

VALHI INC /DE/  
Form 10-Q  
August 08, 2017

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2017

Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of

incorporation or organization)

5430 LBJ Freeway, Suite 1700, Dallas, Texas  
(Address of principal executive offices)

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

87-0110150  
(IRS Employer

Identification No.)

75240-2697  
(Zip Code)

Indicate by check mark:

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing

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requirements for the past 90 days. Yes No

Indicate by check mark 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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

Number of shares of the Registrant's common stock outstanding on August 4, 2017: 339,170,949

VALHI, INC. AND SUBSIDIARIES

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## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2016	June 30, 2017 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 159.8	\$ 220.4
Restricted cash equivalents	12.5	11.8
Marketable securities	4.4	.8
Accounts and other receivables, net	272.2	366.5
Inventories, net	360.6	359.1
Land held for development	10.9	16.7
Other current assets	17.0	13.0
Total current assets	837.4	988.3
Other assets:		
Marketable securities	253.5	257.2
Investment in TiO <sub>2</sub> manufacturing joint venture, Louisiana Pigment Company, L.P. ("LPC")	78.9	70.5
Goodwill	379.7	379.7
Deferred income taxes	1.2	124.7
Other noncurrent assets	238.0	196.9
Total other assets	951.3	1,029.0
Property and equipment:		
Land	45.4	47.6
Buildings	237.5	250.1
Treatment, storage and disposal facility	159.6	—
Equipment	1,070.6	1,084.2
Mining properties	35.1	32.1
Construction in progress	41.8	52.7
	1,590.0	1,466.7
Less accumulated depreciation	935.5	911.9
Net property and equipment	654.5	554.8
Total assets	\$ 2,443.2	\$ 2,572.1

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## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2016	June 30, 2017 (unaudited)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 7.8	\$ 7.6
Accounts payable and accrued liabilities	281.2	301.0
Income taxes	5.1	11.5
Total current liabilities	294.1	320.1
Noncurrent liabilities:		
Long-term debt	957.2	985.0
Deferred income taxes	275.0	243.3
Accrued pension costs	240.2	258.5
Accrued environmental remediation and related costs	107.3	110.1
Accrued postretirement benefits costs	11.1	11.1
Other liabilities	113.9	120.2
Total noncurrent liabilities	1,704.7	1,728.2
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	3.6	3.6
Additional paid-in capital	—	—
Retained deficit	(198.5 )	(190.3 )
Accumulated other comprehensive loss	(221.9 )	(204.9 )
Treasury stock	(49.6 )	(49.6 )
Total Valhi stockholders' equity	200.9	226.1
Noncontrolling interest in subsidiaries	243.5	297.7
Total equity	444.4	523.8
Total liabilities and equity	\$ 2,443.2	\$ 2,572.1

Commitments and contingencies (Notes 13 and 16)

See accompanying Notes to Condensed Consolidated Financial Statements.



## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three months ended June 30, 2016    2017 (unaudited)		Six months ended June 30, 2016    2017	
Revenues and other income:				
Net sales	\$398.6	\$502.2	\$752.1	\$929.1
Other income, net	10.7	7.7	22.1	15.3
Total revenues and other income	409.3	509.9	774.2	944.4
Costs and expenses:				
Cost of sales	336.4	358.4	647.9	666.4
Selling, general and administrative	64.6	77.2	127.8	148.3
Contract related intangible asset impairment	—	—	5.1	—
Long-lived asset impairment	—	170.6	—	170.6
Interest	15.8	16.0	31.5	31.6
Total costs and expenses	416.8	622.2	812.3	1,016.9
Loss before income taxes	(7.5 )	(112.3 )	(38.1 )	(72.5 )
Income tax expense (benefit)	.2	(167.4 )	(8.4 )	(149.4 )
Net income (loss)	(7.7 )	55.1	(29.7 )	76.9
Noncontrolling interest in net income (loss) of subsidiaries	.8	46.3	(1.7 )	55.4
Net income (loss) attributable to Valhi stockholders	\$(8.5 )	\$8.8	\$(28.0 )	\$21.5
Amounts attributable to Valhi stockholders:				
Basic and diluted net income (loss) per share	\$(.02 )	\$.03	\$(.08 )	\$.06
Cash dividends per share	\$.02	\$.02	\$.04	\$.04
Basic and diluted weighted average shares outstanding	342.0	342.0	342.0	342.0

See accompanying Notes to Condensed Consolidated Financial Statements.

## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Three months ended June 30, 2016		Six months ended June 30, 2017	
	(unaudited)			
Net income (loss)	\$(7.7 )	\$55.1	\$(29.7)	\$76.9
Other comprehensive income (loss), net of tax:				
Currency translation	(4.1 )	12.6	7.8	20.1
Marketable securities	.8	(.5 )	.5	(.8 )
Interest rate swap	(.7 )	(.4 )	(3.0 )	.1
Defined benefit pension plans	2.6	.8	5.2	3.6
Other postretirement benefit plans	(.3 )	(.2 )	(.6 )	(.4 )
Total other comprehensive income (loss), net	(1.7 )	12.3	9.9	22.6
Comprehensive income (loss)	(9.4 )	67.4	(19.8)	99.5
Comprehensive income attributable to noncontrolling interest	.9	49.2	1.4	61.0
Comprehensive income (loss) attributable to Valhi stockholders	\$(10.3)	\$18.2	\$(21.2)	\$38.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Six months ended June 30, 2016      2017 (unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$(29.7 )	\$76.9
Depreciation and amortization	34.5	33.2
Benefit plan expense greater than cash funding	1.2	4.6
Deferred income taxes	(17.0 )	(183.9)
Distributions from TiO <sub>2</sub> manufacturing joint venture, net	6.6	8.4
Contract related intangible asset impairment	5.1	—
Long-lived asset impairment	—	170.6
Other, net	(.4 )	1.5
Change in assets and liabilities:		
Accounts and other receivables, net	(53.0 )	(77.8 )
Inventories, net	58.8	22.6
Land held for development, net	(.6 )	3.1
Accounts payable and accrued liabilities	(11.9 )	8.8
Accounts with affiliates	(.5 )	.3
Income taxes	(5.4 )	5.8
Other, net	3.6	14.6
Net cash provided by (used in) operating activities	(8.7 )	88.7
Cash flows from investing activities:		
Capital expenditures	(26.6 )	(30.5 )
Capitalized permit costs	(1.1 )	(2.2 )
Purchases of marketable securities	(4.4 )	(5.6 )
Disposals of marketable securities	3.3	5.5
Other, net	(.1 )	—
Net cash used in investing activities	(28.9 )	(32.8 )
Cash flows from financing activities:		
Indebtedness:		
Borrowings	149.2	175.7
Principal payments	(101.5)	(148.9)
Deferred financing costs paid	—	(.2 )
Valhi cash dividends paid	(13.6 )	(13.6 )
Distributions to noncontrolling interest in subsidiaries	(7.0 )	(7.0 )
Net cash provided by financing activities	27.1	6.0
Cash, cash equivalents and restricted cash and cash equivalents - net change from:		
Operating, investing and financing activities	(10.5 )	61.9
Effect of exchange rate on cash	.3	8.6
Balance at beginning of period	229.1	196.5

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Balance at end of period	\$218.9	\$267.0
Supplemental disclosures:		
Cash paid for:		
Interest, net of capitalized interest	\$29.9	\$30.0
Income taxes, net	8.5	26.3
Noncash investing activities:		
Change in accruals for capital expenditures	4.5	4.0
Noncash financing activities:		
Indebtedness borrowings paid directly to lender to settle refinanced indebtedness	—	9.3
Indebtedness principal payments paid directly by lender	—	(8.4 )
Indebtedness borrowings paid directly to lender for debt issuance costs	—	(.9 )

See accompanying Notes to Condensed Consolidated Financial Statements.

## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Six months ended June 30, 2017

(In millions)

(unaudited)

	Valhi Stockholders' Equity				Accumulated		Non-	Total
	Preferred	Common	Additional	Retained	other	Treasury	controlling	equity
	stock	stock	paid-in	deficit	comprehensive	stock	interest	
			capital		loss			
Balance at December 31, 2016	\$667.3	\$ 3.6	\$ —	\$(198.5 )	\$ (221.9 )	\$(49.6 )	\$ 243.5	\$444.4
Net income	—	—	—	21.5	—	—	55.4	76.9
Other comprehensive income, net	—	—	—	—	17.0	—	5.6	22.6
Cash dividends	—	—	(.2 )	(13.3 )	—	—	(7.0 )	(20.5 )
Other, net	—	—	.2	—	—	—	.2	.4
Balance at June 30, 2017	\$667.3	\$ 3.6	\$ —	\$(190.3 )	\$ (204.9 )	\$(49.6 )	\$ 297.7	\$523.8

See accompanying Notes to Condensed Consolidated Financial Statements.





VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

(unaudited)

Note 1—Organization and basis of presentation:

Organization— We are majority owned by a wholly-owned subsidiary of Contran Corporation (“Contran”), which owns approximately 93% of our outstanding common stock at June 30, 2017. All of Contran's outstanding voting stock is held by a family trust established for the benefit of Lisa K. Simmons and Serena Simmons Connelly and their children, for which Ms. Simmons and Ms. Connelly are co-trustees, or is held directly by Ms. Simmons and Ms. Connelly or entities related to them. Consequently, Ms. Simmons and Ms. Connelly may be deemed to control Contran and us.

Basis of Presentation—Consolidated in this Quarterly Report are the results of our majority-owned and wholly-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc., 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 Securities and Exchange Commission (“SEC”).

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016 that we filed with the SEC on March 13, 2017 (the “2016 Annual Report”). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments, other than the long-lived asset impairment charge recognized in the second quarter of 2017 as discussed in Note 3, and the reversal of the deferred income tax asset valuation allowance recognized in the second quarter of 2017, as discussed in Note 13) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2016 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2016) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our results of operations for the interim periods ended June 30, 2017 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2016 Consolidated Financial Statements contained in our 2016 Annual Report.

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

Note 2—Business segment information:

Business segment	Entity	% controlled at June 30, 2017	
Chemicals	Kronos	80	%
Component products	CompX	87	%
Waste management	WCS	100	%
Real estate management and development	BMI and LandWell	63% - 77	%

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Our control of Kronos includes 50% we hold directly and 30% held directly by NL. We own 83% of NL. Our control of CompX is through NL. We own 63% of BMI. Our control of LandWell includes the 27% we hold directly and 50% held by BMI.

	Three months ended		Six months ended	
	June 30,	2017	June 30,	2017
	2016		2016	
	(unaudited)			
	(In millions)			
Net sales:				
Chemicals	\$356.0	\$441.4	\$674.5	\$811.2
Component products	27.1	30.1	54.2	60.0
Waste management	11.1	20.5	16.3	42.0
Real estate management and development	4.4	10.2	7.1	15.9
Total net sales	\$398.6	\$502.2	\$752.1	\$929.1
Cost of sales:				
Chemicals	\$301.0	\$312.1	\$579.5	\$578.9
Component products	18.6	20.5	37.5	40.8
Waste management	13.6	17.9	25.3	34.6
Real estate management and development	3.2	7.9	5.6	12.1
Total cost of sales	\$336.4	\$358.4	\$647.9	\$666.4
Gross margin:				
Chemicals	\$55.0	\$129.3	\$95.0	\$232.3
Component products	8.5	9.6	16.7	19.2
Waste management	(2.5 )	2.6	(9.0 )	7.4
Real estate management and development	1.2	2.3	1.5	3.8
Total gross margin	\$62.2	\$143.8	\$104.2	\$262.7
Operating income (loss):				
Chemicals	\$12.7	\$73.0	\$15.7	\$128.0
Component products	3.7	4.6	7.1	9.1
Waste management	(7.1 )	(171.6)	(17.9 )	(171.0)
Real estate management and development	.5	1.2	(5.4 )	1.8
Total operating income (loss)	9.8	(92.8 )	(.5 )	(32.1 )
General corporate items:				
Securities earnings	6.9	7.2	13.7	14.2
Insurance recoveries	.2	—	.3	.1
Termination fee	—	4.0	—	4.0
General expenses, net	(8.6 )	(14.7 )	(20.1 )	(27.1 )
Interest expense	(15.8 )	(16.0 )	(31.5 )	(31.6 )
Loss before income taxes	\$(7.5 )	\$(112.3)	\$(38.1 )	\$(72.5 )

Segment results we report may differ from amounts separately reported by our various subsidiaries due to purchase accounting adjustments and related amortization or differences in the way we define operating income. Intersegment sales are not material. Our Real Estate Management and Development Segment's operating loss in the first six months

of 2016 includes a \$5.1 million contract related intangible asset impairment loss which is included in the determination of its operating income, see Note 7. Our Chemicals Segment's operating income in the second quarter and first six months of 2016 includes \$1.4 million and \$3.4 million, respectively, in business interruption insurance proceeds which is included in the determination of its operating income, see Note 12. Our Waste Management Segment's results in the second quarter and first six months of 2017 includes a \$170.6 million long-lived asset impairment which is included in the determination of its operating income, see Note 3.

Note 3—Long-lived asset impairment — Waste Control Specialists LLC:

As previously reported, in November 2015 we entered into an agreement with Rockwell Holdco, Inc. ("Rockwell"), for the sale of WCS to Rockwell. The agreement, as amended, was for \$270 million in cash plus the assumption of all of WCS' third-party indebtedness incurred prior to the date of the agreement. Additionally, Rockwell and its affiliates would have assumed all financial assurance obligations related to the WCS business. Rockwell is the parent company of EnergySolutions, Inc. Completion of the sale

was subject to certain customary closing conditions, including the receipt of U.S. anti-trust approval. The U.S. Department of Justice (“DOJ”) did not give the parties anti-trust clearance, and on November 16, 2016, the DOJ filed an anti-trust action in the U.S. federal district court for the District of Delaware styled United States of America vs. Energy Solutions, Inc., et al (Case No. 1:16-cv-01056-UNA), seeking an injunction to enjoin completion of the sale of WCS. Trial was held in late April and early May 2017. On June 21, 2017, the court issued an order enjoining the sale of WCS. While we disagreed with the court’s decision, the parties determined that they would not appeal the decision to the Third Circuit Court of Appeals, and on June 22, 2017, we provided written notice to Rockwell terminating the purchase agreement for the sale of WCS to Rockwell effective June 22, 2017.

As part of the terms of the fourth amendment to the purchase agreement, in the event of termination of the purchase agreement for any reason (including termination of the purchase agreement if completion of the sale of WCS is enjoined on anti-trust grounds), we would be entitled to receive a termination fee from Rockwell. Such termination fee (net of applicable expenses) aggregated \$4 million, was received in June 2017 and is recognized as other non-operating income in the second quarter of 2017; see Note 12.

The Court’s decision and resulting termination of the purchase agreement with Rockwell constitute triggering events under ASC 360-10-35-21, requiring WCS’ long-lived assets to be tested for recoverability. Given the challenges facing WCS’ disposal operations we have concluded that the long-lived assets associated with WCS’ operations are impaired at June 30, 2017. Accordingly, we have recognized an aggregate \$170.6 million impairment charge as of June 30, 2017, to reduce the carrying value of WCS’ long-lived assets recognized for financial reporting purposes to their estimated fair value. Such \$170.6 million impairment charge relates to the following long-lived assets of WCS: net property and equipment - \$127.5 million; waste disposal site operating permits, net - \$42.0 million; and other assets - \$1.1 million. With respect to the operating permits, we concluded such long-lived assets were fully impaired, as these permits are specific to WCS’ land and facility in Andrews County and have no salvage value as there is no alternative use for permits. Similarly, with respect to the net property and equipment, we concluded such long-lived assets were fully impaired except to the extent certain items of property and equipment had an alternate use outside of WCS’ operations; for those items of property and equipment, they were written down to estimated salvage value, primarily using dealer or auction-site quotes (Level 3 inputs) as the basis for salvage value. The salvage value for such items of property and equipment aggregated \$5.7 million at June 30, 2017.

Note 4—Accounts and other receivables, net:

	June	
	December 31,	2017
	2016	
	(In millions)	
Trade accounts receivable:		
Kronos	\$224.8	\$314.7
CompX	10.4	12.2
WCS	14.0	15.2
BMI and LandWell	1.3	1.3

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VAT and other receivables	18.6	19.1
Refundable income taxes	1.0	1.3
Receivable from affiliates:		
Contran – trade items	.4	.6
Other – trade items	2.8	3.3
Allowance for doubtful accounts	(1.1 )	(1.2 )
Total	\$272.2	\$366.5

## Note 5—Inventories, net:

	December 31, 2016	June 30, 2017
(In millions)		
Raw materials:		
Chemicals	\$68.7	\$80.6
Component products	2.7	2.9
Total raw materials	71.4	83.5
Work in process:		
Chemicals	22.3	18.9
Component products	9.0	9.8
Total in-process products	31.3	28.7
Finished products:		
Chemicals	196.4	181.0
Component products	3.2	2.6
Total finished products	199.6	183.6
Supplies (primarily chemicals)	58.3	63.3
Total	\$360.6	\$359.1

## Note 6—Marketable securities:

	Market value	Cost basis	Unrealized losses, net
(In millions)			
December 31, 2016:			
Current assets	\$4.4	\$4.4	\$ —
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$250.0	\$250.0	\$ —
Other	3.5	3.7	(.2 )
Total	\$253.5	\$253.7	\$ (.2 )
June 30, 2017:			
Current assets	\$.8	\$.8	\$ —
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$250.0	\$250.0	\$ —
Other	7.2	7.4	(.2 )
Total	\$257.2	\$257.4	\$ (.2 )

All of our marketable securities are accounted for as available-for-sale, which are carried at fair value, with any unrealized gains or losses recognized through accumulated other comprehensive income. Our marketable securities



are carried at fair value using quoted market prices, primarily Level 1 inputs as defined by ASC Topic 820, Fair Value Measurements and Disclosures, except for our investment in The Amalgamated Sugar Company LLC (“Amalgamated”). Our investment in Amalgamated is measured using significant unobservable inputs, which are Level 3 inputs. Please refer to Note 6 in our 2016 Annual Report for a complete description of the valuation methodology for our investment in Amalgamated. There have been no changes to the carrying value of this investment during the periods presented. See Note 17.

## Note 7—Other noncurrent assets:

	December 31, 2016	June 30, 2017
(In millions)		
Other noncurrent assets:		
Land held for development	\$138.1	\$131.1
Waste disposal site operating permits, net	42.9	—
Restricted cash	24.2	34.8
IBNR receivables	7.1	7.2
Capital lease deposit	6.2	6.2
Pension asset	1.6	2.1
Other	17.9	15.5
Total	\$238.0	\$196.9

See Note 3 for a discussion of waste disposal site operating permits.

Upon acquiring a controlling interest in our Real Estate Management and Development Segment in December 2013, we recognized an indefinite-lived customer relationship intangible asset of \$5.1 million for long-term contracts related to water delivery services to the City of Henderson, Nevada and various other users through a water system owned by BMI. Aggregate revenues associated with water delivered under the City of Henderson contract have historically represented approximately 70% of the Segment's aggregate water delivery revenues. These contracts generally span many years and feature automatic renewing provisions. The initial City of Henderson water delivery contract extended for a period of 25 years, and contained an automatic renewal provision. In January 2016, the water delivery contract with the City of Henderson was amended. As part of such amendment, required minimum volumes were reduced, pricing was lowered, the automatic renewal provision of the contract was eliminated, and the contract term now runs through June 2040. The amendment to the City of Henderson water delivery contract represents an event or change in circumstance which triggered the need to perform a quantitative impairment analysis with respect to the intangible asset in the first quarter of 2016, in accordance with the guidance in ASC 350-30-35. Accordingly, as a result of a quantitative impairment analysis performed in the first quarter of 2016 we concluded that the \$5.1 million contract related intangible asset primarily related to the City of Henderson water delivery contract has been fully impaired as a result of the amended contract (with its reduced minimum volumes and lower pricing), and we recognized an aggregate \$5.1 million contract related intangible asset impairment loss in the first quarter of 2016.

## Note 8—Long-term debt:

	December 30, 2016	June 30, 2017
	(In millions)	
<b>Valhi:</b>		
Snake River Sugar Company	\$250.0	\$250.0
Contran credit facility	278.9	282.7
Total Valhi debt	528.9	532.7
<b>Subsidiary debt:</b>		
<b>Kronos:</b>		
Term loan	335.9	334.9
North American revolving credit facility	—	16.3
<b>WCS:</b>		
Financing capital lease	64.0	63.1
<b>Tremont:</b>		
Promissory note payable	14.5	14.5
<b>BMI:</b>		
Bank note payable – Meadows Bank	8.4	—
Bank loan – Western Alliance Bank	—	18.7
<b>LandWell:</b>		
Note payable to the City of Henderson	2.9	2.7
Other	10.4	9.7
Total subsidiary debt	436.1	459.9
Total debt	965.0	992.6
Less current maturities	7.8	7.6
Total long-term debt	\$957.2	\$985.0

Valhi – Contran credit facility – During the first six months of 2017, we borrowed a net \$3.8 million under our Contran credit facility. The average interest rate on the existing balance as of and for the six months ended June 30, 2017 was 5.25% and 4.88%, respectively. At June 30, 2017, the equivalent of \$42.3 million was available for borrowing under this facility.

Kronos – Term loan – During the first six months of 2017, Kronos made its required quarterly principal payment of \$1.8 million. The average interest rate on the term loan borrowings as of and for the six months ended June 30, 2017 was 4.3% and 4.1%, respectively. The carrying value of the term loan at June 30, 2017 is stated net of unamortized original issue discount of \$.7 million and debt issuance costs of \$3.0 million. See Note 17 for a discussion of the interest rate swap we entered into in 2015 pursuant to our interest rate risk strategy.

North American revolving credit facility – In January 2017, Kronos extended the maturity date of its North American revolving credit facility to the earlier of (i) January 30, 2022 or (ii) 90 days prior to the maturity date of our existing term loan indebtedness (or 90 days prior to the maturity date of any indebtedness incurred in a permitted refinancing of such existing term loan indebtedness). Based on the February 2020 maturity date of our existing term loan, the maturity date of the North American revolving credit facility is currently November 2019.

During the first six months of 2017, Kronos borrowed a net \$16.3 million under its North American revolving credit facility. The average interest rate on outstanding borrowings as of and for the six months ended June 30, 2017 was

5.0% and 4.8%, respectively. At June 30, 2017, approximately \$91.4 million was available for additional borrowing under this revolving credit facility.

European revolving credit facility – Kronos' European revolving credit facility requires the maintenance of certain financial ratios, and one of such requirements is based on the ratio of net debt to last twelve months earnings before income tax, interest, depreciation and amortization expense (EBITDA) of the borrowers. Based upon the borrowers' last twelve months EBITDA as of June 30, 2017 and the net debt to EBITDA financial test, the full €120.0 million of the credit facility (\$137.1 million) is available for borrowing availability at June 30, 2017. We expect to extend the maturity date of this facility on or prior to its maturity date in September 2017.

Other – In February 2017, a wholly-owned subsidiary of BMI entered into a \$20.5 million loan agreement with Western Alliance Bank. The proceeds were used to refinance the \$8.5 million outstanding bank note payable to Meadows Bank and to finance improvements to BMI's water delivery system. The agreement requires semi-annual payments of principal and interest on June 1 and December 1 aggregating \$1.9 million annually beginning on June 1, 2017 through the maturity date in June 2032 (except during 2017)

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which calls for prorated aggregate principal and interest payments of \$1.6 million). The agreement bears interest at 5.34% and is collateralized by certain real property, including the water delivery system, and revenue streams under the City of Henderson water contract. Debt issuance costs were approximately \$1.0 million, and the carrying value of the banknote payable at June 30, 2017 is stated net of such unamortized debt issuance costs.

Restrictions and other – Certain of the credit facilities with unrelated, third-party lenders described above require the respective borrowers to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. We are in compliance with all of our debt covenants at June 30, 2017.

Note 9—Accounts payable and accrued liabilities:

	December 31, 2016	June 30, 2017
(In millions)		
Accounts payable:		
Kronos	\$84.9	\$95.8
CompX	2.6	3.5
WCS	1.6	2.1
BMI and LandWell	2.2	4.4
NL	2.4	1.1
Other	.7	.3
Payable to affiliates:		
Contran – trade items	31.4	33.6
Contran – income taxes	5.5	6.4
LPC – trade items	14.7	14.7
Employee benefits	29.2	27.8
Deferred income	32.0	25.8
Accrued sales discounts and rebates	22.6	21.4
Environmental remediation and related costs	15.3	14.8
Reserve for uncertain tax positions	3.3	3.3
Accrued workforce reduction costs	1.2	.2
Interest rate swap	2.8	2.0
Other	28.8	43.8
Total	\$281.2	\$301.0

See Note 17 for a discussion of the interest rate swap contract.

Note 10—Other noncurrent liabilities:

	December 31, 2016	June 30, 2017
(In millions)		
Reserve for uncertain tax positions	\$35.7	\$37.6
Asset retirement obligations	30.7	32.0
Deferred income	12.6	11.5
Employee benefits	7.6	8.2
Insurance claims and expenses	9.5	10.0
Deferred payment obligation	9.0	9.2
Other	8.8	11.7
Total	\$113.9	\$120.2

Note 11—Employee benefit plans:

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

	Three months ended June 30, 2016 2017		Six months ended June 30, 2016 2017	
	(In millions)			
Service cost	\$2.5	\$2.8	\$ 5.0	\$ 5.5
Interest cost	4.5	3.9	8.9	7.7
Expected return on plan assets	(4.7)	(3.2)	(9.2 )	(6.4 )
Amortization of unrecognized prior service cost	.2	.1	.4	.2
Recognized actuarial losses	3.4	3.7	6.6	7.3
Total	\$5.9	\$7.3	\$ 11.7	\$ 14.3

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

	Three months ended June 30, 2016 2017		Six months ended June 30, 2016 2017	
	(In millions)			
Service cost	\$ .1	\$ .1	\$ .1	\$ .1
Interest cost	—	.1	.2	.2
Amortization of prior service credit	(.4)	(.3 )	(.9 )	(.5 )
Recognized actuarial gains	—	—	(.1 )	(.1 )
Total	\$ (.3)	\$ (.1 )	\$ (.7 )	\$ (.3 )

Contributions – We expect to contribute the equivalent of \$16.0 million and \$1.1 million, respectively, to all of our defined benefit pension plans and other postretirement benefit plans during 2017.

Note 12—Other income, net:

Six  
months ended  
June 30,

	2016	2017
	(In millions)	
Securities earnings:		
Dividends and interest	\$ 13.6	\$ 14.2
Securities transactions, net	.1	—
Total	13.7	14.2
Currency transactions, net	4.2	(3.7 )
Insurance recoveries	.3	.1
Business interruption insurance proceeds	3.4	—
Termination fee	—	4.0
Other, net	.5	.7
Total	\$ 22.1	\$ 15.3

The termination fee is discussed in Note 3.

Insurance recoveries reflect, in part, amounts NL received from certain of its former insurance carriers and relate to the recovery of prior lead pigment and asbestos litigation defense costs incurred by NL. See Note 16.

We recognized \$3.4 million (including \$1.4 million in the second quarter of 2016) in income related to cash Kronos received in the first six months of 2016 from settlement of a business interruption insurance claim arising in 2014. No additional material amounts are expected to be received with respect to such insurance claim.



## Note 13—Income taxes:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2016	2017	2016	2017
	(In millions)			
Expected tax benefit, at U.S. federal statutory income tax rate of 35%	\$(2.6)	\$(39.3 )	\$(13.3 )	\$(25.4 )
Incremental net tax on earnings and losses of non-U.S., U.S. and non-tax group companies	.3	37.1	2.7	48.3
Non-U.S. tax rates	(.6 )	(2.3 )	(.4 )	(4.7 )
Valuation allowance	2.9	(157.6)	2.9	(162.6 )
Adjustment to the reserve for uncertain tax positions, net	.4	.6	.6	1.1
Nondeductible expenses	.5	.3	.6	.8
Domestic production activities deduction	(.5 )	(1.5 )	(.8 )	(2.1 )
U.S. state income taxes	(.1 )	(4.7 )	(.5 )	(4.7 )
Other, net	(.1 )	—	(.2 )	(.1 )
Income tax expense (benefit)	\$.2	\$(167.4)	\$(8.4 )	\$(149.4 )
Comprehensive provision for income taxes (benefit) allocable to:				
Income tax expense (benefit)	\$.2	\$(167.4)	\$(8.4 )	\$(149.4 )
Other comprehensive income (loss):				
Marketable securities	.4	(.3 )	.2	(.5 )
Currency translation	(1.0)	16.4	1.8	18.1
Interest rate swap	(.6 )	(.3 )	(2.7 )	.1
Pension plans	.9	2.2	1.7	3.1
OPEB plans	(.2 )	(.1 )	(.4 )	(.2 )
Total	\$(.3 )	\$(149.5)	\$(7.8 )	\$(128.8 )

The amount shown in the above table of our income tax rate reconciliation for non-U.S. tax rates represents the result determined by multiplying the pre-tax earnings or losses of each of our non-U.S. subsidiaries by the difference between the applicable statutory income tax rate for each non-U.S. jurisdiction and the U.S. federal statutory tax rate of 35%. The amount shown on such table for incremental net tax on earnings and losses on non-U.S. and non-tax group companies includes, as applicable, (i) current income taxes (including withholding taxes, if applicable), if any, associated with any current-year earnings of our Chemicals Segment's non-U.S. subsidiaries to the extent such current-year earnings were distributed to us in the current year, (ii) deferred income taxes (or deferred income tax benefit) associated with the current-year change in the aggregate amount of undistributed earnings of our Chemicals Segment's Canadian subsidiary, which earnings are not subject to a permanent reinvestment plan, in an amount representing the current-year change in the aggregate current income tax that would be generated (including withholding taxes, if applicable) when such aggregate undistributed earnings are distributed to us, (iii) current U.S. income taxes (or current income tax benefit), including U.S. personal holding company tax, as applicable, attributable to current-year income (losses) of one of Kronos' non-U.S. subsidiaries, which subsidiary is treated as a dual resident for U.S. income tax purposes, to the extent the current-year income (losses) of such subsidiary is subject to U.S. income tax under the U.S. dual-resident provisions of the Internal Revenue Code, (iv) deferred income taxes associated with our direct investment in Kronos (beginning in the second quarter of 2015) and (v) current and deferred income taxes associated with distributions and earnings from our investment in LandWell and BMI.

Kronos has substantial net operating loss (NOL) carryforwards in Germany (the equivalent of \$638 million for German corporate purposes and \$71 million for German trade tax purposes at December 31, 2016) and in Belgium (the equivalent of \$93 million for Belgian corporate tax purposes at December 31, 2016), all of which have an indefinite carryforward period. As a result, we have net deferred income tax assets with respect to these two jurisdictions, primarily related to these NOL carryforwards. The German corporate tax is similar to the U.S. federal income tax, and the German trade tax is similar to the U.S. state income tax. Prior to June 30, 2015, and using all available evidence, we had concluded no deferred income tax asset valuation allowance was required to be recognized with respect to these net deferred income tax assets under the more-likely-than-not recognition criteria, primarily because (i) the carryforwards have an indefinite carryforward period, (ii) we utilized a portion of such carryforwards during the most recent three-year period, and (iii) we expected to utilize the remainder of the carryforwards over the long term. We had also previously indicated that facts and circumstances could change, which might in the future result in the recognition of a valuation allowance against some or all of such deferred income tax assets. However, as of June 30, 2015, and given our operating results during the second quarter of 2015 and our expectations at that time for our operating results for the remainder of 2015, we did not have sufficient positive evidence to overcome the significant negative evidence of having cumulative losses in the most recent twelve consecutive quarters in both our German and Belgian jurisdictions at June 30, 2015 (even considering that the carryforward period of our German and Belgian NOL carryforwards is indefinite, one piece of positive evidence). Accordingly, at June 30, 2015, we

concluded that we were required to recognize a non-cash deferred income tax asset valuation allowance under the more-likely-than-not recognition criteria with respect to our German and Belgian net deferred income tax assets at such date. We recognized an additional non-cash deferred income tax asset valuation allowance during the second half of 2015 due to losses recognized by our German and Belgian operations during such period. During 2016, we recognized an aggregate \$2.2 million non-cash tax benefit as the result of a net decrease in such deferred income tax valuation allowance, as the impact of utilizing a portion of our German NOLs during such period more than offset the impact of additional losses recognized by our Belgian operations during such period. Such valuation allowance aggregated approximately \$173 million at December 31, 2016 (\$153 million with respect to Germany and \$20 million with respect to Belgium). During the first six months of 2017, we recognized an aggregate non-cash income tax benefit of \$12.7 million as a result of a net decrease in such deferred income tax asset valuation allowance, due to utilizing a portion of both the German and Belgian NOLs during such period, including \$7.7 million in the second quarter of 2017. At June 30, 2017, we concluded we now have sufficient positive evidence under the more-likely-than-not recognition criteria to support reversal of the entire valuation allowance related to our German and Belgian operations. As discussed below, a large portion of the remaining valuation allowance is reversed as of June 30, 2017, but a portion of the remaining valuation allowance will be reversed during the second half of 2017. Such sufficient positive evidence at June 30, 2017 includes, among other things, the existence of cumulative profits in the most recent twelve consecutive quarters (Germany) or profitability in recent quarters during which such profitability was trending upward throughout such period (Belgium), the ability to demonstrate future profitability in Germany and Belgium for a sustainable period, and the indefinite carryforward period for the German and Belgian NOLs. Accordingly, our income tax benefit in the second quarter of 2017 includes an aggregate non-cash income tax benefit of \$149.9 million related to such reversal at June 30, 2017 (\$141.9 million related to Germany, and \$8.0 million related to Belgium). Such second quarter 2017 income tax benefit associated with reversal of the German and Belgian valuation allowance excludes the non-cash income tax benefit of \$7.7 million, also recognized in the second quarter, as discussed above. In addition to the above amounts, our deferred income tax asset valuation allowance increased by \$9.5 million during the first six months of 2017 as a result of changes in currency exchange rates, which was recognized as part of other comprehensive income (loss).

In accordance with the ASC 740-270 guidance regarding accounting for income taxes at interim dates, the amount of the valuation allowance reversed at June 30, 2017 (\$149.9 million) relates to our change in judgment regarding the realizability of the related deferred income tax asset as it relates to future years (i.e. 2018 and after). A change in judgment regarding the realizability of deferred tax assets as it relates to the current year is considered in determining the estimated annual effective tax rate for the year. Accordingly, of the aggregate \$173 million deferred income tax asset valuation allowance recognized at December 31, 2016, approximately \$163 million has been reversed through June 30, 2017, and the remaining \$20 million (which relates to the expected level of profitability of our German and Belgian operations in calendar 2017) will be reversed during the third and fourth quarters of 2017 (such aggregate reversal amount includes the \$9.5 million increase to our deferred income tax asset valuation allowance as a result of changes in currency exchange rates recognized as part of other comprehensive income (loss)).

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. Because of the inherent uncertainties involved in settlement initiatives and court and tax proceedings, we cannot guarantee that these matters will be resolved in our favor, and therefore our potential exposure, if any, is also uncertain. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. As a result of ongoing audits in certain jurisdictions, in 2008 Kronos filed Advance Pricing Agreement Requests with the

tax authorities in the U.S., Canada and Germany. These requests have been under review with the respective tax authorities since 2008 and prior to 2016, it was uncertain whether an agreement would be reached between the tax authorities and whether we would agree to execute and finalize such agreements. During 2016, Contran, as the ultimate parent of our U.S. Consolidated income tax group, executed and finalized an Advance Pricing Agreement with the U.S. Internal Revenue Service and our Canadian subsidiary executed and finalized an Advance Pricing Agreement with the Competent Authority for Canada (collectively, the “U.S.-Canada APA”) effective for tax years 2005 - 2015. Pursuant to the terms of the U.S.-Canada APA, the U.S. and Canadian tax authorities agreed to certain prior year changes to taxable income of Kronos’ U.S. and Canadian subsidiaries. As a result of such agreed-upon changes, Kronos’ Canadian subsidiary incurred a cash income tax payment of approximately CAD \$3 million (USD \$2.3 million) related to the U.S.-Canada APA, but such payment was fully offset by previously provided accruals. We currently expect the Advance Pricing Agreement between Canada and Germany (collectively, the “Canada-Germany APA”) to be executed and finalized within the next twelve months. We believe we have adequate accruals to cover any cash income tax payment which might result from the finalization of the Canada-Germany APA, and accordingly we do not expect the execution of such APA to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We recognize deferred income taxes with respect to the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos common stock because the exemption under GAAP to avoid such recognition of deferred income taxes is not available to us. There is a maximum amount (or cap) of such deferred income taxes we are required to recognize with respect to our direct investment in Kronos, and we previously reached such maximum amount in the fourth quarter of 2010. Since that time and through March 31, 2015, we were not required to recognize any additional deferred income taxes with respect to our direct investment in Kronos because the deferred income taxes associated with the excess of the financial reporting carrying

amount over the income tax basis of our direct investment in Kronos common stock continued to be above such cap. However, at June 30, 2015, the deferred income taxes associated with the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos common stock was, for the first time since the fourth quarter of 2010, below such cap, in large part due to the net loss reported by Kronos in the second quarter of 2015. During the second, third and fourth quarters of 2015, we recognized an aggregate \$29.3 million non-cash income tax benefit for the reduction in the deferred income taxes required to be recognized with respect to the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos common stock, to the extent such reduction related to our equity in Kronos' net loss in 2015. We recognized a non-cash income tax expense of \$6.5 million in 2016 (including \$3.4 million in the first six months of 2016) for the increase in the deferred income taxes required to be recognized with respect to the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos common stock, to the extent such reduction related to our equity in Kronos' net income (loss) in such periods. Our provision for income taxes in the first six months of 2017 includes a non-cash income tax expense of \$39.5 million for the increase in the deferred income taxes required to be recognized with respect to the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos common stock, to the extent such reduction related to our equity in Kronos' net income in such period. Such amount is included in the above table of our income tax rate reconciliation for incremental net tax on earnings and losses on non-U.S. and non-tax group companies (in addition to the other items included in such line item in the rate reconciliation, as indicated above). A portion of such increase (decrease) with respect to the excess of the financial reporting carrying amount over the income tax basis of our direct investment in Kronos common stock during 2015, 2016 and 2017 related to our equity in Kronos' other comprehensive income (loss) items, and the amounts shown in the above table for income tax expense (benefit) allocated to other comprehensive income (loss) includes amounts related to our equity in Kronos' other comprehensive income (loss) items.

We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will decrease by approximately \$15.0 million during the next twelve months primarily due to certain adjustments to our prior year returns and the expiration of certain statutes of limitations.

Note 14—Noncontrolling interest in subsidiaries:

	June December 31, 2016	2017
(In millions)		
Noncontrolling interest in net assets:		
Kronos Worldwide	\$134.5	\$178.8
NL Industries	44.3	53.0
CompX International	16.4	17.0
BMI	24.6	24.8
LandWell	23.7	24.1

Total	\$243.5	\$297.7
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	Six months ended June 30, 2016 2017 (In millions)	
Noncontrolling interest in net income (loss) of subsidiaries:		
Kronos Worldwide	\$(.5 )	\$45.6
NL Industries	(.2 )	8.4
CompX International	.6	.9
BMI	(1.3)	.2
LandWell	(.3 )	.3
Total	\$(1.7)	\$55.4

Note 15—Accumulated other comprehensive income (loss):

Changes in accumulated other comprehensive income (loss) attributable to Valhi stockholders for the three and six months ended June 30, 2016 and 2017 are presented in the table below.

	Three months ended June 30, 2016		Six months ended June 30, 2016	
	2017		2017	
	(In millions)			
Accumulated other comprehensive income (loss), net of tax				
and noncontrolling interest:				
Marketable securities:				
Balance at beginning of period	\$ 1.6	\$ 1.7	\$ 1.6	\$ 1.7
Other comprehensive income— unrealized gains arising during the period	.1	—	.1	—
Balance at end of period	\$ 1.7	\$ 1.7	\$ 1.7	\$ 1.7
Interest rate swap:				
Balance at beginning of period	\$ (3.0 )	\$ (.8 )	\$ (1.3 )	\$ (1.2 )
Other comprehensive income (loss):				
Unrealized losses arising during the year	(.8 )	(.5 )	(2.8 )	(.5 )
Less reclassification adjustment for amounts included in interest expense	.3	.2	.6	.6
Balance at end of period	\$ (3.5 )	\$ (1.1 )	\$ (3.5 )	\$ (1.1 )
Currency translation adjustment:				