting for our 50% of the world’s production capacity and is highly competitive. Competition is based on a number of factors, such as price, product quality and service. Some of our competitors may be able to drive down prices for our TiO₂ products if their costs are lower than our costs. In addition, some of our competitors’ financial,

technological and other resources may be greater than our resources and such competitors may be better able to withstand changes in market conditions. Our competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements. Further, consolidation of our competitors or customers may result in reduced demand for our products or make it more difficult for us to compete with our competitors. The occurrence of any of these events could result in reduced earnings or operating losses.

Higher costs or limited availability of our raw materials may reduce our earnings and decrease our liquidity. In addition, many of our raw material contracts contain fixed quantities we are required to purchase.

The number of sources for and availability of certain raw materials is specific to the particular geographical region in which a facility is located. For example, titanium-containing feedstocks suitable for use in our TiO₂ facilities are available from a limited number of suppliers around the world. Political and economic instability in the countries from which we purchase our raw material supplies could adversely affect their availability. If our worldwide vendors were unable to meet their contractual obligations and we were unable to obtain necessary raw materials, we could incur higher costs for raw materials or may be required to reduce production levels. We experienced significantly higher ore costs in 2012 which carried over into 2013. We have seen moderation in the purchase

cost of third-party feedstock ore in 2013 and throughout 2014, but such reductions did not begin to be significantly reflected in our cost of sales until the third quarter of 2013. We may also experience higher operating costs such as energy costs, which could affect our profitability. We may not always be able to increase our TiO₂ selling prices to offset the impact of any higher costs or reduced production levels, which could reduce our earnings and decrease our liquidity.

We have long-term supply contracts that provide for our TiO₂ feedstock requirements that currently expire through 2016. While we believe we will be able to renew these contracts, there can be no assurance we will be successful in renewing these contracts or in obtaining long-term extensions to these contracts prior to expiration. Our current agreements (including those entered into in January 2015) require us to purchase certain minimum quantities of feedstock with minimum purchase commitments aggregating approximately \$532 million in years subsequent to December 31, 2014. In addition, we have other long-term supply and service contracts that provide for various raw materials and services. These agreements require us to purchase certain minimum quantities or services with minimum purchase commitments aggregating approximately \$164 million at December 31, 2014. Our commitments under these contracts could adversely affect our financial results if we significantly reduce our production and were unable to modify the contractual commitments.

Certain of the raw materials used in our Component Product Segment's products are commodities that are subject to significant fluctuations in price in response to world-wide supply and demand as well as speculative investor activity. Zinc and brass are the principal raw materials used in the manufacture of security products. Stainless steel tubing is the major raw material used in the manufacture of marine exhaust systems. These raw materials are purchased from several suppliers and are generally readily available from numerous sources. We occasionally enter into short-term raw material supply arrangements to mitigate the impact of future increases in commodity-related raw material costs. Materials purchased outside of these arrangements are sometimes subject to unanticipated and sudden price increases. Should our vendors not be able to meet their contractual obligations or should we be otherwise unable to obtain necessary raw materials, we may incur higher costs for raw materials or may be required to reduce production levels, either of which may decrease our liquidity as we may be unable to offset the higher costs with increases in our component product selling prices or reductions in other operating costs.

We could incur significant costs related to legal and environmental remediation matters.

NL formerly manufactured lead pigments for use in paint. NL and others have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share or risk contribution liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims. The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. As with all legal proceedings, the outcome is uncertain. Any liability we might incur in the future could be material. See also Item 3—"Legal Proceedings—Lead Pigment Litigation-NL."

Certain properties and facilities used in our and NL's former operations are the subject of litigation, administrative proceedings or investigations arising under various environmental laws. These proceedings seek cleanup costs, personal injury or property damages and/or damages for injury to natural resources. Some of these proceedings involve claims for substantial amounts. Environmental obligations are difficult to assess and estimate for numerous reasons, and we may incur costs for environmental remediation in the future in excess of amounts currently estimated. Any liability we might incur in the future could be material. See also Item 3—"Legal Proceedings—Environmental Matters and Litigation."

Many of the markets in which our Component Products Segment operates are mature and highly competitive resulting in pricing pressure and the need to continuously reduce costs.

Many of the markets our Component Products Segment serves are highly competitive, with a number of competitors offering similar products. We focus our efforts on the middle and high-end segment of the market where we feel that we can compete due to the importance of product design, quality and durability to the customer. However, our ability to effectively compete is impacted by a number of factors. The occurrence of any of these factors could result in reduced earnings or operating losses.

- Competitors may be able to drive down prices for our products beyond our ability to adjust costs because their costs are lower than ours, especially products sourced from Asia.
- Competitors' financial, technological and other resources may be greater than our resources, which may enable them to more effectively withstand changes in market conditions.
- Competitors may be able to respond more quickly than we can to new or emerging technologies and changes in customer requirements.

- Consolidation of our competitors or customers in any of the markets in which we compete may result in reduced demand for our products.
- New competitors could emerge by modifying their existing production facilities to manufacture products that compete with our products.
- We may not be able to sustain a cost structure that enables us to be competitive.
- Customers may no longer value our product design, quality or durability over the lower cost products of our competitors.

Our development of innovative features for current products is critical to sustaining and growing our Component Product Segment's sales.

Historically, our Component Products Segment's ability to provide value-added custom engineered products that address requirements of technology and space utilization has been a key element of our success. We spend a significant amount of time and effort to refine, improve and adapt our existing products for new customers and applications. Since expenditures for these types of activities are not considered research and development expense under accounting principles generally accepted in the United States of America ("GAAP"), the amount of our research and development expenditures, which is not significant, is not indicative of the overall effort involved in the development of new product features. The introduction of new product features requires the coordination of the design, manufacturing and marketing of the new product features with current and potential customers. The ability to coordinate these activities with current and potential customers may be affected by factors beyond our control. While we will continue to emphasize the introduction of innovative new product features that target customer-specific opportunities, we do not know if any new product features we introduce will achieve the same degree of success that we have achieved with our existing products. Introduction of new product features typically requires us to increase production volume on a timely basis while maintaining product quality. Manufacturers often encounter difficulties in increasing production volumes, including delays, quality control problems and shortages of qualified personnel or raw materials. As we attempt to introduce new product features in the future, we do not know if we will be able to increase production volume without encountering these or other problems, which might negatively impact our financial condition or results of operations.

Failure to protect our intellectual property rights or claims by others that we infringe their intellectual property rights could substantially harm our business.

Our Component Products Segment relies on patent, trademark and trade secret laws in the United States and similar laws in other countries to establish and maintain intellectual property rights in our technology and designs. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated. Others may independently discover our trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Further, we do not know if any of our pending trademark or patent applications will be approved. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our intellectual property rights. In addition, the laws of certain countries do not protect intellectual property rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions, we may be unable to protect our technology and designs adequately against unauthorized third party use, which could adversely affect our competitive position.

Third parties may claim that we or our customers are infringing upon their intellectual property rights. Even if we believe that such claims are without merit, they can be time-consuming and costly to defend and distract our management's and technical staff's attention and resources. Claims of intellectual property infringement also might require us to redesign affected technology, enter into costly settlement or license agreements or pay costly damage awards, or face a temporary or permanent injunction prohibiting us from marketing or selling certain of our technology. If we cannot or do not license the infringed technology on reasonable pricing terms or at all, or substitute similar technology from another source, our business could be adversely impacted.

Our Waste Management Segment operates in a highly regulated industry, and third parties may from time to time seek to challenge our Waste Management Segment's licenses and permits. We may not be successful in obtaining new business to effectively operate our LLRW disposal facilities.

Our Waste Management Segment is required to comply with various federal, state and local regulations, as well as comply with the terms of our operating permits and licenses as they may be modified or amended. Failure to comply with any such regulation or permit requirements, or failure to obtain renewals, could adversely impact our operations. In addition, we must be successful in obtaining new business from our commercial and governmental customers in order to effectively operate our Compact and Federal LLRW disposal facilities. Third parties may from time to time seek to challenge our current operating licenses and permits. We do not know if we will be successful in obtaining such new business. Failure to obtain a sufficient amount of new business to effectively operate our LLRW disposal facilities could adversely impact our earnings and decrease our liquidity.

Our Real Estate Management and Development Segment owns a significant amount of real property in Henderson, Nevada. A prolonged downturn in the local real estate market in Nevada could negatively impact our ability to successfully complete the development of such real property.

A substantial portion of the revenues and assets associated with our Real Estate Management and Development Segment relate to certain real estate under development in Henderson, Nevada, including approximately 2,100 acres zoned for residential/planned community purposes and approximately 400 acres zoned for commercial and light industrial use. A prolonged downturn in the local real estate market in Nevada or other events could negatively impact our ability to successfully complete the development of such real property, either by requiring us to incur future development costs in excess of our current estimates, or by resulting in selling prices for future retail land sales lower than what we currently expect. If any of these events were to occur, revenue and profits in our Real Estate Management and Development segment may be significantly and negatively affected.

Our leverage may impair our financial condition or limit our ability to operate our businesses.

We have a significant amount of debt, primarily related to Kronos' term loan, our loan from Contran Corporation, our loans from Snake River Sugar Company and the WCS financing capital lease. As of December 31, 2014, our total consolidated debt was approximately \$934.1 million. Our level of debt could have important consequences to our stockholders and creditors, including:

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

In addition to our indebtedness, we are party to various lease and other agreements (including feedstock ore purchase contracts as previously described) pursuant to which, along with our indebtedness, we are committed to pay approximately \$537.2 million in 2015. Our ability to make payments on and refinance our debt and to fund planned capital expenditures depends on our future ability to generate cash flow. To some extent, this is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds under our subsidiaries' credit facilities in the future will, in some instances, depend in part on these subsidiaries' ability to maintain specified financial ratios and satisfy certain financial covenants contained in the applicable credit agreement.

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

Global climate change legislation could negatively impact our financial results or limit our ability to operate our businesses.

We operate production facilities in several countries, and we believe all of our worldwide production facilities are in substantial compliance with applicable environmental laws. In many of the countries in which we operate, legislation

has been passed, or proposed legislation is being considered, to limit greenhouse gases through various means, including emissions permits and/or energy taxes. In several of our production facilities, we consume large amounts of energy, primarily electricity and natural gas. To date, the permit system in effect in the various countries in which we operate has not had a material adverse effect on our financial results. However, if greenhouse gas legislation were to be enacted in one or more countries, it could negatively impact our future results from operations through increased costs of production, particularly as it relates to our energy requirements. If such increased costs of production were to materialize, we may be unable to pass price increases onto our customers to compensate for increased production costs, which may decrease our liquidity, operating income and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

Lead Pigment Litigation—NL

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

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. 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.

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

we have never settled any of the market share, risk contribution, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases, no final, non-appealable adverse verdicts have ever been entered against us, and we have never ultimately been found liable with respect to any such litigation matters, including over 100 cases over a twenty-year period for which we were previously a party and for which we have been dismissed without any finding of liability.

Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases filed on or behalf of states, counties, cities or their public housing authorities and school districts, or those asserted as class actions. 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.

In one of these lead pigment cases, in April 2000 we were served with a complaint (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) brought by a number of California government entities against the former pigment manufacturers, the LIA and certain paint manufacturers. The County of Santa Clara sought to recover compensatory damages for funds the plaintiffs had expended or would in the future expend for medical treatment, educational expenses, abatement or other costs due to exposure to, or potential exposure to, lead paint, disgorgement of

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profit, and punitive damages. In July 2003, the trial judge granted defendants' motion to dismiss all remaining claims. Plaintiffs appealed and the intermediate appellate court reinstated public nuisance, negligence, strict liability, and fraud claims in March 2006. A fourth amended complaint was filed in March 2011 on behalf of The People of California by the County Attorneys of Alameda, Ventura, Solano, San Mateo, Los Angeles and Santa Clara, and the City Attorneys of San Francisco, San Diego and Oakland. That complaint alleged that the presence of lead paint created a public nuisance in each of the prosecuting jurisdictions and seeks its abatement. In July and August 2013, the case was tried. In January 2014, the Court issued a judgment finding us, The Sherwin Williams Company and ConAgra Grocery Products Company jointly and severally liable for the abatement of lead paint in pre-1980 homes, and ordered the defendants to pay an aggregate \$1.15 billion to the people of the State of California to fund such abatement. In February 2014, we filed a motion for a new trial, and in March 2014 the court denied the motion. Subsequently in March 2014, we filed a notice of appeal with the Sixth District Court of Appeal for the State of California and the appeal is proceeding with the appellate court. NL believes that this judgment is inconsistent with California law and is unsupported by the evidence, and we will defend vigorously against all claims.

The Santa Clara case is unusual in that this is the second time that an adverse verdict in the lead pigment litigation has been entered against NL (the first adverse verdict against NL was ultimately overturned on appeal). We have concluded that the likelihood of a loss in this case has not reached a standard of "probable" as contemplated by ASC 450, given (i) the substantive, substantial and meritorious grounds on which the adverse verdict in the Santa Clara case will be appealed, (ii) the uniqueness of the Santa Clara verdict (i.e. no final, non-appealable verdicts have ever been rendered against us, or any of the other former lead pigment manufacturers, based on the public nuisance theory of liability or otherwise), and (iii) the rejection of the public nuisance theory of liability as it relates to lead pigment matters in many other jurisdictions (no jurisdiction in which a plaintiff has asserted a public nuisance theory of liability has ever successfully been upheld). In addition, liability that may result, if any, cannot be reasonably estimated, as NL continues to have no basis on which an estimate of liability could be made, as discussed above. However, as with any legal proceeding, there is no assurance that any appeal would be successful, and it is reasonably possible, based on the outcome of the appeals process, that NL may in the future incur some liability resulting in the recognition of a loss contingency accrual that could have a material adverse impact on our results of operations, financial position and liquidity.

In June 2000, a complaint was filed in Illinois state court, *Lewis, et al. v. Lead Industries Association, et al* (Circuit Court of Cook County, Illinois, County Department, Chancery Division, Case No. 00CH09800.) Plaintiffs seek to represent two classes, one consisting of minors between the ages of six months and six years who resided in housing in Illinois built before 1978, and another consisting of individuals between the ages of six and twenty years who lived in Illinois housing built before 1978 when they were between the ages of six months and six years and who had blood lead levels of 10 micrograms/deciliter or more. The complaint seeks damages jointly and severally from the former pigment manufacturers and the LIA to establish a medical screening fund for the first class to determine blood lead levels, a medical monitoring fund for the second class to detect the onset of latent diseases and a fund for a public education campaign. In April 2008, the trial court judge certified a class of children whose blood lead levels were screened venously between August 1995 and February 2008 and who had incurred expenses associated with such screening. In March 2012, the trial court judge decertified the class. In June 2012, the trial court judge granted plaintiffs the right to appeal his decertification order, and in August 2012 the appellate court granted plaintiffs permission to appeal. 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 July 2013, plaintiffs moved to vacate the decertification. In October 2013, the judge denied plaintiffs' motion to vacate the decertification of the class. In March 2014, plaintiffs filed a new class certification motion.

Between January 2007 and May 2011, we were served with nine complaints filed in the Circuit Court in Milwaukee County, Wisconsin or in the United District Court, Eastern District of Wisconsin. The plaintiffs are 173 minor children who allege injuries purportedly caused by lead on the surfaces of the homes in which they resided. Plaintiffs seek compensatory and punitive damages. The defendants in these cases include NL, American Cyanamid Company, Armstrong Containers, Inc., E.I. Du Pont de Nemours & Company, Atlantic Richfield Company and The

Sherwin-Williams Company. Property owners are also defendants in each of the cases. Two of the cases remained in State Court (Clark and Williams); four were removed to Federal court (Burton, Owens, B. Stokes, and Gibson); and three were filed in Federal Court (Sifuentes, Allen and Valoe). In December 2014, all of these cases as to NL were all dismissed with prejudice.

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

New cases may continue to be filed against NL. 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 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 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 NL's 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, NL is 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 that we or our predecessors, our subsidiaries or their predecessors currently or previously owned, operated or used, certain of which are on the EPA's Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although NL may be jointly and severally liable for these costs, in most cases NL is 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, NL is 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 payout. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. Recoveries recognized at December 31, 2013 and 2014 are not significant.

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.

On a quarterly basis, we evaluate the potential range of our liability for environmental remediation and related costs at sites where we have been named as a PRP or defendant, including sites for which NL's wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc., ("EMS"), has contractually assumed our obligations. At December 31, 2014, NL had accrued approximately \$110 million related to approximately 47 sites associated with remediation and related matters that we believe are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to us for remediation and related matters for which we believe it is possible to estimate costs is approximately \$149 million, including the amount currently accrued.

We believe that it is not possible to estimate the range of costs for certain sites. At December 31, 2014, 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 we actually had any association with the site, the nature of its responsibility, if any, for the contamination at the site and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of our control, such as when the party alleging liability provides information to us. At certain of these previously inactive sites, NL has received general and special notices of liability from the EPA and/or state agencies alleging that we, sometimes with other PRPs, are 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, are liable for past and/or future clean-up costs. As further information becomes available to us for any of these sites which would allow us 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.

In June 2006, we and several other PRPs received a Unilateral Administrative Order ("UAO") from the EPA regarding a formerly-owned mine and milling facility located in Park Hills, Missouri. The Doe Run Company is the current owner of the site, which was purchased by a predecessor of Doe Run from us in approximately 1936. Doe Run is also named in the Order. In April 2008, the parties signed a definitive cost sharing agreement for sharing of the costs anticipated in connection with the order and in May 2008, the parties began work at the site as required by the UAO and in accordance with the cost sharing agreement. In the fourth quarter of 2010, NL reached its capped payment obligation under the cost sharing agreement with Doe Run. In the fourth quarter of 2013, Doe Run completed the remainder of the construction work. A Removal Action Report and Post-Removal Site Control plan will be submitted to the EPA in 2015.

In June 2008, we received a Directive and Notice to Insurers from the New Jersey Department of Environmental Protection (“NJDEP”) regarding the Margaret’s Creek site in Old Bridge Township, New Jersey. NJDEP alleged that a waste hauler transported waste from one of our former facilities for disposal at the site in the early 1970s. NJDEP referred the site to the EPA, and in November 2009, the EPA added the site to the National Priorities List under the name “Raritan Bay Slag Site.” In 2012, EPA notified NL of its potential liability at this site. In May 2013, EPA issued its Record of Decision for the site. In June 2013, NL filed a contribution suit under CERCLA and the New Jersey Spill Act titled NL Industries, Inc. v. Old Bridge Township, et al. (United States District Court for the District of New Jersey, Civil Action No. 3:13-cv-03493-MAS-TJB) against the current owner, Old Bridge Township, and several federal and state entities NL alleges designed and operated the site and who have significant potential liability as compared to NL which is alleged to have been a potential source of material placed at the site by others. NL’s suit also names certain former NL customers of the former NL facility alleged to be the source of some of the materials. In January 2014, EPA issued a UAO to NL for clean-up of the site based on the EPA’s preferred remedy set forth in the Record of Decision. NL is in discussions with EPA about NL’s performance of a defined amount of the work at the site and is otherwise taking actions necessary to respond to the UAO. If these discussions and actions are unsuccessful, NL will defend vigorously against all claims while continuing to seek contribution from other PRPs.

In September 2008, we received a Special Notice letter from the EPA for liability associated with the Tar Creek Superfund site in Ottawa County (Tar Creek) Oklahoma and a demand for related past and future costs. We responded with a good-faith offer to pay certain of the EPA's past costs and to complete limited work in the areas in which we operated. In October 2008, we received a claim from the State of Oklahoma for past, future and relocation costs in connection with the site. We are involved in an ongoing dialogue with the EPA and the State of Oklahoma regarding a potential settlement.

In June 2009, we were served with a complaint in Consolidation Coal Company v. 3M Company, et al. (United States District Court, Eastern District of North Carolina, Civil Action No. 5:09-CV-00191-FL). The complaint seeks to recover against NL and roughly 170 other defendants under CERCLA for past and future response costs. The plaintiffs allege that NL's former Albany operation allegedly sent three PCB-containing transformers to the Ward Transformer Superfund Site. In December 2012, NL received a notice of potential responsibility for past costs from the EPA. We have denied liability and will defend vigorously against all claims.

In August 2009, we were served with a complaint in Raritan Baykeeper, Inc. d/b/a NY/NJ Baykeeper et al. v. NL Industries, Inc. et al. (United States District Court, District of New Jersey, Case No. 3:09-cv-04117). This is a citizen's suit filed by two local environmental groups pursuant to the Resource Conservation and Recovery Act and the Clean Water Act against NL, current owners, developers and state and local government entities. The complaint alleges that hazardous substances were and continue to be discharged from our former Sayreville, New Jersey property into the sediments of the adjacent Raritan River. The former Sayreville site is currently being remediated by owner/developer parties under the oversight of the NJDEP. The plaintiffs seek a declaratory judgment, injunctive relief, imposition of civil penalties and an award of costs. We have denied liability and will defend vigorously against all claims.

In June 2011, we were served in ASARCO LLC v. NL Industries, Inc., et al. (United States District Court, Western District of Missouri, Case No. 4:11-cv-00138-DGK). The plaintiff brought this CERCLA contribution action against several defendants to recover a portion of the amount it paid in settlement with the U.S. Government during its Chapter 11 bankruptcy in relation to the Tar Creek site, the Cherokee County Superfund Site in southeast Kansas, the Oronogo-Duenweg Lead Mining Belt Superfund Site in Jasper County, Missouri and the Newton County Mine Tailing Site in Newton County, Missouri. We have denied liability and will defend vigorously against all of the claims. In the second quarter of 2012, NL filed a motion to stay the case. In the first quarter of 2013, NL's motion was granted and the court entered an indefinite stay. In the first quarter of 2015, Asarco was granted permission to seek an interlocutory appeal of that stay order. If an appeal is permitted, NL will vigorously defend the trial court's decision to stay the litigation.

In September 2011, we were served in ASARCO LLC v. NL Industries, Inc., et al. (United States District Court, Eastern District of Missouri, Case No. 4:11-cv-00864). The plaintiff brought this CERCLA contribution action against several defendants to recover a portion of the amount it paid in settlement with the U.S. Government during its Chapter 11 bankruptcy in relation to the Southeast Missouri Mining District. We have denied liability and will defend vigorously against all of the claims.

In July 2012, we were served in EPEC Polymers, Inc., v. NL Industries, Inc., (United States District Court for the District of New Jersey, Case 3:12-cv-03842-PGS-TJB). The plaintiff, a landowner of property located across the Raritan River from our former Sayreville, New Jersey operation, claims that contaminants from NL's former Sayreville operation came to be located on its land. The complaint seeks compensatory and punitive damages and alleges, among other things, trespass, private nuisance, negligence, strict liability, and claims under CERCLA and the New Jersey Spill Act. We have denied liability and will defend vigorously against all of the claims.

In March 2013, NL received Special Notice from EPA for Operable Unit 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. NL initiated a dialog with EPA regarding a potential settlement for this operable unit.

In September 2013, EPA issued to NL and 34 other PRPs general notice of potential liability and a demand for payment of past costs and performance of a Remedial Design for the Gowanus Canal Superfund Site in Brooklyn, New York. In March 2014, EPA issued a UAO to NL and approximately 27 other PRPs for performance of the Remedial Design at the site. EPA contends that NL is liable as the alleged successor to the Doehler Die Casting Company, and therefore responsible for any potential contamination at the Site resulting from Doehler's ownership/operation of a warehouse and a die casting plant it owned 90 years ago. NL believes that it has no liability at the Site. NL is currently in discussions with EPA regarding a de minimis settlement and is otherwise taking actions necessary to respond to the UAO. If these discussions are unsuccessful, NL will continue to deny liability and will defend vigorously against all of the claims.

See also Item 1 "Regulatory and Environmental Matters."

Other—We have also accrued approximately \$8.5 million at December 31, 2014 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.

Other Litigation

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

We currently believe that the disposition of all 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.

Insurance Coverage Claims

NL is involved in certain legal proceedings with a number of its former insurance carriers regarding the nature and extent of the carriers' obligations to NL 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.

NL has agreements with four former insurance carriers pursuant to which the carriers reimburse it for a portion of our future lead pigment litigation defense costs, and one such carrier reimburses us 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 us because of certain issues that arise regarding which defense costs qualify for reimbursement. While NL continues to seek additional insurance recoveries, we do not know if it 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. See Note 17 to our Consolidated Financial Statements.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Common Stock and Dividends—Our common stock is listed and traded on the New York Stock Exchange (symbol: VHI). As of March 6, 2015, there were approximately 2,090 holders of record of our common stock. The following table sets forth the high and low closing per share sales prices for our common stock and dividends for the periods indicated. On March 6, 2015 the closing price of our common stock was \$6.28.

	High	Low	Cash dividends paid
Year ended December 31, 2013			
First Quarter	\$16.89	\$12.74	\$.05
Second Quarter	16.60	12.68	.05
Third Quarter	20.71	13.25	.05
Fourth Quarter	19.86	14.28	.05
Year ended December 31, 2014			
First Quarter	\$16.40	\$8.82	\$.05
Second Quarter	8.08	4.99	.02
Third Quarter	7.95	6.53	.02
Fourth Quarter	6.41	4.81	.02
First Quarter 2015 through March 6	\$6.54	\$5.31	\$ —

We paid regular quarterly cash dividends of \$.05 per share during 2013 and the first quarter of 2014. In May 2014, after considering our results of operations, financial conditions, cash requirements for our businesses and our current expectations regarding reduced aggregate dividend distributions to be received from our subsidiaries, our Board of Directors reduced our regular quarterly dividend to \$.02 per share effective with the second quarter 2014 dividend payment and such \$.02 cash dividend per share was paid in the second, third and fourth quarters of 2014. In February 2015, our board of directors declared a first quarter 2015 dividend of \$.02 per share to be paid on March 26, 2014 to stockholders of record as of March 9, 2014. However, declaration and payment of future dividends, and the amount thereof, is discretionary and is dependent upon our results of operations, financial condition, cash requirements for our businesses, contractual or other requirements and restrictions and other factors deemed relevant by our Board of Directors. The amount and timing of past dividends is not necessarily indicative of the amount or timing of any future dividends which we might pay.

Performance Graph—Set forth below is a line graph comparing the yearly change in our cumulative total stockholder return on our common stock against the cumulative total return of the S&P 500 Composite Stock Price Index and the S&P 500 Industrial Conglomerates Index for the period from December 31, 2009 through December 31, 2014. The graph shows the value at December 31 of each year assuming an original investment of 100 at December 31, 2009, and assumes the reinvestment of our regular quarterly dividends in shares of our stock.

	December 31,					
	2009	2010	2011	2012	2013	2014
Valhi common stock	\$100	\$162	\$447	\$282	\$401	\$148
S&P 500 Composite Stock Price Index	100	115	117	136	180	205
S&P 500 Industrial Conglomerates Index	100	119	120	143	202	205

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

Equity Compensation Plan Information—We have an equity compensation plan, which was approved by our stockholders, pursuant to which an aggregate of 200,000 shares of our common stock can be awarded to members of our board of directors. At December 31, 2014, an aggregate of 177,000 shares were available for future award under this plan. See Note 14 to our Consolidated Financial Statements.

Treasury Stock Purchases—In March 2005, our board of directors authorized the repurchase of up to 5.0 million shares of our common stock in open market transactions, including block purchases, or in privately negotiated transactions, which may include transactions with our affiliates. In November 2006, our board of directors authorized the repurchase of an additional 5.0 million shares. We may purchase the stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, we could terminate the program prior to completion. We will use our cash on hand to acquire the shares. Repurchased shares will be retired and cancelled or may be added to our treasury stock and used for employee benefit plans, future acquisitions or other corporate purposes. See Note 14 to our Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

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

	Years ended December 31,				
	2010	2011	2012	2013 ⁽¹⁾	2014 ⁽¹⁾
	(In millions, except per share data)				
STATEMENTS OF OPERATIONS DATA:					
Net sales:					
Chemicals	\$1,449.7	\$1,943.3	\$1,976.3	\$1,732.4	\$1,651.9
Component products	76.1	79.8	83.2	92.0	103.9
Waste management	7.7	2.0	27.8	39.2	66.5
Real estate management and development ⁽¹⁾	—	—	—	—	40.3
Total net sales	\$1,533.5	\$2,025.1	\$2,087.3	\$1,863.6	\$1,862.6
Operating income (loss):					
Chemicals	\$183.2	\$553.0	\$366.8	\$(125.4)	\$156.8
Component products	5.9	6.4	5.4	9.3	13.6
Waste management	(30.8)	(38.0)	(26.8)	(22.6)	(2.2)
Real estate management and development ⁽¹⁾	—	—	—	—	2.0
Total operating income (loss)	\$158.3	\$521.4	\$345.4	\$(138.7)	\$170.2
Net income (loss)	\$63.8	\$295.0	\$222.1	\$(126.9)	\$79.5
Amounts attributable to Valhi stockholders:					
Income (loss) from continuing operations	\$50.7	\$214.5	\$141.4	\$(98.0)	\$53.8
Income (loss) from discontinued operations	(.4)	3.0	18.4	—	—
Net income(loss)	\$50.3	\$217.5	\$159.8	\$(98.0)	\$53.8
DILUTED EARNINGS PER SHARE DATA:					
Net income (loss) attributable to Valhi stockholders:					
Income (loss) from continuing operations	\$.14	\$.63	\$.41	\$(.29)	\$.16
Income (loss) from discontinued operations	—	.01	.06	—	—
Net income (loss)	\$.14	\$.64	\$.47	\$(.29)	\$.16
Cash dividends	\$.133	\$.158	\$.192	\$.20	\$.11
Weighted average common shares outstanding	343.0	342.1	342.0	342.0	342.0
STATEMENTS OF CASH FLOW DATA:					
Cash provided by (used in):					
Operating activities	\$122.2	\$292.4	\$71.9	\$117.1	\$67.3
Investing activities	(93.1)	(220.9)	100.9	(56.2)	(55.1)
Financing activities	228.6	(299.8)	96.0	(286.2)	110.2
BALANCE SHEET DATA (at year end):					
Total assets	\$2,714.3	\$2,838.0	\$3,170.5	\$2,967.2	\$2,967.2
Long-term debt	922.9	717.4	880.5	741.8	924.8
Valhi stockholders' equity	541.8	657.2	733.6	601.3	477.6
Total equity	818.2	993.0	1,091.7	992.8	813.9

(1) In December 2013 we acquired a controlling interest in BMI, Inc. and The LandWell Company and they are included in our Consolidated Balance Sheet beginning at December 31, 2013, and in our Consolidated Statement of Operations beginning January 1, 2014. See Note 3 to our Consolidated Financial Statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
RESULTS OF OPERATIONS

Business Overview

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

We have four consolidated reportable 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 ("TiQ"). TiQ is used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. Additionally, TiO₂ 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), postal, office and institutional furniture, cabinetry, tool storage, healthcare, gas stations and vending equipment.

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 commenced operations in 2012, and the Federal LLRW site commenced operations in 2013.

Real Estate Management and Development—We operate in real estate management and development through our majority control of BMI and LandWell. BMI provides utility services to certain industrial and municipal customers and owns real property in Henderson, Nevada. LandWell is engaged in efforts to develop certain land holdings for commercial, industrial and residential purposes in Henderson, Nevada. In December 2013, we acquired a controlling interest in each of these companies, and they are included in our results of operations and cash flows beginning on January 1, 2014. See Note 3 to our Consolidated Financial Statements.

Income From Continuing Operations Overview

Year Ended December 31, 2013 Compared to Year Ended December 31, 2014—

We reported income from continuing operations attributable to Valhi stockholders of \$53.8 million or \$.16 per diluted share in 2014 compared to a loss from continuing operations attributable to Valhi stockholders of \$98.0 million or \$.29 per diluted share in 2013.

Our income from continuing operations attributable to Valhi stockholders increased from 2013 to 2014 primarily due to the net effects of:

operating income from our Chemicals Segment in 2014 compared to an operating loss in 2013;

an aggregate non-cash gain related to our purchase of controlling interest in BMI and LandWell in December 2013, consisting of (i) a gain from the remeasurement of our existing interest in BMI and LandWell to estimated fair value

and (ii) a bargain purchase gain related to the additional interest in BMI and LandWell acquired in 2013;
a loss on the prepayment of debt in 2013;
lower environmental remediation and related expenses in 2014;
higher insurance recoveries recognized in 2014;
a lower operating loss at our Waste Management segment in 2014; and
inclusion of operating income from our Real Estate Management and Development Segment beginning January 1, 2014.

Our diluted earnings per share attributable to Valhi stockholders in 2014 includes:

an aggregate non-cash income tax benefit of \$.01 per diluted share (mostly in the second quarter) related to a net reduction in our reserve for uncertain tax positions; and
insurance recoveries of \$.03 per diluted share.

Our diluted loss per share from continuing operations attributable to Valhi stockholders in 2013 includes:

a gain of \$.14 per diluted share related to our purchase of a controlling interest in BMI and LandWell in December 2013;

insurance recoveries of \$.02 per diluted share;

a charge of \$.01 per diluted share per diluted share related to the voluntary prepayments of the entire \$390 million principal amount of Kronos' term loan; and

a charge of \$.05 per diluted share related to a litigation settlement of Kronos.

We discuss these amounts more fully below.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2013—

We reported a loss from continuing operations attributable to Valhi stockholders of \$98.0 million or \$.29 per diluted share in 2013 compared to income from continuing operations of \$141.4 million or \$.41 per diluted share in 2012.

Our loss from continuing operations attributable to Valhi stockholders 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, partially offset by increased operating income from our Component Products Segment and a decrease in the operating loss at our Waste Management Segment;

an aggregate non-cash gain related to our purchase of a controlling interest in BMI and LandWell in December 2013, consisting of (i) a gain from the remeasurement of our existing interest in BMI and LandWell to estimated fair value and (ii) a bargain purchase gain related to the additional interest in BMI and LandWell acquired;

a gain from the sale of our TIMET common stock in 2012;

a real-estate related litigation settlement gain in 2012;

a gain on excess property sales in 2012;

a goodwill impairment in 2012;

a higher loss on prepayment of debt in 2013 as compared to 2012 as a result of redeeming the Kronos term loan; and higher general expenses in 2013, primarily due to increased environmental remediation and related expenses.

Our diluted loss per share from continuing operations attributable to Valhi stockholders in 2013 includes:

a gain of \$.14 per diluted share related to our purchase of a controlling interest in BMI and LandWell in December 2013;

insurance recoveries of \$.02 per diluted share;

a charge of \$.01 per diluted share per diluted share related to the voluntary prepayments of the entire \$390 million principal amount of Kronos' term loan; and

a charge of \$.05 per diluted share related to a litigation settlement of Kronos.

Our diluted earnings per share from continuing operations attributable to Valhi stockholders in 2012 includes:

a gain of \$.04 per diluted share related to the sale of our TIMET common stock;

income of \$.02 per diluted share related to a litigation settlement gain;

income of \$.01 per diluted share related to a gain on the sale of excess property;

a loss of \$.02 per diluted share related to a goodwill impairment; and

a loss on the prepayment of debt of \$.01 per diluted share.
We discuss these amounts more fully below.

Current Forecast for 2015—

We currently expect to report higher income from continuing operations attributable to Valhi stockholders for 2015 as compared to 2014 primarily due to the net effects of:

improved operating results at WCS in 2015 as we expect more revenue from the Compact and Federal LLRW disposal facilities which experienced shipment delays in the first half of 2014; and
lower expected insurance recoveries received in 2015 compared to 2014.

Critical accounting policies and estimates

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

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

Marketable securities—We own investments in certain companies that we account for as marketable securities carried at fair value or that we account for under the equity method. For these investments, we evaluate the fair value at each balance sheet date. We use quoted market prices, Level 1 inputs as defined in Accounting Standards Codification (“ASC”) 820-10-35, Fair Value Measurements and Disclosures, to determine fair value for certain of our common stock, marketable debt securities and publicly traded investees. For other of our marketable debt securities, the fair value is generally determined using Level 2 inputs as defined in the ASC because although these securities are traded in many cases the market is not active and the year-end valuation is based on the last trade of the year which may be several days prior to December 31. We use Level 3 inputs to determine fair value of our investment in Amalgamated Sugar Company LLC. See Note 4 to our Consolidated Financial Statements. We record an impairment charge when we believe an investment has experienced an other than temporary decline in fair value below its cost basis (for marketable securities) or below its carrying value (for equity method investees). Further adverse changes in market conditions or poor operating results of underlying investments could result in losses or our inability to recover the carrying value of the investments that may not be reflected in an investment’s current carrying value, thereby possibly requiring us to recognize an impairment charge in the future.

At December 31, 2014, the carrying value (which equals their fair value) of substantially all of our marketable securities approximated the cost basis of each investment. Our investment in The Amalgamated Sugar Company LLC represents approximately 97% of the aggregate carrying value of all of our marketable securities at December 31, 2014. The \$250 million carrying value is equal to its cost basis.

Goodwill—Our net goodwill totaled \$379.7 million at December 31, 2014 resulting primarily from our various step acquisitions of Kronos and NL (which occurred before the implementation of the current accounting standards related to noncontrolling interest) and to a lesser extent CompX's purchase of various businesses. In accordance with the applicable accounting standards for goodwill, we do not amortize goodwill.

We perform a goodwill impairment test annually in the third quarter of each year. Goodwill is also evaluated for impairment at other times whenever an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. A reporting unit can be a segment or an operating division based on the operations of the segment. For example, our Chemicals Segment produces a globally coordinated

homogeneous product whereas our Component Products Segment operates as two distinct business units. If the fair value of the reporting unit is less than its book value, the goodwill is written down to estimated fair value.

For our Chemicals Segment, we use Level 1 inputs of publicly traded market prices to compare the book value to assess impairment. We also consider control premiums when assessing fair value. Substantially all of the goodwill for our Component Products Segment relates to our security products reporting unit. Since 2013, we have used the qualitative assessment of ASC 350-20-35 for our annual impairment test of our security products reporting unit and determined it was not necessary to perform the two-step quantitative goodwill impairment test, as we concluded it is more likely than not that the fair value of the security products reporting unit exceeded its carrying amount.

Considerable management judgment is necessary to evaluate the qualitative impact of events and circumstances on the fair value of a reporting unit. Events and circumstances considered in our impairment evaluations, such as historical profits and stability of the markets served, are consistent with factors utilized with our internal projections and operating plan. However, future events and circumstances could result in materially different findings which could result in the recognition of a material goodwill impairment.

We performed our annual goodwill impairment test in the third quarter of 2014 for each of our reporting units and concluded there was no impairment of the goodwill for those reporting units. Such impairment test as it relates to our security products reporting unit was based on our qualitative assessment, and as a result a quantitative assessment was not required for such reporting unit for 2014.

Long-lived assets—We assess our long-lived assets, consisting principally of property, equipment, land held for development and capitalized operating permit costs for impairment only when circumstances as specified in ASC 360-10-35, Property, Plant, and Equipment, indicate an impairment may exist. As a result of continued operating losses, certain long-lived assets of our Waste Management Segment were evaluated for impairment as of December 31, 2014. WCS has had limited operations as it sought regulatory approval for several licenses it needs for full scale operations. WCS obtained a byproduct disposal license in 2008 and began disposal operations in October 2009. In January 2010 WCS received a LLRW disposal permit. 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 and commenced operations in the second quarter of 2013. Revenues in 2013 dropped significantly in the latter half of 2013 and the first half of 2013 as customers were unable to ship waste to WCS as a result of an industry-wide shortage of approved shipping containers. The three shipping containers WCS ordered in 2012 were placed into service in 2014. Shipping volumes increased significantly in the third and fourth quarters of 2014 reflecting the industry-wide easing of transportation issues and WCS had positive gross margins on an annual basis in 2014 for the first time in its history. Our impairment analysis is based on estimated future undiscounted cash flows of WCS' operations, and this analysis indicated no impairment was present at December 31, 2014 and that the carrying value of WCS is recoverable as the aggregate future undiscounted cash flow estimate exceeded the carrying value of WCS' net assets by at least two times. Considerable management judgment is necessary to evaluate the impact of operating changes and to estimate future cash flows. Assumptions used in our impairment evaluations, such as the timing and amounts of revenue associated with our LLRW facilities, forecasted growth rates and our cost of capital, are consistent with our internal projections and operating plans. However, if our future cash flows from operations less capital expenditures were to drop significantly below our current expectations (approximately 65%), it is reasonably likely we would conclude an impairment was present. At December 31, 2014 the carrying value of WCS' total assets was \$257.7 million.

No other long-lived assets in our other reporting units were tested for impairment during 2014 because there were no circumstances indicating an impairment might exist.

Percentage completion revenue recognition—Certain real estate land sales by our Real Estate Management and Development segment (generally land sales associated with our residential/planned community) require us to complete property development and improvements after title passes to the buyer and we have received all or a substantial portion of selling price. To date all of the land sales associated with the residential/planned community

have been recognized under the percentage-of-completion method of accounting in accordance with ASC 970-605-30. Under such method, revenues and profits are recognized in the same proportion of our progress towards completion of our contractual obligations, with our progress measured by costs incurred as a percentage of total costs estimated to be incurred. Such costs incurred and total estimated costs include amounts specifically identifiable with the parcels sold as well as certain development costs for the entire residential/planned community which are allocated to the parcels sold under applicable GAAP. Estimates of total costs expected to be incurred require significant management judgment, and the amount of revenue and profits that have been recognized to date are subject to revisions throughout the development period. The impact on the amount of revenue recognized resulting from any future change in the estimate of total costs estimated to be incurred would be accounted for prospectively in accordance with GAAP.

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

Income taxes—We recognize deferred taxes for future tax effects of temporary differences between financial and income tax reporting. We record a valuation allowance to reduce our deferred income tax assets to the amount that is believed to be realized under the more-likely-than-not recognition criteria. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance, it is possible that we may change our estimate of the amount of the deferred income tax assets that would more-likely-than-not be realized in the future, resulting in an adjustment to the deferred income tax asset valuation allowance that would either increase or decrease, as applicable, reported net income in the period such change in estimate was made. For example, at December 31, 2014 we have substantial net operating loss carryforwards in Germany (the equivalent of \$738 million for German corporate purposes and \$94 million for German trade tax purposes) and Belgium (the equivalent of \$87 million for Belgian corporate tax purposes). At December 31, 2014, 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 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, if we were to generate losses in our German and Belgian operations for an extended period of time, or if applicable law were to change such that the carry forward period was no longer indefinite, 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.

We record a reserve for uncertain tax positions where we believe it is more-likely-than-not our tax position will not prevail with the applicable tax authorities. From time to time, tax authorities will examine certain of our income tax returns. Tax authorities may interpret tax regulations differently than we do. Judgments and estimates made at a point in time may change based on the outcome of tax audits and changes to or further interpretations of regulations, thereby resulting in an increase or decrease in the amount we are required to accrue for uncertain tax positions (and therefore a decrease or increase in our reported net income in the period of such change). Our reserve for uncertain tax positions changed during 2014. See Note 12 to our Consolidated Financial Statements.

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

Litigation and environmental liabilities—We are involved in numerous legal and environmental actions in part due to NL’s former involvement in the manufacture of lead-based products. In accordance with applicable GAAP for accounting for contingencies, we record accruals for these liabilities when estimated future expenditures associated with such contingencies become probable, and we can reasonably estimate the amounts of such future expenditures. However, new information may become available to us, or circumstances (such as applicable laws and regulations)

may change, thereby resulting in an increase or decrease in the amount we are required to accrue for such matters (and therefore a decrease or increase in our reported net income in the period of such change). At December 31, 2014 we have recorded total accrued environmental liabilities of \$118.5 million.

Business combinations—During 2013, we acquired a controlling interest in BMI and LandWell. We previously held a noncontrolling interest in each of these companies. The application of the purchase method of accounting for business combinations requires us to use significant estimates and assumptions in the determination of the estimated fair value of assets acquired and liabilities assumed; it also requires us to remeasure our existing ownership interest in these companies to estimated fair value. Our estimates of the fair values of assets acquired and liabilities assumed are based

upon assumptions we believe are reasonable, and when appropriate, include assistance from independent third-party valuation firms. We finalized our determination of fair value as it related to the business acquired during the fourth quarter of 2014. See Note 3 to our Consolidated Financial Statements.

Operating income (loss) for each of our four operating segments is impacted by certain of these significant judgments and estimates, as summarized below:

Chemicals—allowance for doubtful accounts, reserves for obsolete or unmarketable inventories, impairment of equity method investments, goodwill and other long-lived assets, benefit plans; and loss accruals.

Component Products—impairment of goodwill and long-lived assets and loss accruals.

Waste Management—impairment of long-lived assets and loss accruals.

Real Estate Management and Development—impairment of long-lived assets and revenue recognition under the percentage-of-completion method of accounting.

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

Segment Operating Results—2013 Compared to 2014 and 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 expectation for future changes in market TiO₂ selling prices as well as their expectation 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,

Manufacturing costs, particularly raw materials such as third-party feedstock ore, maintenance and energy-related expenses, and

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

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Our key performance indicators are our TiO₂ average selling prices, our level of TiO₂ sales and production volumes and the cost of our third-party feedstock ore. TiO₂ selling prices generally follow industry trends and the selling prices will increase or decrease generally as a result of competitive market pressures.

	Years ended December 31,			% Change	
	2012	2013	2014	2012-13	2013-14
	(Dollars in millions)				
Net sales	\$1,976.3	\$1,732.4	\$1,651.9	(12)%	(5)%
Cost of sales	1,418.2	1622.6	1,304.6	14 %	(20)%
Gross margin	\$558.1	\$109.8	\$347.3	(80)%	216 %
Operating income (loss)	\$366.8	\$(125.4)	\$156.8	(134)%	225 %
Percent of net sales:					
Cost of sales	72	% 94	% 79	%	
Gross margin	28	% 6	% 21	%	
Operating income (loss)	18	% (7)%	9	%	
TiO ₂ operating statistics:					