

VALHI INC /DE/  
Form 10-Q  
May 09, 2012  
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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

For the quarter ended March 31, 2012

Commission file number 1-5467

## VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697

87-0110150  
(IRS Employer

Identification No.)

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(Address of principal executive offices) (Zip Code)

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

Indicate by check mark:

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Number of shares of the Registrant's common stock outstanding on May 4, 2012: 113,036,483.

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**VALHI, INC. AND SUBSIDIARIES**

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**VALHI, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions)

	December 31, 2011	March 31, 2012 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 96.4	\$ 57.7
Restricted cash equivalents	5.3	5.3
Marketable securities	22.5	.9
Accounts and other receivables, net	316.0	451.4
Inventories, net	464.5	605.5
Other current assets	20.7	21.2
Deferred income taxes	18.8	18.8
Total current assets	944.2	1,160.8
Other assets:		
Marketable securities	354.1	343.4
Investment in affiliates	105.7	124.5
Note receivable from affiliate	11.2	11.2
Goodwill	400.1	400.3
Deferred income taxes	132.7	114.9
Other noncurrent assets	166.2	165.1
Total other assets	1,170.0	1,159.4
Property and equipment:		
Land	53.0	54.6
Buildings	276.8	282.2
Equipment	1,188.3	1,217.4
Mining properties	63.5	61.8
Construction in progress	111.2	118.8
	1,692.8	1,734.8
Less accumulated depreciation	969.0	994.3
Net property and equipment	723.8	740.5
Total assets	\$ 2,838.0	\$ 3,060.7

**Table of Contents****VALHI, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(In millions)

	December 31, 2011	March 31, 2012 (unaudited)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 19.0	\$ 18.9
Accounts payable and accrued liabilities	363.7	335.5
Income taxes	26.5	39.8
Deferred income taxes	6.4	6.6
<b>Total current liabilities</b>	<b>415.6</b>	<b>400.8</b>
Noncurrent liabilities:		
Long-term debt	717.4	833.4
Deferred income taxes	457.2	457.2
Accrued pension costs	144.4	143.9
Accrued environmental remediation and related costs	34.6	45.4
Accrued postretirement benefits costs	20.4	20.6
Other liabilities	55.4	56.8
<b>Total noncurrent liabilities</b>	<b>1,429.4</b>	<b>1,557.3</b>
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	1.2	1.2
Additional paid-in capital	81.0	81.0
Retained earnings (deficit)	(19.4)	55.4
Accumulated other comprehensive loss	(23.3)	(13.2)
Treasury stock	(49.6)	(49.6)
<b>Total Valhi stockholders' equity</b>	<b>657.2</b>	<b>742.1</b>
Noncontrolling interest in subsidiaries	335.8	360.5
<b>Total equity</b>	<b>993.0</b>	<b>1,102.6</b>
<b>Total liabilities and equity</b>	<b>\$ 2,838.0</b>	<b>\$ 3,060.7</b>

Commitments and contingencies (Notes 12 and 14)

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****VALHI, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In millions, except per share data)

	<b>Three months ended March 31, 2011      2012 (unaudited)</b>	
<b>Revenues and other income:</b>		
Net sales	\$ 455.7	\$ 597.9
Other income, net	16.8	9.3
<b>Total revenues and other income</b>	<b>472.5</b>	<b>607.2</b>
<b>Costs and expenses:</b>		
Cost of sales	306.8	334.0
Selling, general and administrative	61.3	80.6
Loss on prepayment of debt	3.3	
Interest	17.2	13.5
<b>Total costs and expenses</b>	<b>388.6</b>	<b>428.1</b>
<b>Income before income taxes</b>	<b>83.9</b>	<b>179.1</b>
Provision for income taxes	30.7	59.6
<b>Net income</b>	<b>53.2</b>	<b>119.5</b>
Noncontrolling interest in net income of subsidiaries	15.2	30.6
<b>Net income attributable to Valhi stockholders</b>	<b>\$ 38.0</b>	<b>\$ 88.9</b>
<b>Amounts attributable to Valhi stockholders:</b>		
Basic and diluted earnings per share	\$ .33	\$ .78
Cash dividends per share	\$ .10	\$ .125
<b>Basic and diluted weighted average shares outstanding</b>	<b>114.2</b>	<b>114.0</b>

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

	<b>Three months ended March 31, 2011      2012 (unaudited)</b>	
Net income	\$ 53.2	\$ 119.5
Other comprehensive income (loss), net of tax:		
Currency translation	14.0	18.3
Marketable securities	7.7	(11.1)
Defined benefit pension plans	1.7	2.0
Other postretirement benefit plans	(.4)	(.3)
Total other comprehensive income, net	23.0	8.9
Comprehensive income	76.2	128.4
Comprehensive income attributable to noncontrolling interest	22.1	29.4
Comprehensive income attributable to Valhi stockholders	\$ 54.1	\$ 99.0

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

	<b>Three months ended March 31, 2011                      2012 (unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 53.2	\$ <b>119.5</b>
Depreciation and amortization	15.6	<b>15.7</b>
Loss on prepayment of debt	3.3	
Call premium paid	(2.5)	
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension expense	(2.1)	<b>.1</b>
Other postretirement benefit expense	(.5)	<b>(.5)</b>
Deferred income taxes	12.6	<b>25.2</b>
Net distributions from (contributions to) TiO <sub>2</sub> manufacturing joint venture	1.1	<b>(18.8)</b>
Other, net	.4	
Change in assets and liabilities:		
Accounts and other receivables, net	(56.7)	<b>(163.4)</b>
Inventories, net	(38.6)	<b>(126.1)</b>
Accounts payable and accrued liabilities	13.4	<b>(8.0)</b>
Accounts with affiliates	1.6	<b>29.0</b>
Income taxes	9.9	<b>11.6</b>
Other, net	(8.2)	<b>1.3</b>
<b>Net cash provided by (used in) operating activities</b>	<b>2.5</b>	<b>(114.4)</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(24.0)	<b>(34.6)</b>
Capitalized permit costs	(1.4)	<b>(.9)</b>
Purchases of:		
Mutual funds	(197.8)	
Other marketable securities	(2.2)	<b>(.5)</b>
Titanium Metals Corporation ( TIMET ) common stock	(20.4)	
Proceeds from:		
Disposal of mutual funds	92.0	<b>21.1</b>
Disposal of other marketable securities	2.9	<b>2.8</b>
Sale of business	.3	
Change in restricted cash equivalents, net	2.6	<b>(2.3)</b>
Other, net	(.8)	<b>2.1</b>
<b>Net cash used in investing activities</b>	<b>(148.8)</b>	<b>(12.3)</b>



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## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Three months ended March 31, 2011      2012 (unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	\$ 113.3	<b>\$ 108.5</b>
Principal payments	(121.3)	<b>(2.1)</b>
Valhi cash dividends paid	(11.4)	<b>(14.1)</b>
Distributions to noncontrolling interest in subsidiaries	(15.4)	<b>(4.7)</b>
Treasury stock acquired	(3.7)	
Issuance of subsidiary common stock	.3	
Other, net	(.1)	
Net cash provided by (used in) financing activities	(38.3)	<b>87.6</b>
Cash and cash equivalents net change from:		
Operating, investing and financing activities	(184.6)	<b>(39.1)</b>
Effect of exchange rate on cash	2.7	<b>.4</b>
Cash and cash equivalents at beginning of period	325.1	<b>96.4</b>
Cash and cash equivalents at end of period	\$ 143.2	<b>\$ 57.7</b>
Supplemental disclosures:		
Cash paid for:		
Interest, net of capitalized interest (including call premium paid)	\$ 13.9	<b>\$ 7.4</b>
Income taxes, net	11.6	<b>23.9</b>
Noncash investing activities:		
Accrual for capital expenditures	10.4	<b>6.1</b>
Accrual for capitalized permit costs	.5	<b>3.5</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VALHI, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF EQUITY**

Three months ended March 31, 2012

(In millions)

	Valhi Stockholders Equity							
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated other comprehensive income(loss)	Treasury stock	Non- controlling interest	Total equity
Balance at December 31, 2011	\$ 667.3	\$ 1.2	\$ 81.0	\$ (19.4)	\$ (23.3)	\$ (49.6)	\$ 335.8	\$ 993.0
Net income				88.9			30.6	119.5
Other comprehensive income (loss), net					10.1		(1.2)	8.9
Cash dividends				(14.1)			(4.7)	(18.8)
Balance at March 31, 2012	\$ 667.3	\$ 1.2	\$ 81.0	\$ 55.4	\$ (13.2)	\$ (49.6)	\$ 360.5	\$ 1,102.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VALHI, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2012**

**(unaudited)**

**Note 1 Organization and basis of presentation:**

*Organization* We are majority owned by Contran Corporation and its subsidiaries, which own approximately 95% of our outstanding common stock at March 31, 2012. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or entities related to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran and us.

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

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2011 that we filed with the SEC on March 7, 2012 (the 2011 Annual Report). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2011 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, 2011) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Our results of operations for the interim period ended March 31, 2012 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 2011 Consolidated Financial Statements contained in our 2011 Annual Report.

In March 2012, our board of directors approved a 3-for-1 split of our common stock to be effected in the form of a stock dividend. Holders of record of Valhi's common stock at the close of business on May 2, 2012 will receive two additional shares for each Valhi share held as of the close of business on that date. The distribution of the additional Valhi shares is subject to certain customary regulatory approvals, and is expected to occur on the close of business on May 10, 2012. Also in March 2012 our board of directors and the holders of a majority of our common stock approved an amendment to our certificate of incorporation to increase the authorized number of shares of our common stock to 500 million. The filing of the amendment with the Delaware Secretary of State is required in order to effectuate the stock split, which we filed on May 1, 2012.

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Once the stock split has been implemented, we will adjust all share and per-share disclosures for all periods presented in our consolidated financial statements to give effect to the split. On a pro forma basis and assuming the split had been implemented, our basic and diluted earnings per share for the first quarter of 2011 and 2012 would have been \$.11 and \$.26, respectively, based on 342.6 million and 342.0 million, respectively, basic and diluted weighted average shares outstanding during such periods, and our cash dividends per share would have been \$.033 and \$.042 per share, respectively.

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

**Note 2 Business segment information:**

Business segment	Entity	% controlled at March 31, 2012
Chemicals	Kronos	80%
Component products	CompX	87%
Waste management	WCS	100%

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

	Three months ended March 31, 2011      2012 (In millions)	
Net sales:		
Chemicals	\$ 420.4	\$ 561.3
Component products	34.8	35.5
Waste management	.5	1.1
<b>Total net sales</b>	<b>\$ 455.7</b>	<b>\$ 597.9</b>
Cost of sales:		
Chemicals	\$ 274.6	\$ 300.4
Component products	26.1	26.0
Waste management	6.1	7.6
<b>Total cost of sales</b>	<b>\$ 306.8</b>	<b>\$ 334.0</b>
Gross margin:		
Chemicals	\$ 145.8	\$ 260.9
Component products	8.7	9.5
Waste management	(5.6)	(6.5)
<b>Total gross margin</b>	<b>\$ 148.9</b>	<b>\$ 263.9</b>

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	Three months ended	
	2011	2012
	March 31,	
	(In millions)	
Operating income (loss):		
Chemicals	\$ 103.5	\$ 211.3
Component products	8.8	2.9
Waste management	(9.0)	(9.6)
<b>Total operating income</b>	<b>103.3</b>	<b>204.6</b>
Equity in earnings of investee	(.1)	.1
General corporate items:		
Securities earnings	7.4	7.1
Insurance recoveries	.4	1.1
General expenses, net	(6.6)	(20.3)
Loss on prepayment of debt	(3.3)	
Interest expense	(17.2)	(13.5)
<b>Income before income taxes</b>	<b>\$ 83.9</b>	<b>\$ 179.1</b>

Segment results we report may differ from amounts separately reported by our various subsidiaries and affiliates due to purchase accounting adjustments and related amortization or differences in the way we define operating income. Intersegment sales are not material. We received approximately \$7.5 million for a patent litigation settlement in the first quarter of 2011, which is included in the determination of Component Products operating income, see Note 11.

**Note 3 Marketable securities:**

	Market value	Cost basis (In millions)	Unrealized gains/ (losses), net
<b>December 31, 2011:</b>			
Current assets:			
Mutual funds	\$ 20.9	\$ 21.1	\$ (.2)
Other	1.6	1.6	
<b>Total</b>	<b>\$ 22.5</b>	<b>\$ 22.7</b>	<b>\$ (.2)</b>
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$ 250.0	\$ 250.0	\$
TIMET common stock	97.7	86.0	11.7
Other	6.4	6.5	(.1)
<b>Total</b>	<b>\$ 354.1</b>	<b>\$ 342.5</b>	<b>\$ 11.6</b>

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**March 31, 2012:**

Current assets	\$	.9	\$ .9	\$
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Noncurrent assets:

The Amalgamated Sugar Company LLC	\$	250.0
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