Sabra Health Care REIT, Inc.
Form S-11/A
July 19, 2011
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As filed with the Securities and Exchange Commission on July 19, 2011

Registration No. 333-175436

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Amendment No. 1

to

FORM S-11

FOR REGISTRATION UNDER

THE SECURITIES ACT OF 1933 OF SECURITIES

OF CERTAIN REAL ESTATE COMPANIES

SABRA HEALTH CARE REIT, INC.

(Exact Name of Registrant as Specified in its Governing Instrument)

18500 Von Karman Avenue, Suite 550

Irvine, CA 92612

(888) 393-8248

(Address, Including Zip Code, and Telephone Number, Including Area Code, of

Registrant s Principal Executive Offices)

Richard K. Matros

Chairman, President and Chief Executive Officer

Sabra Health Care REIT, Inc.

18500 Von Karman Avenue, Suite 550

Irvine, CA 92612

(888) 393-8248

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

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610 Newport Center Drive, 17th Floor	**Worldwide Plaza**
Newport Beach, CA 92660	**825 Eighth Avenue**
(949) 823-6900	**New York, NY 10019**
	(212) 474-1000

Approximate Date of Commencement of Proposed Sale of Securities to the Public: As soon as practicable after the effective date of this Registration Statement.

If any of the Securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	x	Smaller reporting company	¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information contained in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JULY 19, 2011

PRELIMINARY PROSPECTUS

9,500,000 Shares

Sabra Health Care REIT, Inc.

Common Stock

We are offering 9,500,000 shares of our common stock. Our common stock is listed on the NASDAQ Global Select Market under the symbol SBRA. On July 18, 2011, the last reported sale price of our common stock on the NASDAQ Global Select Market was $15.76 per share.

The closing of this offering is not conditioned upon the consummation of our acquisition of the SNF Portfolio of four skilled nursing facilities as described in this prospectus.

We intend to elect to be taxed as a real estate investment trust, or a REIT, for U.S. federal income tax purposes, commencing with our taxable year beginning on January 1, 2011. We believe that we are organized and have operated in a manner that allows us to qualify for taxation as a REIT under the Internal Revenue Code of 1986, as amended, commencing with our taxable year beginning on January 1, 2011, and we intend to continue to be organized and to operate in such a manner. To assist us in qualifying as a REIT, among other reasons, stockholders are generally restricted from owning more than 9.9% in value or number of shares, whichever is more restrictive, of our outstanding shares of common stock or more than 9.9% in value of the aggregate of our outstanding stock. See Description of Capital Stock Restrictions on Transfer and Ownership of Stock.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page 15 of this prospectus and in the documents incorporated by reference into this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discounts and Commissions		
Proceeds to Sabra Health Care REIT, Inc., before expenses		

Delivery of the shares of common stock is expected to be made on or about , 2011. We have granted the underwriters an option for a period of 30 days to purchase an additional 1,425,000 shares of our common stock solely to cover over-allotments. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $ million, and the total proceeds to us, before expenses, will be $ million.

Joint Book-Running Managers

Jefferies **Citi**

Co-Managers

Morgan Keegan

RBC Capital Markets

Stifel Nicolaus Weisel

Prospectus dated , 2011.

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You should rely only on the information contained in this prospectus, any free writing prospectus prepared by us or information to which we have referred you, including any information incorporated by reference herein. We have not, and the underwriters have not, authorized any other person to provide you with additional information or information different from that contained in this prospectus. If anyone provides you with additional or different information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus, any free writing prospectus prepared by us and the documents incorporated by reference herein is accurate only as of their respective dates or on the date or dates which are specified in these documents. Our business, financial condition, liquidity, results of operations and prospects may have changed since those dates.

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INDUSTRY AND MARKET DATA

This prospectus includes information with respect to market share and industry conditions from third-party sources or based upon our estimates using such sources when available. While we believe that such information and estimates are reasonable and reliable, we have not independently verified any of the data from third-party sources. Similarly, our internal research is based upon our understanding of industry conditions, and such information has not been independently verified.

NEW SUN INFORMATION

This prospectus includes information regarding Sun Healthcare Group, Inc. (formerly known as SHG Services, Inc., and referred to in this prospectus as New Sun). New Sun is subject to the reporting requirements of the Securities and Exchange Commission, or the SEC, and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to New Sun provided in this prospectus has been provided by New Sun or derived from New Sun s public filings. We have not independently verified this information. We have no reason to believe that such information is inaccurate in any material respect. We are providing this data for informational purposes only. New Sun s filings with the SEC can be found at *www.sec.gov*.

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PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus or incorporated by reference herein, and does not contain all of the information you need to consider in making your investment decision. You should read carefully this entire prospectus, including the section titled Risk Factors and the information incorporated by reference in this prospectus, including our Annual Report on Form 10-K for the year ended December 31, 2010 and our Quarterly Report on Form 10-Q for the three months ended March 31, 2011. As used in this prospectus, unless otherwise specified or the context otherwise requires, the terms Sabra, we, our, and us refer to Sabra Health Care REIT Inc. and its subsidiaries on a consolidated basis.

Our Company

We were incorporated on May 10, 2010 as a wholly owned subsidiary of Sun Healthcare Group, Inc., or Old Sun, a provider of nursing, rehabilitative and related specialty healthcare services principally to the senior population in the United States. Pursuant to a restructuring plan by Old Sun, Old Sun restructured its business by separating its real estate assets and its operating assets into two separate publicly traded companies, which we refer to in this prospectus as the Separation. The Separation occurred by means of a spin-off transaction pursuant to which Old Sun distributed to its stockholders on a pro rata basis all of the outstanding shares of common stock of SHG Services, Inc., or New Sun. Immediately following the Separation, Old Sun merged with and into Sabra, with Sabra surviving the merger, which we refer to in this prospectus as the REIT Conversion Merger, and New Sun was renamed Sun Healthcare Group, Inc. Effective November 15, 2010, or the Separation Date, the Separation and REIT Conversion Merger were completed and Sabra and New Sun began operations as separate companies.

We did not have any operations prior to the Separation Date. Following the restructuring of Old Sun s business and the completion of the Separation and REIT Conversion Merger, we became a self-administered, self-managed realty company that, directly or indirectly, owns and invests in real estate serving the healthcare industry. Our only operations during the year ended December 31, 2010 were for the period from the Separation Date through December 31, 2010. Our revenues for this period were $8.8 million and our total assets as of December 31, 2010 were $599.6 million. For the three months ended March 31, 2011, our revenues were $17.6 million and our total assets as of March 31, 2011 were $605.1 million.

As of March 31, 2011, our portfolio consisted of 86 properties (consisting of (i) 67 skilled nursing facilities, (ii) 10 combined skilled nursing, assisted living and independent living facilities, (iii) five assisted living facilities, (iv) two mental health facilities, (v) one independent living facility, and (vi) one continuing care retirement community) and a mortgage note secured by a combined assisted living, independent living and memory care facility with 82 available beds located in Ann Arbor, Michigan. As of March 31, 2011, our real estate properties had a total of 9,603 licensed beds, or units, spread across 19 states. As of March 31, 2011, all of our real estate properties were leased to subsidiaries of New Sun under triple-net operating leases with expirations ranging from 10 to 15 years.

We expect to continue to grow our portfolio through the acquisition of healthcare facilities, including skilled nursing facilities, senior housing facilities (which may include assisted living, independent living and continuing care retirement community facilities) and hospitals. As we acquire additional properties and expand our portfolio, we expect to further diversify by geography, asset class and tenant within the healthcare sector. For example, we expect to pursue the acquisition of medical office buildings and life science facilities (commercial facilities that are primarily focused on life sciences research, development or commercialization, including properties that house biomedical and medical device companies). We plan to be opportunistic in our healthcare real estate investment strategy by investing in assets that provide attractive opportunities for dividend growth and appreciation of asset values, while maintaining balance sheet strength and liquidity, thereby creating long-term stockholder value.

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We are organized to qualify as a real estate investment trust, or REIT, and we intend to elect to be treated as a REIT for U.S. federal income tax purposes commencing with our taxable year beginning on January 1, 2011. We operate through an umbrella partnership, commonly referred to as an UPREIT structure, in which substantially all of our properties and assets are held by Sabra Health Care Limited Partnership, or the Operating Partnership, of which we are the sole general partner, or by subsidiaries of the Operating Partnership.

Our principal executive office is located at 18500 Von Karman Avenue, Suite 550, Irvine, CA 92612, and the telephone number of our principal executive office is (888) 393-8248.

Recent Developments

Agreement to Purchase SNF Portfolio

On July 8, 2011, we entered into an agreement, which we refer to in this prospectus as the SNF Purchase Agreement, to purchase four skilled nursing facilities from Peninsula Healthcare Services, LLC; Broadmeadow Investment LLC; Capitol Nursing & Rehabilitation Center, L.L.C.; and Pike Creek Healthcare Services LLC, or collectively, the Sellers, for $97.5 million. The four skilled nursing facilities Broadmeadow Healthcare, Capitol Healthcare, Pike Creek Healthcare and Renaissance Healthcare, or the SNF Portfolio are located in Delaware, range in age from two to 15 years and have a combined total of 500 beds. In connection with the proposed acquisition, which we refer to in this prospectus as the SNF Portfolio Acquisition, we, through an indirect wholly owned subsidiary, expect to enter into one or more new 15-year triple-net lease agreements, or collectively, the Lease, with the Sellers or one or more affiliates of the Sellers, which is expected to provide an initial yield on cash rent of 8.75%. The Lease is expected to provide annual rent escalations of 3.0% and two five-year renewal options resulting in annual lease revenues determined in accordance with U.S. generally accepted accounting principles, or GAAP, of $10.6 million. We expect to fund the SNF Portfolio Acquisition with available cash and a portion of the proceeds to us from this offering and to close the SNF Portfolio Acquisition in the third quarter of 2011.

Acquisition of Oak Brook Health Care Center

On June 30, 2011, we closed the purchase of Oak Brook Health Care Center, a 120-bed skilled nursing facility in Whitehouse, Texas. In connection with the acquisition, we entered into a new 15-year triple-net lease agreement with the current operator. The lease provides annual rent escalations of 2.5% and three 10-year renewal options resulting in GAAP annual lease revenues of $1.3 million. The purchase price of $11.3 million was funded from our available cash and will provide an initial yield on cash rent of 9.5%.

Acquisition of Texas Regional Medical Center at Sunnyvale

On May 3, 2011, we closed the purchase of Texas Regional Medical Center at Sunnyvale, a 70-bed acute care hospital located outside of Dallas, Texas. The facility opened to the public in September 2009 and is leased pursuant to a triple-net lease to Texas Regional Medical Center Ltd., a partnership that includes approximately 75 physicians who practice at the hospital. In connection with the acquisition, we assumed the landlord position in the existing triple-net lease that expires in September 2034. The lease provides for a 6% rent escalator every five years beginning in September 2014, resulting in GAAP annual lease revenues of $6.6 million, and two five-year renewal options with annual rent of 106% of the previous year s rent. The purchase price of $62.7 million was funded from our available cash and will provide an initial yield on cash rent of 9.25%.

Acquisition of Hillside Terrace Mortgage Note

On March 25, 2011, we purchased, at a discount, a defaulted mortgage note secured by a combined assisted living, independent living and memory care facility located in Ann Arbor, Michigan, for $5.3 million. Cash flows from the underlying collateral are currently adequate to cover the operating costs of the facility and to make the monthly debt service payment of $54,250. We are in negotiations with the borrower to accept a deed-in-lieu of foreclosure; however, we have also commenced proceedings to obtain the facility through a judicial foreclosure process in Michigan in the event our negotiations with the borrower are unsuccessful. We are also in the process of securing a new tenant for the operations.

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Second Quarter 2011 Preliminary Results

Based on our preliminary assessment of our results of operations, we expect to report total revenues of $18.8 million for the three months ended June 30, 2011, which we expect will consist of $18.6 million of rental income and $0.2 million of interest income, compared to total revenues of $17.6 million for the three months ended March 31, 2011, which consisted of $17.6 million of rental income and $40,000 of interest income. In addition, based on our preliminary assessment of our results of operations, we expect to report depreciation and amortization expenses of $6.3 million, interest expense of $7.5 million, which includes costs of borrowings plus the amortization of deferred financing costs, and general and administrative expenses of $2.9 million for the three months ended June 30, 2011. For the three months ended March 31, 2011, we incurred depreciation and amortization expenses of $6.1 million, interest expense of $7.6 million, and general and administrative expenses of $2.7 million. Based on these preliminary assessments, we expect to report net income of $2.1 million ($0.08 per diluted share) for the three months ended June 30, 2011, compared to $1.2 million ($0.05 per diluted share) for the three months ended March 31, 2011; funds from operations, or FFO, of $8.4 million ($0.33 per diluted share) for the three months ended June 30, 2011, compared to FFO of $7.3 million ($0.29 per diluted share) for the three months ended March 31, 2011; and adjusted funds from operations, or AFFO, of $10.3 million ($0.40 per diluted share) for the three months ended June 30, 2011, compared to AFFO of $9.1 million ($0.35 per diluted share) for the three months ended March 31, 2011. The preliminary information for the three months ended June 30, 2011 reflects the impact on our results of operations from the acquisition of Texas Regional Medical Center at Sunnyvale on May 3, 2011, which we expect to include $1.1 million of rental income and $0.2 million of depreciation and amortization expense.

The following table reconciles FFO and AFFO for the three months ended June 30, 2011 and March 31, 2011 to net income, the most directly comparable GAAP financial measure, for the same periods (in thousands, except share and per share amounts; information provided for the three months ended June 30, 2011 is preliminary):

	THREE MONTHS ENDED JUNE 30, 2011	THREE MONTHS ENDED MARCH 31, 2011
Net income	$ 2,087	$ 1,248
Depreciation and amortization of real estate assets	6,290	6,086
FFO	8,377	7,334
Acquisition pursuit costs	224	87
Stock-based compensation expense	1,335	1,142
Straight-line rental income adjustments	(128)	
Amortization of deferred financing costs	500	495
AFFO [(1)]	$ 10,308	$ 9,058
Diluted FFO per common share	$ 0.33	$ 0.29
Diluted AFFO per common share	$ 0.40	$ 0.35
Weighted-average number of common shares outstanding, diluted		
Net income and FFO	25,226,179	25,211,585
AFFO	25,480,729	25,694,787

(1) AFFO does not include adjustments to FFO for amortization of acquired above/below market lease intangibles as such item is not applicable for the periods presented.

FFO and AFFO are non-GAAP financial measures that we believe are important supplemental measures of operating performance for a REIT. For a further explanation concerning these measures, see Note 1 to Selected Financial and Operating Data presented below.

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The foregoing results for the three months ended June 30, 2011 are preliminary and represent the most current information available to management. Our actual results may differ from these preliminary results due to the completion of our financial closing procedures, final adjustments and other developments that may arise between the date of this prospectus and the time that financial results for the three months ended June 30, 2011 are finalized.

The preliminary financial data included in this prospectus has been prepared by and is the responsibility of management. PricewaterhouseCoopers LLP has not audited, reviewed, compiled or performed any procedures with respect to the accompanying preliminary financial data. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto.

Our Industry

We operate as a REIT that invests in income-producing healthcare facilities, principally long-term care facilities, located in the United States. As we acquire additional properties and expand our portfolio, we expect to further diversify by geography, asset class and tenant within the healthcare sector. We focus primarily on the approximately $137 billion (as of December 2009) United States nursing home industry and other senior housing segments such as assisted living and independent living facilities. According to the American Health Care Association, the nursing home industry was comprised of approximately 15,679 facilities with approximately 1.7 million Medicare certified beds in the United States as of March 2011. The nursing home industry is highly fragmented. As of March 2011, the four largest for-profit chains accounted for 11.0% of industry revenues and the largest for-profit chain represented 3.8% of total revenue.

The primary growth drivers for the long-term care industry are expected to be the aging of the population and increased life expectancies. According to the United States Census Bureau, the number of Americans aged 65 or older is projected to increase from approximately 40.1 million in 2010 to approximately 54.3 million by 2020, representing a compounded annual growth rate of 3.1%. In addition to positive demographic trends, we expect demand for services provided by skilled nursing facilities to continue increasing due to the impact of cost containment measures adopted by the federal government that encourage patient treatment in more cost-effective settings, such as skilled nursing facilities. As a result, high acuity patients that previously would have been treated in long-term acute care hospitals and inpatient rehabilitation facilities are increasingly being treated in skilled nursing facilities. According to the Centers for Medicare & Medicaid Services, or CMS, nursing home expenditures are projected to grow from approximately $137 billion in 2009 to approximately $246 billion in 2019, representing a compounded annual growth rate of 6.0%. We believe that these trends will support an increasing demand for long-term care services, which in turn will support an increasing demand for our properties.

Portfolio of Healthcare Properties

We have a geographically diverse portfolio of healthcare properties in the United States that offer a range of long-term care health services in the areas of skilled nursing, assisted and independent living and mental health. Of the 86 properties we owned as of March 31, 2011, we owned fee title to 80 properties and title under long-term ground leases for six properties.

Our portfolio consisted of the following types of healthcare facilities as of March 31, 2011:

- *Skilled nursing facilities.* Skilled nursing facilities provide services that include daily nursing, therapeutic rehabilitation, social services, housekeeping, nutrition and administrative services for individuals requiring certain assistance for activities in daily living. A typical skilled nursing facility includes mostly one and two bed units, each equipped with a private or shared bathroom and community dining facilities. As of March 31, 2011, Rehab Recovery Suites, which specialize in Medicare and managed care patients, were located in 30 of the skilled nursing facilities that we owned and leased to subsidiaries of New Sun. As of March 31, 2011, Solana Alzheimer s units, which are dedicated to the care of residents afflicted with Alzheimer s disease, were located in 21 of the skilled nursing facilities that we owned and leased to subsidiaries of New Sun.

- *Assisted living facilities.* Assisted living facilities provide services that include minimal nursing assistance, housekeeping, nutrition, laundry and administrative services for individuals requiring minimal assistance for activities in daily living. Assisted living facilities permit residents to maintain some of their privacy and independence as they do not require constant supervision and assistance. Assisted living facilities typically are comprised of one and two bedroom suites equipped with private bathrooms and efficiency kitchens. Services bundled within one regular monthly fee usually include three meals per day in a central dining room, daily housekeeping, laundry, medical reminders and 24-hour availability of assistance with the activities of daily living, such as eating, dressing and bathing. Professional nursing and healthcare services are usually available at the facility on call or at regularly scheduled times.

- *Independent living facilities.* Independent living facilities are age-restricted multi-family properties with central dining facilities that provide services that include security, housekeeping, nutrition and limited laundry services. Our independent living facilities are designed specifically for independent seniors who are able to live on their own, but desire the security and conveniences of community living. Independent living facilities typically offer several services covered under a regular monthly fee.

- *Mental health facilities.* Mental health facilities provide a range of inpatient and outpatient behavioral health services for adults and children through specialized treatment programs.

- *Continuing care retirement community.* Continuing care retirement communities, or CCRCs, provide, as a continuum of care, the services described above for independent living facilities, assisted living facilities and skilled nursing facilities in an integrated campus, under long-term contracts with the residents.

Geographic and Property Type Diversification

The following tables display the distribution of our licensed beds/units and the geographic concentration of our real estate investments by property type as of March 31, 2011:

Distribution of Licensed Beds/Units (1) (2)

STATE	TOTAL NUMBER OF PROPERTIES	SKILLED NURSING	ASSISTED LIVING	INDEPENDENT LIVING	MENTAL HEALTH	TOTAL	% OF TOTAL
New Hampshire	15	1,131	474			1,605	16.7%
Connecticut	10	1,327	23	49		1,399	14.6
Kentucky	15	976	172			1,148	12.0
Ohio	8	954				954	9.9
Florida	5	660				660	6.9
Oklahoma	5	441	71	12	60	584	6.1
Montana	4	538				538	5.6
New Mexico	3	190	120	60		370	3.9
Colorado	2	362				362	3.8
Georgia	2	310				310	3.2
California	3	301				301	3.1
Massachusetts	3	301				301	3.1
Idaho	3	229	16		22	267	2.8
Rhode Island	2	261				261	2.7
West Virginia	2	185				185	1.9
Tennessee	1	134				134	1.4

North Carolina				
Comprehensive income (loss)	$ 16.4	**$ (28.3)**	$ 164.4	**$ (90.5)**

See accompanying Notes to Condensed Consolidated Financial Statements.

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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Six months ended June 30, 2013

(In millions)

	Common stock	Additional paid-in capital	Retained deficit (unaudited)	Accumulated other comprehensive loss	Total stockholders equity
Balance at December 31, 2012	$ 1.2	$ 1,399.1	$ (141.1)	$ (197.1)	$ 1,062.1
Net loss			(75.0)		(75.0)
Other comprehensive loss, net				(15.5)	(15.5)
Issuance of common stock		.1			.1
Dividends paid			(34.8)		(34.8)
Balance at June 30, 2013	$ 1.2	$ 1,399.2	$ (250.9)	$ (212.6)	$ 936.9

See accompanying Notes to Condensed Consolidated Financial Statements.

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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Six months ended June 30, 2012	2013
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 201.4	**$ (75.0)**
Depreciation and amortization	23.9	**25.0**
Deferred income taxes	28.2	**(53.3)**
Loss on prepayment of debt	7.2	**6.6**
Call premium and interest paid on Senior Notes redeemed	(6.2)	
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension plans	(.6)	**.2**
Other postretirement benefits	.1	**.1**
Distributions from (contributions to) TiO_2 manufacturing joint venture, net	(19.4)	**14.7**
Other, net	2.4	**6.2**
Change in assets and liabilities:		
Accounts and other receivables	(167.4)	**(93.7)**
Inventories	(218.0)	**176.6**
Prepaid expenses	(.5)	**2.7**
Accounts payable and accrued liabilities	45.5	**(1.2)**
Income taxes	(.2)	**(4.4)**
Accounts with affiliates	34.7	**(20.4)**
Other, net	1.9	**.8**
Net cash used in operating activities	(67.0)	**(15.1)**
Cash flows from investing activities:		
Capital expenditures	(31.9)	**(33.8)**
Change in restricted cash equivalents	(2.0)	**.4**
Loans to Valhi:		
Loans	(68.6)	
Collections	49.8	
Proceeds from sale of marketable securities mutual funds	21.1	
Other, net		**(.1)**
Net cash used in investing activities	(31.6)	**(33.5)**
Cash flows from financing activities:		
Indebtedness:		
Borrowings	501.4	**204.5**
Principal payments	(353.1)	**(300.6)**
Dividends paid	(34.8)	**(34.8)**
Deferred financing fees	(4.5)	
Net cash provided by (used in) financing activities	109.0	**(130.9)**

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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(In millions)

	Six months ended June 30, 2012 (unaudited)	Six months ended June 30, 2013 (unaudited)
Cash and cash equivalents net change from:		
Operating, investing and financing activities	10.4	**(179.5)**
Currency translation	(1.3)	**(1.2)**
Balance at beginning of period	82.5	**282.7**
Balance at end of period	$ 91.6	**$ 102.0**
Supplemental disclosures:		
Cash paid for:		
Interest (including call premium paid)	$ 22.0	**$ 11.4**
Income taxes	72.1	**34.2**
Accrual for capital expenditures	3.2	**4.4**

See accompanying Notes to Condensed Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

(unaudited)

Note 1 Organization and basis of presentation:

Organization We are a majority-owned subsidiary of Valhi, Inc. (NYSE: VHI). At June 30, 2013, Valhi held approximately 50% of our outstanding common stock and NL Industries, Inc. (NYSE: NL) held an additional 30% of our common stock. Valhi owns approximately 83% of NL s outstanding common stock. Approximately 93% of Valhi s outstanding common stock is held by Contran Corporation and its subsidiaries. Substantially all of Contran s outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee), or is held directly by Mr. Simmons or other persons or entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran, Valhi and us.

Basis of presentation The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2012 that we filed with the Securities and Exchange Commission (SEC) on March 12, 2013 (2012 Annual Report). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet and Statement of Stockholders Equity at December 31, 2012 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2012) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our results of operations for the interim periods ended June 30, 2013 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2012 Consolidated Financial Statements contained in our 2012 Annual Report.

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

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Note 2 Accounts and other receivables:

	December 31, 2012	June 30, 2013
	(In millions)	
Trade receivables	$ 229.7	**$ 317.2**
Recoverable VAT and other receivables	38.9	**39.2**
Refundable income taxes	18.3	**5.1**
Allowance for doubtful accounts	(1.1)	**(1.0)**
Total	$ 285.8	**$ 360.5**

Note 3 Inventories, net:

	December 31, 2012	June 30, 2013
	(In millions)	
Raw materials	$ 151.5	**$ 99.7**
Work in process	27.3	**19.8**
Finished products	394.8	**264.6**
Supplies	64.7	**65.7**
Total	$ 638.3	**$ 449.8**

Note 4 Marketable securities:

Our marketable securities consist of investments in the publicly-traded shares of related parties: Valhi, NL and CompX International Inc. NL owns a majority of CompX s outstanding common stock. All of our marketable securities are accounted for as available-for-sale securities, which are carried at fair value using quoted market prices in active markets for each marketable security, and represent a Level 1 input within the fair value hierarchy. See Note 13. Because we have classified all of our marketable securities as available-for-sale, any unrealized gains or losses on the securities are recognized through other comprehensive income, net of deferred income taxes.

Marketable security	Fair value measurement level	Market value	Cost basis	Unrealized gains
		(In millions)		
As of December 31, 2012:				
Valhi common stock	1	$ 21.5	$ 15.3	$ 6.2
NL and CompX common stocks	1	.1	.1	
Total		$ 21.6	$ 15.4	$ 6.2
As of June 30, 2013:				
Valhi common stock	1	**$ 23.7**	**$ 15.3**	**$ 8.4**

NL and CompX common stocks	1	**.1**	**.1**	
Total		**$ 23.8**	**$ 15.4**	**$ 8.4**

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At December 31, 2012 and June 30, 2013, we held approximately 1.7 million shares of Valhi s common stock with a quoted per share market price of $12.50 and $13.74, respectively. We also held a nominal number of shares of CompX and NL common stocks.

The Valhi, CompX and NL common stocks we own are subject to the restrictions on resale pursuant to certain provisions of SEC Rule 144. In addition, as a majority-owned subsidiary of Valhi we cannot vote our shares of Valhi common stock under Delaware Corporation Law, but we do receive dividends from Valhi on these shares, when declared and paid.

Note 5 Other noncurrent assets:

	December 31, 2012	June 30, 2013
	(In millions)	
Deferred financing costs, net	$ 7.0	**$ 3.7**
Restricted cash	7.5	**7.1**
Pension asset	5.1	**5.9**
Other	9.5	**7.9**
Total	$ 29.1	**$ 24.6**

Note 6 Accounts payable and accrued liabilities:

	December 31, 2012	June 30, 2013
	(In millions)	
Accounts payable	$ 161.3	**$ 154.6**
Employee benefits	29.6	**24.1**
Accrued sales discounts and rebates	14.9	**9.3**
Accrued interest	.2	**.1**
Payable to affiliates:		
Income taxes, net Valhi	18.1	**2.3**
Louisiana Pigment Company, L.P.	23.5	**19.9**
Other	25.6	**29.6**
Total	$ 273.2	**$ 239.9**

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Note 7 Long-term debt:

	December 31, 2012	June 30, 2013
	(In millions)	
Term loan	$ 384.5	**$ 98.6**
Note payable to Contran		**180.0**
Revolving European credit facility	13.2	**26.1**
Other	2.4	**3.1**
Total debt	400.1	**307.8**
Less current maturities	21.2	**20.9**
Total long-term debt	$ 378.9	**$ 286.9**

Term loan In February 2013, we voluntarily prepaid an aggregate $290 million principal amount of our term loan. We recognized a non-cash pre-tax interest charge of $6.6 million in the first quarter of 2013 related to this prepayment consisting of the write-off of the unamortized original issue discount costs and deferred financing costs associated with such prepayment. Funds for such prepayment were provided by $100 million of our cash on hand as well as borrowings of $190 million under a new loan from Contran as described below. As a result of this prepayment, the remaining $100 million principal amount of the term loan is not repayable until final maturity of the term loan in June 2018. The average interest rate on the term loan as of and for the six months ended June 30, 2013 was 7% and 6.8%, respectively. The carrying amount of the term loan includes unamortized original issue discount of $1.4 million at June 30, 2013. In July 2013, we voluntarily prepaid the remaining $100 million principal amount outstanding under our term loan, using $50 million of our cash on hand as well as borrowings of $50 million under our revolving North American credit facility.

Note payable to Contran As discussed above, in February 2013 we entered into a promissory note with Contran that allows us to borrow up to $290 million. This new loan from Contran contains terms and conditions similar to the terms and conditions of the term loan, except that the loan from Contran is unsecured and contains no financial maintenance covenant. The independent members of our board of directors approved the terms and conditions of the loan from Contran. The note requires quarterly principal payments of $5.0 million which commenced in March 2013, with any remaining outstanding principal due by June 2018. Voluntary principal prepayments are permitted at any time without penalty. The note bears interest at LIBOR (with LIBOR no less than 1%) plus 5.125%, or the base rate (as defined in the agreement) plus 4.125%. We are required to use the base rate method until such time as both (1) the term loan discussed above has been fully repaid and (2) the European credit facility has been amended on terms satisfactory to Contran, at which time we would have the option to use either the base rate or LIBOR rate methods. The average interest rate on these borrowings as of and for the period from issuance to June 30, 2013 was 7.375%.

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Revolving European credit facility - During the first six months of 2013, we borrowed 10 million ($12.8 million when borrowed) and made no repayments under our European credit facility. The average interest rate on these borrowings as of and for the six months ended June 30, 2013 was 2.03% and 2.02%, respectively. At June 30, 2013, the equivalent of $130.5 million was available for borrowing under this facility.

Revolving North American credit facility We had no borrowings or repayments under our North American credit facility for the six months ended June 30, 2013. At June 30, 2013 we had no outstanding borrowings under this revolving facility and approximately $119.5 million was available for borrowing.

Canada At June 30, 2013, an aggregate of Cdn. $7.5 million letters of credit were outstanding under our Canadian subsidiary s loan agreement with the Bank of Montreal which exists solely for the issuance of up to Cdn. $10.0 million in letters of credit.

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

Restrictions and other Our European credit facility described above requires the borrower to maintain minimum levels of equity, requires the maintenance of certain financial ratios, limits dividends and additional indebtedness and contains other provisions and restrictive covenants customary in lending transactions of this type. Our term loan, North American revolving credit facility and note payable to Contran also contain restrictive covenants. At June 30, 2013, there were no restrictions on our ability to pay dividends.

We are in compliance with all of our debt covenants at June 30, 2013.

Note 8 Income taxes:

	Three months ended June 30,		Six months ended June 30,	
	2012	2013	2012	2013
	(In millions)			
Expected tax expense (benefit), at U.S. Federal statutory income tax rate of 35%	$ 34.5	**$ (18.5)**	$ 106.4	**$ (39.4)**
Non-U.S. tax rates	(4.0)	**2.9**	(11.7)	**2.5**
Incremental tax (benefit) on earnings (losses) of non-U.S. companies	1.7	**(3.3)**	5.7	**(4.7)**
Nondeductible expenses	1.6	**(.2)**	1.9	**2.1**
U.S. state income taxes and other, net	.4	**(.1)**	.4	**1.8**
Total	$ 34.2	**$ (19.2)**	$ 102.7	**$ (37.7)**

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	Three months ended June 30, 2012	Three months ended June 30, 2013	Six months ended June 30, 2012	Six months ended June 30, 2013
	(In millions)			
Comprehensive provision for income taxes (benefit) allocable to:				
Net income (loss)	$ 34.2	**$ (19.2)**	$ 102.7	**$ (37.7)**
Other comprehensive income (loss):				
Marketable securities	(6.5)	**(1.4)**	(10.0)	**.7**
Currency translation	(1.7)	**2.5**	(1.7)	**(1.3)**
Pension plans	.8	**1.1**	1.5	**2.2**
OPEB plans	(.1)	**(.1)**	(.1)	**(.1)**
Total	$ 26.7	**$ (17.1)**	$ 92.4	**$ (36.2)**

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including penalties and interest. Because of the inherent uncertainties involved in settlement initiatives and court and tax proceedings, we cannot guarantee that these matters will be resolved in our favor, and therefore our potential exposure, if any, is also uncertain. In 2011 and 2012, we received notices of re-assessment from the Canadian federal and provincial tax authorities related to the years 2002 through 2004. We object to the re-assessments and believe the position is without merit. Accordingly, we are appealing the re-assessments and in connection with such appeal we were required to post letters of credit aggregating Cdn. $7.5 million (see Note 7). If the full amount of the proposed adjustment were ultimately to be assessed against us, the cash tax liability would be approximately $15.6 million. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits may change by $3 million during the next twelve months related to certain adjustments to our prior year returns.

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Note 9 Employee benefit plans:

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

	Three months ended June 30, 2012	Three months ended June 30, 2013	Six months ended June 30, 2012	Six months ended June 30, 2013
	(In millions)			
Service cost	$ 2.6	**$ 3.2**	$ 5.2	**$ 6.5**
Interest cost	5.8	**5.3**	11.6	**10.8**
Expected return on plan assets	(4.6)	**(4.9)**	(9.2)	**(10.0)**
Amortization of prior service cost	.4	**.4**	.8	**.8**
Amortization of net transition obligations	.1	**.1**	.2	**.2**
Recognized actuarial losses	2.0	**3.1**	4.0	**6.2**
Total	$ 6.3	**$ 7.2**	$ 12.6	**$ 14.5**

Postretirement benefits The components of net periodic postretirement benefits other than pension (OPEB) cost are presented in the table below.

	Three months ended June 30, 2012	Three months ended June 30, 2013	Six months ended June 30, 2012	Six months ended June 30, 2013
	(In millions)			
Service cost	$	**$ .1**	$ .1	**$ .2**
Interest cost	.2	**.1**	.3	**.2**
Amortization of prior service credit	(.1)	**(.1)**	(.3)	**(.3)**
Recognized actuarial loss	.1	**.1**	.2	**.2**
Total	$ .2	**$ .2**	$ .3	**$ .3**

Contributions We expect our 2013 contributions for our pension and other postretirement plans to be approximately $28 million.

Note 10 Other noncurrent liabilities:

	December 31, 2012	June 30, 2013
	(In millions)	
Reserve for uncertain tax positions	$ 13.4	**$ 14.3**
Employee benefits	11.3	**10.7**
Other	5.6	**5.6**
Total	$ 30.3	**$ 30.6**

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Note 11 Accumulated other comprehensive loss:

Changes in accumulated other comprehensive loss for the three and six months ended June 30, 2012 and 2013 are presented in the table below.

	Three months ended June 30, 2012	Three months ended June 30, 2013	Six months ended June 30, 2012	Six months ended June 30, 2013
	(In millions)			
Accumulated other comprehensive loss, net of tax:				
Marketable securities:				
Balance at beginning of period	$ (2.1)	**$ 7.9**	$ 5.1	**$ 4.2**
Other comprehensive income (loss) unrealized gains (losses) arising during the year	(10.7)	**(2.5)**	(17.9)	**1.2**
Balance at end of period	$ (12.8)	**$ 5.4**	$ (12.8)	**$ 5.4**
Currency translation:				
Balance at beginning of period	$ (75.2)	**$ (90.8)**	$ (91.8)	**$ (63.5)**
Other comprehensive gain (loss)	(39.1)	**5.7**	(22.5)	**(21.6)**
Balance at end of period	$ (114.3)	**$ (85.1)**	$ (114.3)	**$ (85.1)**
Defined benefit pension plans:				
Balance at beginning of period	$ (97.5)	**$ (134.8)**	$ (99.2)	**$ (137.3)**
Other comprehensive income amortization of prior service cost and net losses included in net periodic pension cost	1.8	**2.5**	3.5	**5.0**
Balance at end of period	$ (95.7)	**$ (132.3)**	$ (95.7)	**$ (132.3)**
OPEB plans:				
Balance at beginning of period	$ .1	**$ (.5)**	$ .1	**$ (.5)**
Other comprehensive loss amortization of prior service credit and net losses included in net periodic OPEB cost	(.1)	**(.1)**	(.1)	**(.1)**
Balance at end of period	$	**$ (.6)**	$	**$ (.6)**
Total accumulated other comprehensive loss:				
Balance at beginning of period	$ (174.7)	**$ (218.2)**	$ (185.8)	**$ (197.1)**
Other comprehensive gain (loss)	(48.1)	**5.6**	(37.0)	**(15.5)**
Balance at end of period	$ (222.8)	**$ (212.6)**	$ (222.8)	**$ (212.6)**

See Note 9 for amounts related to our defined benefit pension plans and OPEB plans.

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Note 12 Commitments and contingencies:

From time-to-time, we are involved in various environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our operations. In certain cases, we have insurance coverage for these items. We currently believe the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial position, results of operations or liquidity beyond the accruals we have already provided.

Please refer to our 2012 Annual Report for a discussion of certain other legal proceedings to which we are a party.

Note 13 Financial instruments:

The following table summarizes the valuation of our financial instruments recorded on a fair value basis as of December 31, 2012 and June 30, 2013:

		Fair Value Measurements		
	Total	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(In millions)		
Asset (liability)				
December 31, 2012				
Currency forward contracts	$ 1.8	$ 1.8	$	$
Noncurrent marketable securities (See Note 4)	21.6	21.6		
June 30, 2013				
Currency forward contracts	**$ (2.0)**	**$ (2.0)**	**$**	**$**
Noncurrent marketable securities (See Note 4)	**23.8**	**23.8**		

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

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At June 30, 2013, we had currency forward contracts to exchange:

- an aggregate of $54.0 million for an equivalent value of Canadian dollars at an exchange rate ranging from Cdn. $1.02 to Cdn. $1.06 per U.S. dollar. These contracts with Wells Fargo Bank, N.A. mature from July 2013 through December 2014 at a rate of $3.0 million per month, subject to early redemption provisions at our option;

- an aggregate $35.0 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 5.84 to kroner 6.14 per U.S. dollar. These contracts with DnB Nor Bank ASA mature at a rate of $5.0 million per month in certain months from August 2013 through April 2014; and

- an aggregate 22.0 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 7.50 to kroner 8.07 per euro. These contracts with DnB Nor Bank ASA mature at a rate ranging from 2.0 million to 5.0 million per month in certain months from July 2013 through April 2014.

The estimated fair value of our currency forward contracts at June 30, 2013 was a net loss of $2.0 million, of which $.3 million is recognized as part of accounts and other receivables and $2.3 million is recognized as part of accounts payable and accrued liabilities. There is also a corresponding $2.0 million currency transaction loss recognized in our Condensed Consolidated Statement of Operations. We are not currently using hedge accounting for our outstanding currency forward contracts at June 30, 2013, and we did not use hedge accounting for any of such contracts we previously held in 2012.

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure as of December 31, 2012 and June 30, 2013.

	December 31, 2012		June 30, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In millions)		
Cash, cash equivalents and restricted cash	$ 292.9	$ 292.9	**$ 111.3**	**$ 111.3**
Notes payable and long-term debt:				
Variable rate:				
Term loan	384.5	396.8	**98.6**	**100.4**
Note payable to Contran			**180.0**	**180.0**
European credit facility	13.2	13.2	**26.1**	**26.1**
Common stockholders equity	1,062.1	2,260.2	**936.9**	**1,882.4**

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At December 31, 2012 and June 30, 2013, the estimated market price of our term loan was $1,017.5 per $1,000 principal amount and $1,004.4 per $1,000 principal amount, respectively. The fair value of our term loan is based on quoted market prices; however, these quoted market prices represent Level 2 inputs because the markets in which the term loan trades were not active. The fair values of our note payable to Contran and our European credit facility represent Level 2 inputs, and are deemed to approximate book value. The fair value of our common stockholders equity is based upon quoted market prices at each balance sheet date, which represent Level 1 inputs. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

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

RESULTS OF OPERATIONS:

Business overview

We are a leading global producer and marketer of value-added titanium dioxide pigments (TiO_2). TiO_2 is used for a variety of manufacturing applications, including coatings, plastics, paper and other industrial and specialty products. For the six months ended June 30, 2013, approximately one-half of our sales volumes were into European markets. Our production facilities are located in Europe and North America.

We consider TiO_2 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 TiO_2 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 TiO_2 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 TiO_2 inventory levels of our customers. We believe that our customers inventory levels are influenced in part by their expectations for future changes in TiO_2 market selling prices as well as their expectations for future availability of product. Although certain of our TiO_2 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 TiO_2 sales and production volumes,
- TiO_2 selling prices,
- currency exchange rates (particularly the exchange rate for the U.S. dollar relative to the euro, Norwegian krone and the Canadian dollar) and
- manufacturing costs, particularly raw materials, maintenance and energy-related expenses.

Our key performance indicators are our TiO_2 average selling prices and our TiO_2 sales and production volumes. TiO_2 selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures.

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Executive summary

We reported a net loss of $33.9 million, or $.29 per share, in the second quarter of 2013 as compared to net income of $64.5 million, or $.56 per share, in the second quarter of 2012. For the first six months of 2013, we reported a net loss of $75.0 million, or $.65 per share, compared to net income of $201.4 million, or $1.74 per share, in the first six months of 2012. We had a net loss in the second quarter of 2013 compared to net income in the second quarter of 2012 principally due to a loss from operations resulting from the unfavorable effects of lower average selling prices and higher raw material costs in 2013. We had a net loss in the first half of 2013 compared to net income in the first half of 2012 principally due to a loss from operations resulting from the unfavorable effects of lower average selling prices, lower production volumes and higher raw material costs in 2013.

Our results in the first six months of 2013 include a first quarter non-cash pre-tax charge of $6.6 million ($4.3 million, or $.04 per share, net of income tax benefit) related to the voluntary prepayment of $290 million principal amount of our term loan, consisting of the write-off of original issue discount costs and deferred financing costs associated with such prepayment. Our results in the first six months of 2012 include an aggregate second quarter charge of $7.2 million ($4.7 million, or $.04 per share, net of income tax benefit) associated with the June 2012 redemption of the remaining 279.2 million principal amount of our Senior Notes, consisting of the call premium paid, interest from the June 14, 2012 indenture discharge date to the July 20, 2012 redemption date and the write-off of unamortized deferred financing costs and original issue discount.

Forward-looking information

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking in nature and represent management s beliefs and assumptions based on currently available information. Statements in this report including, but not limited to, statements found in Item 2 - Management s Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements that represent our 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 st trends. Although we believe the expectations reflected in 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 our actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in our other filings with the SEC including, 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 cyclicality of our business
- Customer and producer inventory levels
- Unexpected or earlier-than-expected industry capacity expansion

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Changes in raw material and other operating costs (such as ore and energy 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 TiO_2)

Competitive products and substitute products

Customer and competitor strategies

Potential consolidation of our competitors

Potential consolidation of our customers

The impact of pricing and production decisions

Competitive technology positions

The introduction of trade barriers

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

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)

Our ability to renew or refinance credit facilities

Our ability to maintain sufficient liquidity

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

- Our ability to utilize income tax attributes, the benefits of which have been recognized under the more-likely-than-not recognition criteria

- Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities)

- Government laws and regulations and possible changes therein

- The ultimate resolution of pending litigation

- Possible future litigation.

Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those 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.

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Results of operations

Quarter ended June 30, 2013 compared to the quarter ended June 30, 2012

	Three months ended June 30,			
	2012		2013	
	(Dollars in millions)			
Net sales	$ 545.3	100%	**$ 481.1**	**100%**
Cost of sales	382.0	70	**471.5**	**98**
Gross margin	163.3	30	**9.6**	**2**
Other operating income and expense, net	52.7	10	**57.3**	**12**
Income (loss) from operations	$ 110.6	20%	**$ (47.7)**	**(10)%**

			% Change
TiO_2 operating statistics:			
Sales volumes*	123	**144**	**17%**
Production volumes*	118	**124**	**5%**
Percentage change in net sales:			
TiO_2 product pricing			**(24)%**
TiO_2 sales volumes			**17**
TiO_2 product mix			**(5)**
Changes in currency exchange rates			
Total			**(12)%**

* Thousands of metric tons

Current industry conditions - In May 2013, we announced price increases for our TiO_2 products in all of our markets, implementation of which began in June 2013. As a result, after about a year of decreasing selling prices within the TiO_2 industry, our selling prices have generally stabilized, with increases in some accounts. Our average selling prices at the end of the second quarter of 2013 were 1% lower than at the end of the first quarter of 2013, and were 8% lower than at the end of 2012. Demand for TiO_2 products has increased in the second quarter, primarily in European and export markets, as customers have generally depleted their inventories during the second half of 2012 and the first quarter of 2013 in response to general global economic uncertainty.

While we operated our production facilities at full practical capacity rates in the first quarter of 2012, we operated our facilities at reduced rates during the remainder of 2012 (approximately 86% of practical capacity in the second quarter, approximately 71% in the third quarter and approximately 80% in the fourth quarter) to align production levels and inventories to current and anticipated near-term customer demand levels. We continued to operate our production facilities at reduced capacity rates in the first half of 2013 (approximately 92% of practical capacity in the first quarter and approximately 90% in the second quarter).

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We experienced significantly higher costs for our raw materials such as third party feedstock ore and petroleum coke in 2012. We operate two ilmenite mines in Norway, the production from which provides all of the feedstock for our European sulfate process facilities as well as third party ilmenite ore sales. Overall, the cost per metric ton of TiO_2 we produced during 2012 was approximately 50% higher as compared to 2011, primarily due to the higher feedstock ore costs procured from third parties and unabsorbed fixed production costs resulting from reduced production volumes. However, as a substantial portion of the TiO_2 products we sold in the first half of 2012 was produced with lower-cost feedstock ore purchased in 2011, our cost of sales per metric ton in the first quarter of 2012 (and to a lesser-extent the second quarter of 2012) was significantly lower as compared to the cost per metric ton for products we sold in the third and fourth quarters of 2012. We have seen some moderation in the cost of TiO_2 feedstock ore procured from third parties in 2013, but such reductions will not be fully reflected in our cost of sales until the second half of 2013. Consequently, our cost of sales per metric ton of TiO_2 sold in the first half of 2013 (particularly in the first quarter) was significantly higher than what we expect our cost of sales per metric ton of TiO_2 to be in the remainder of 2013, as a substantial portion of the TiO_2 products we sold in the first quarter (and to a lesser-extent the second quarter) of 2013 was produced with the higher-cost feedstock ore procured in 2012.

Net sales - Net sales in the second quarter of 2013 decreased 12%, or $64.2 million, compared to the second quarter of 2012 primarily due to the net effects of a 24% decrease in average TiO_2 selling prices (which decreased net sales by approximately $131 million) and a 17% increase in sales volumes (which increased net sales by approximately $93 million). TiO_2 selling prices will increase or decrease generally as a result of competitive market pressures, changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs.

Our sales volumes increased 17% in the second quarter of 2013 as compared to the second quarter of 2012 due to higher customer demand, primarily in European and certain export markets. In addition, we estimate the unfavorable effect of changes in currency exchange rates decreased our net sales by approximately $3 million as compared to the second quarter of 2012.

Cost of sales - Cost of sales increased $89.5 million or 23% in the second quarter of 2013 compared to 2012 due to the net impact of higher raw material costs of approximately $26 million (primarily feedstock ore), a 17% increase in sales volumes, a 5% increase in TiO_2 production volumes and currency fluctuations (primarily the euro). Our cost of sales per metric ton of TiO_2 sold in the second quarter of 2013 was somewhat higher than TiO_2 sold in the second quarter of 2012, as a portion of the TiO_2 products we sold in the second quarter of 2012 was produced with lower-cost feedstock ore purchased in 2011, while a portion of the TiO_2 products we sold in the second quarter of 2013 was produced with higher-cost feedstock ore purchased in 2012. Overall and as discussed above, the cost per metric ton of TiO_2 we produced during 2012 was approximately 50% higher as compared to 2011, primarily due to the higher feedstock ore costs and unabsorbed fixed production costs resulting from reduced production volumes. Cost of sales as a percentage of net sales increased to 98% in the second quarter of 2013 compared to 70% in the same period of 2012 primarily due to the effects of lower average selling prices and higher raw materials costs, as discussed and quantified above.

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Unionized employees in our Canadian TiO_2 production facility are covered by a collective bargaining agreement that expired June 15, 2013. The Canadian facility represents approximately 19% of our worldwide TiO_2 production capacity. The union employees represented by the Confederation des Syndicat National (CSN) rejected our revised global offer, and we declared a lockout of unionized employees upon the expiration of the existing contract. As of the date of this report, no agreement has been reached with the CSN and the unionized employees remain locked out. We are currently operating our Canadian plant at approximately 15% of the plant s capacity with non-union management employees, and have implemented a strategy to reduce the financial impact of operating the plant during the lockout. We currently expect minimal interruptions in meeting customer demand, as orders are being filled with inventory on hand or through production from our other facilities. There is no assurance that we will be able to reach an agreement with the CSN on the terms of a new collective bargaining agreement, or reach an agreement on terms that will not have a material adverse effect on our results of operations.

Gross margin and income (loss) from operations - Income (loss) from operations decreased by $158.3 million from income of $110.6 million in the second quarter of 2012 to a loss of $47.7 million in the second quarter of 2013. Income (loss) from operations as a percentage of net sales decreased to (10)% in the second quarter of 2013 from 20% in the same period of 2012. This decrease was driven by the decline in gross margin, which decreased to 2% for the second quarter of 2013 compared to 30% for the second quarter of 2012. As discussed and quantified above, our gross margin has decreased primarily due to the net effects of lower selling prices, higher manufacturing costs (primarily raw materials), higher sales volumes and higher production volumes. Additionally, changes in currency exchange rates have negatively affected our gross margin and income from operations. We estimate that changes in currency exchange rates decreased income from operations by approximately $2 million in the second quarter of 2013 as compared to the same period in 2012.

Other non-operating income (expense) - In June 2012, we entered into a new $400 million term loan. We used a portion of the net proceeds of the term loan to redeem the remaining outstanding 6.5% Senior Secured Notes due April 2013 (279.2 million principal amount outstanding). As a result, we recognized an aggregate $7.2 million pre-tax charge in the second quarter of 2012 related to the early extinguishment of debt, consisting of the call premium paid, interest from the June 14, 2012 indenture discharge date to the July 20, 2012 redemption date and the write-off of unamortized deferred financing costs and original issue discount associated with the redeemed Senior Secured Notes.

Interest expense decreased $1.0 million from $6.7 million in the second quarter of 2012 to $5.7 million in the second quarter of 2013 primarily due to lower average debt levels in 2013.

Interest and dividend income decreased $1.7 million to $.3 million in the second quarter of 2013 primarily due to lower balances available for investment, principally related to our loan to Valhi which was completely repaid in December 2012. Interest income on our loan to Valhi was $1.7 million in the second quarter of 2012.

Income tax provision (benefit) - We recognized an income tax benefit of $19.2 million in the second quarter of 2013 compared to an income tax provision of $34.2 million in the same period last year. This difference is primarily due to our decreased earnings. See Note 8 to our Condensed Consolidated Financial Statements.

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We have substantial net operating loss carryforwards in Germany (the equivalent of $744 million and $100 million for German corporate and trade tax purposes, respectively, at December 31, 2012). At June 30, 2013, we have concluded that no deferred income tax asset valuation allowance is required to be recognized with respect to such carryforwards, principally because (i) such carryforwards have an indefinite carryforward period, (ii) we have utilized a portion of such carryforwards during the most recent three-year period and (iii) we currently expect to utilize the remainder of such carryforwards over the long term. However, prior to the complete utilization of such carryforwards, particularly if we were to generate losses in our German operations for an extended period of time, it is possible that we might conclude the benefit of such carryforwards would no longer meet the more-likely-than-not recognition criteria, at which point we would be required to recognize a valuation allowance against some or all of the then-remaining tax benefit associated with the carryforwards.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

	Six months ended June 30, 2012		2013	
	(Dollars in millions)			
Net sales	$ 1,106.6	100%	**$ 944.7**	**100%**
Cost of sales	681.8	62	**931.2**	**99**
Gross margin	424.8	38	**13.5**	**1**
Other operating income and expense, net	104.8	9	**108.1**	**11**
Income (loss) from operations	$ 320.0	29%	**$ (94.6)**	**(10)%**

	2012	2013	% Change
TiO_2 operating statistics:			
Sales volumes*	253	**276**	**9%**
Production volumes*	258	**246**	**(5)%**
Percentage change in net sales:			
TiO_2 product pricing			**(22)%**
TiO_2 sales volumes			**9**
TiO_2 product mix			**(2)**
Changes in currency exchange rates			
Total			**(15)%**

* Thousands of metric tons

Net sales - Net sales in the six months ended June 30, 2013 decreased 15%, or $161.9 million, compared to the six months ended June 30, 2012 primarily due to the net effects of a 22% decrease in average TiO_2 selling prices (which decreased net sales by approximately $243 million) and a 9% increase in sales volumes (which increased net sales by approximately $100 million). TiO_2 selling prices will increase or decrease generally as a result of competitive market pressures, changes in the relative level of supply and demand as well as changes in raw material and other manufacturing costs.

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Our sales volumes increased 9% in the first six months of 2013 as compared to the first six months of 2012 due to increased customer demand, primarily in European and certain export markets partially offset by decreased demand in North American markets. Our sales volumes in the first six months of 2013 were a new record for a first-half year for us. We estimate the unfavorable effect of changes in currency exchange rates decreased our net sales by approximately $2 million as compared to the first six months of 2012.

Cost of sales - Cost of sales increased $249.4 million or 37% in the six months ended June 30, 2013 compared to this same period in 2012 due to the net impact of higher raw material costs of approximately $136 million (primarily feedstock ore), a 9% increase in sales volumes, a 5% decrease in TiO_2 production volumes and currency fluctuations (primarily the euro). Our cost of sales per metric ton of TiO_2 sold in the first half of 2013 was significantly higher than TiO_2 sold in the first half of 2012, as a substantial portion of the TiO_2 products we sold in the first quarter of 2012 (and a portion of the TiO_2 products we sold in the second quarter of 2012) was produced with lower-cost feedstock ore purchased in 2011, while a substantial portion of the TiO_2 products we sold in the first quarter of 2013 (and a portion of the TiO_2 products we sold in the second quarter of 2013) was produced with higher-cost feedstock ore purchased in 2012. Overall, and as discussed above, the cost per metric ton of TiO_2 we produced during 2012 was approximately 50% higher as compared to 2011, primarily due to the higher feedstock ore costs and unabsorbed fixed production costs resulting from reduced production volumes. Cost of sales as a percentage of net sales increased to 99% in the first six months of 2013 compared to 62% in the same period of 2012 primarily due to the effects of higher raw materials costs as discussed above and a 5% decrease in TiO_2 production volumes.

Gross margin and income (loss) from operations - Income (loss) from operations decreased by $414.6 million from income of $320.0 million in the first six months of 2012 to a loss of $94.6 million in the first six months of 2013. Income (loss) from operations as a percentage of net sales decreased to (10)% in the first six months of 2013 from 29% in the same period of 2012. This decrease was driven by the decline in gross margin, which decreased to 1% for the first six months of 2013 compared to 38% for the same period in 2012. As discussed and quantified above, our gross margin has decreased primarily due to the net effects of lower selling prices, higher manufacturing costs (primarily raw materials), higher sales volumes and lower production volumes. Additionally, changes in currency exchange rates have negatively affected our gross margin and income from operations. We estimate that changes in currency exchange rates decreased income from operations by approximately $8 million in the first six months of 2013 as compared to the same period in 2012.

Other non-operating expense - We recognized an aggregate $6.6 million pre-tax charge, consisting of the write-off of unamortized original issue discount costs and deferred financing costs, in the first quarter of 2013 related to the voluntary prepayment of $290 million of our term loan. See Note 7 to our Condensed Consolidated Financial Statements.

As discussed above, we recognized an aggregate $7.2 million pre-tax charge in the second quarter of 2012 related to the early extinguishment of our remaining Senior Secured Notes.

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Interest expense decreased $.9 million from $13.0 million in the six months ended June 30, 2012 to $12.1 million in the six months ended June 30, 2013 primarily due to lower average debt levels in 2013.

Interest and dividend income decreased $3.7 million to $.6 million in the six months ended June 30, 2013 primarily due to lower balances available for investment, principally related to our loan to Valhi which was completely repaid in December 2012. Interest income on our loan to Valhi was $3.4 million in the six months ended June 30, 2012.

Income tax provision (benefit) - We recognized an income tax benefit of $37.7 million in the first six months of 2013 compared to an income tax provision of $102.7 million in the same period last year. This difference is primarily due to our decreased earnings. See Note 8 to our Condensed Consolidated Financial Statements for a tabular reconciliation of our statutory income tax provision to our actual tax provision.

Effects of Currency Exchange Rates

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

Overall, we estimate that fluctuations in currency exchange rates had the following effects on our sales and income from operations for the periods indicated.

Impact of changes in currency exchange rates

three months ended June 30, 2013 vs June 30, 2012

	Transaction gains recognized			Translation gain/loss - impact of rate changes	Total currency impact
	2012	2013	Change		2013 vs 2012
			(In millions)		
Impact on:					
Net sales	$	$	$	$ (3)	$ (3)
Income from operations	1	(3)	(4)	2	(2)

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Impact of changes in currency exchange rates

six months ended June 30, 2013 vs June 30, 2012

	Transaction gains recognized			Translation gain/loss - impact of rate changes	Total currency impact 2013 vs 2012
	2012	2013	Change		
			(In millions)		
Impact on:					
Net sales	$	$	$	$ (2)	$ (2)
Income from operations	1	(1)	(2)	(6)	(8)

Outlook

During the first half of 2013 we operated our production facilities at 91% of practical capacity, which was a higher utilization rate as compared to our utilization rates during the last three quarters of 2012. If economic conditions improve in the various regions of the world in the remainder of 2013, we expect demand for our TiO_2 products would continue to increase and we would expect our sales volumes to be higher in 2013 as compared to 2012. During 2013, we will continue to monitor current and anticipated near-term customer demand levels and align our production and inventories accordingly.

We have seen some moderation in the cost of TiO_2 feedstock ore procured in 2013, but such reductions will not be fully reflected in our cost of sales until the second half of 2013. Consequently, our cost of sales per metric ton of TiO_2 sold in the first half of 2013 was significantly higher than what we expect our cost of sales per metric ton of TiO_2 to be in the remainder of 2013, as a substantial portion of the TiO_2 products we sold in the first quarter of 2013 (and a portion of the TiO_2 products we sold in the second quarter of 2013) was produced with the higher-cost feedstock ore procured in 2012. Although the cost of feedstock ore has and continues to moderate, such reductions have been inadequate to compensate for the decline in selling prices for our products over the past year. We started 2013 with selling prices 16% lower than as compared to the beginning of 2012, and prices declined by an additional 7% in the first quarter of 2013 and 1% in the second quarter. In May 2013, we announced price increases for our TiO_2 products in all of our markets, implementation of which began in June 2013. As a result, our selling prices have generally stabilized, with increases in some accounts. We expect to implement additional increases in our selling prices during the second half of 2013. Industry data indicates that overall TiO_2 inventory held by producers has been significantly decreased, we believe most customers hold very low inventories of TiO_2 with many operating on a just-in-time basis. As a result, shortages of certain TiO_2 grades have begun to occur, and lead times for delivery are increasing. With the record sales volumes levels experienced in the first half of the year, we continue to see evidence of improvement in demand for our TiO_2 products, which we believe will support implementation of additional selling price increases in the near term. The extent to which we will be able to achieve these and other possible additional price increases during 2013 will depend on market conditions.

Overall, we expect that income (loss) from operations in 2013 will be significantly lower as compared to 2012, but we also expect income (loss) from operations in the second half of 2013 will improve from the first half of 2013. Our income from operations in the first half of 2012 was positively affected by the sale of TiO_2 produced with lower-cost feedstock ore purchased

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in 2011, while our loss from operations in the first half of 2013 was negatively impacted by the sale of TiO_2 produced with higher-cost feedstock ore purchased in 2012. The negative effect of such higher-cost feedstock ore on our full year 2013 operating results is expected to more than offset any favorable effect of higher sales and production volumes that would result assuming demand levels continue to improve, as well as the favorable impact of increases in our selling prices that we may be able to achieve during the remainder of 2013.

Due to the constraints, high capital costs and extended lead time associated with adding significant new TiO_2 production capacity, especially for premium grades of TiO_2 products produced from the chloride process, we believe increased and sustained profit margins will be necessary to financially justify major expansions of TiO_2 production capacity required to meet expected future growth in demand. As a result of customer decisions over the last year and the resulting adverse effect on global TiO_2 pricing, industry projects to increase TiO_2 production capacity have been cancelled or deferred indefinitely. Given the lead time required for such production capacity expansions, we expect a prolonged shortage of TiO_2 products will occur as economic conditions improve and global demand levels for TiO_2 continue to increase.

Our expectations as to the future of the TiO_2 industry are based upon a number of factors beyond our control, including worldwide growth of gross domestic product, competition in the marketplace, continued operation of competitors, unexpected or earlier-than-expected capacity additions or reductions and technological advances. If actual developments differ materially from our expectations, our results of operations could be unfavorably affected.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated cash flows

Operating activities

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

Cash used in operating activities was $67.0 million in the first six months of 2012 compared to $15.1 million in the first six months of 2013. This $51.9 million decrease in the amount of cash used was primarily due to the net effects of the following:

- lower income from operations in 2013 of $414.6 million;
- lower net cash used in 2013 of $366.1 million associated with relative changes in our inventories, receivables, payables and accruals, primarily due to the relative decrease in our inventories partially offset by the relative increase in receivables, as discussed below;
- higher net distributions from our TiO_2 manufacturing joint venture in 2013 of $34.1 million, primarily due to the timing of the joint venture s working capital needs; and
- lower net cash paid for income taxes in 2013 of $37.9 million resulting from our decreased profitability; and

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lower cash paid for interest in 2013 of $10.6 million, primarily due to the timing of 2012 interest payments on our Senior Secured Notes redeemed in June 2012.

Changes in working capital were affected by accounts receivable and inventory changes. As shown below:

Our average days sales outstanding, or DSO, increased from December 31, 2012 to June 30, 2013, due to higher average daily net sales occurring later in the second quarter resulting from higher sales volumes partially offset by lower selling prices; and

Our average days sales in inventory, or DSI, decreased from December 31, 2012 to June 30, 2013 principally due to lower inventory raw material costs and lower inventory volumes in 2013.

For comparative purposes, we have also provided comparable prior year numbers below.

	December 31, 2011	June 30, 2012	December 31, 2012	June 30, 2013
DSO	55 days	69 days	61 days	66 days
DSI	104 days	84 days	102 days	51 days

Investing activities

Our capital expenditures of $31.9 million and $33.8 million in the six months ended June 30, 2012 and 2013, respectively, were primarily to maintain and improve the cost-effectiveness of our existing manufacturing facilities.

Financing activities

During the six months ended June 30, 2013, we:

voluntarily prepaid $290.0 million principal amount on our term loan;

borrowed $190.0 million under our new note payable with Contran, and subsequently repaid $10.0 million;

borrowed   10 million ($12.8 million when borrowed) on our European credit facility;

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

paid quarterly dividends to stockholders of $.30 per share for an aggregate dividend of $34.8 million.

Outstanding debt obligations

At June 30, 2013, our consolidated debt comprised:

$180.0 million under our note payable to Contran due in June 2018;

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

20 million ($26.1 million) under our European revolving credit facility which matures in September 2017; and

approximately $3.1 million of other indebtedness.

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Our term loan, North American and European revolvers and our note payable to Contran contain a number of covenants and restrictions which, among other things, restrict our ability to incur additional debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer substantially all of our assets to, another entity, and contains other provisions and restrictive covenants customary in lending transactions of this type. Our term loan requires that a specified financial covenant (leverage to EBITDA, as defined) be maintained at a ratio less than or equal to 3.5 to 1.0, and our European revolving credit facility also requires the maintenance of certain financial ratios. Certain of our credit agreements also contain provisions which could result in the acceleration of indebtedness prior to their stated maturity for reasons other than defaults for failure to comply with typical financial or payment covenants. For example, certain credit agreements allow the lender to accelerate the maturity of the indebtedness upon a change of control (as defined in the agreement) of the borrower. In addition, certain credit agreements could result in the acceleration of all or a portion of the indebtedness following a sale of assets outside the ordinary course of business. We are in compliance with all of our debt covenants at June 30, 2013. We believe that we will be able to continue to comply with the financial covenants contained in our credit facilities and term loan through their maturity; however if future operating results differ materially from our expectations we may be unable to maintain compliance. In such an event, we believe we have alternate sources of liquidity, including cash on hand and borrowings under our North American revolver or additional borrowings from Contran (neither of which contain any financial maintenance covenants) in order to adequately address any compliance issues which might arise.

Our assets consist primarily of investments in operating subsidiaries, and our ability to service parent-level obligations, including our term loan, depends in part upon the distribution of earnings of our subsidiaries, whether in the form of dividends, advances or payments on account of intercompany obligations or otherwise. The term loan is collateralized by, among other things, a first priority lien on (i) 100% of the common stock of certain of our U.S. wholly-owned subsidiaries, (ii) 65% of the common stock or other ownership interest of our Canadian subsidiary (Kronos Canada, Inc.) and certain first-tier European subsidiaries (Kronos Titan GmbH and Kronos Denmark ApS) and (iii) a $362.1 million unsecured promissory note issued by our wholly-owned subsidiary, Kronos International, Inc. (KII). The term loan is also collateralized by a second priority lien on our U.S. assets which collateralize our North American revolving facility. Our North American revolving credit facility is collateralized by, among other things, a first priority lien on the borrower s trade receivables and inventories.

In July 2013, we voluntarily prepaid the remaining $100 million principal amount outstanding under our term loan, using $50 million of our cash on hand as well as borrowings of $50 million under our revolving North American credit facility. We expect to recognize a non-cash pre-tax interest charge of approximately $2.3 million in the third quarter of 2013 consisting of the write-off of the remaining unamortized original issue discount and deferred financing costs associated with such prepayment.

See Note 7 to our Condensed Consolidated Financial Statements.

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Future cash requirements

Liquidity

Our primary source of liquidity on an ongoing basis is cash flows from operating activities which is generally used to (i) fund working capital expenditures, (ii) repay any short-term indebtedness incurred for working capital purposes and (iii) provide for the payment of dividends. From time-to-time we will incur indebtedness, generally to (i) fund short-term working capital needs, (ii) refinance existing indebtedness or (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business. We will also from time-to-time sell assets outside the ordinary course of business and use the proceeds to (i) repay existing indebtedness, (ii) make investments in marketable and other securities, (iii) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business or (iv) pay dividends.

The TiO_2 industry is cyclical, and changes in industry economic conditions significantly impact earnings and operating cash flows. Changes in TiO_2 pricing, production volumes and customer demand, among other things, could significantly affect our liquidity.

We routinely evaluate our liquidity requirements, alternative uses of capital, capital needs and availability of resources in view of, among other things, our dividend policy, our debt service and capital expenditure requirements and estimated future operating cash flows. As a result of this process, we have in the past and may in the future seek to reduce, refinance, repurchase or restructure indebtedness, raise additional capital, repurchase shares of our common stock, modify our dividend policy, restructure ownership interests, sell interests in our subsidiaries or other assets, or take a combination of these steps or other steps to manage our liquidity and capital resources. Such activities have in the past and may in the future involve related companies. In the normal course of our business, we may investigate, evaluate, discuss and engage in acquisition, joint venture, strategic relationship and other business combination opportunities in the TiO_2 industry. In the event of any future acquisition or joint venture opportunity, we may consider using then-available liquidity, issuing our equity securities or incurring additional indebtedness.

At June 30, 2013, we had aggregate cash, cash equivalents and restricted cash on hand of $111.3 million, of which $67.4 million was held by non-U.S. subsidiaries. At June 30, 2013, we had $119.5 million available for borrowing under our North American revolving credit facility and 100 million ($130.5 million) under our European credit facility. We could borrow all available amounts under each of our credit facilities without violating our existing debt covenants. In July 2013, we used $50 million of available borrowings under our North American revolving credit facility as well as $50 million of our cash on hand to voluntarily prepay the remaining $100 million principal amount outstanding under our term loan. Based upon our expectation for the TiO_2 industry and anticipated demands on cash resources, we expect to have sufficient liquidity to meet our short term obligations (defined as the twelve-month period ending June 30, 2014) and our long-term obligations (defined as the five-year period ending June 30, 2018, our time period for long-term budgeting). If actual developments differ materially from our expectations, our liquidity could be adversely affected.

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Capital expenditures

We currently estimate that we will invest approximately $65 million in capital expenditures to maintain and improve our existing facilities during 2013, including the $33.8 million we have spent through June 30, 2013.

Stock repurchase program

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

Off-balance sheet financing

We do not have any off-balance sheet financing agreements other than the operating leases discussed in our 2012 Annual Report.

Commitments and contingencies

See Notes 8 and 12 to the Condensed Consolidated Financial Statements for a description of certain income tax examinations currently underway and legal proceedings.

Recent accounting pronouncements

Not applicable

Critical accounting policies

For a discussion of our critical accounting policies, refer to Part I, Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Annual Report. There have been no changes in our critical accounting policies during the first six months of 2013.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

General

We are exposed to market risk, including currency exchange rates, interest rates and security prices, and raw material prices. There have been no material changes in these market risks since we filed our 2012 Annual Report, and refer you to Part I, Item 7A. - Quantitative and Qualitative Disclosure About Market Risk in our 2012 Annual Report. See also Note 13 to our Condensed Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Securities Exchange Act of 1934, as amended (the Exchange

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Act), is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports we file or submit to the SEC under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Steven L. Watson, our Chief Executive Officer, and Gregory M. Swalwell, our Executive Vice President and Chief Financial Officer, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of June 30, 2013. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures are effective as of June 30, 2013.

Internal control over financial reporting

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

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and
- Provide reasonable assurance regarding prevention or timely detection of an unauthorized acquisition, use or disposition of our assets that could have a material effect on our Condensed Consolidated Financial Statements.

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

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Changes in internal control over financial reporting

There has been no change to our internal control over financial reporting during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Refer to Note 12 of the Condensed Consolidated Financial Statements, our 2012 Annual Report and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 for descriptions of certain legal proceedings.

Item 1A. Risk Factors

For a discussion of other risk factors related to our businesses, refer to Part I, Item 1A., Risk Factors, in our 2012 Annual report. There have been no material changes to such risk factors during the six months ended June 30, 2013.

Item 6. Exhibits

31.1	Certification
31.2	Certification
32.1	Certification
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

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

	Kronos Worldwide, Inc.
	(Registrant)
Date: August 7, 2013	/s/ Gregory M. Swalwell Gregory M. Swalwell Executive Vice President and
	Chief Financial Officer
	(Principal Financial Officer)
Date: August 7, 2013	/s/ Tim C. Hafer Tim C. Hafer Vice President and Controller
	(Principal Accounting Officer)