

VALHI INC /DE/  
Form 10-Q  
August 04, 2011  
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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 June 30, 2011

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 July 29, 2011: 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, 2010	June 30, 2011 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 325.1	\$ 83.9
Restricted cash equivalents	9.4	8.8
Marketable securities	1.7	80.8
Accounts and other receivables, net	262.7	391.7
Inventories, net	294.9	330.2
Other current assets	14.1	19.4
Deferred income taxes	13.9	13.7
<b>Total current assets</b>	<b>921.8</b>	<b>928.5</b>
Other assets:		
Marketable securities	340.4	376.1
Investment in affiliates	113.2	110.0
Goodwill	397.4	397.5
Deferred income taxes	192.0	177.6
Other noncurrent assets	103.4	136.0
<b>Total other assets</b>	<b>1,146.4</b>	<b>1,197.2</b>
Property and equipment:		
Land	54.9	57.7
Buildings	287.4	300.2
Equipment	1,170.3	1,226.3
Mining properties	69.1	69.4
Construction in progress	20.2	68.5
	1,601.9	1,722.1
Less accumulated depreciation	955.8	1,018.8
<b>Net property and equipment</b>	<b>646.1</b>	<b>703.3</b>
<b>Total assets</b>	<b>\$ 2,714.3</b>	<b>\$ 2,829.0</b>

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

	<b>December 31, 2010</b>	<b>June 30, 2011 (unaudited)</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Current maturities of long-term debt	\$ 17.4	\$ 17.6
Accounts payable and accrued liabilities	275.6	279.1
Income taxes	7.9	19.8
Deferred income taxes	5.0	5.3
<b>Total current liabilities</b>	<b>305.9</b>	<b>321.8</b>
Noncurrent liabilities:		
Long-term debt	922.9	887.1
Deferred income taxes	417.6	435.2
Accrued pension costs	128.1	129.1
Accrued environmental remediation and related costs	32.6	36.6
Accrued postretirement benefits costs	19.5	19.6
Other liabilities	69.5	72.2
<b>Total noncurrent liabilities</b>	<b>1,590.2</b>	<b>1,579.8</b>
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	1.2	1.2
Additional paid-in capital	76.2	76.7
Accumulated deficit	(183.2)	(118.3)
Accumulated other comprehensive income	21.2	37.2
Treasury stock	(40.9)	(50.4)
<b>Total Valhi stockholders' equity</b>	<b>541.8</b>	<b>613.7</b>
Noncontrolling interest in subsidiaries	276.4	313.7
<b>Total equity</b>	<b>818.2</b>	<b>927.4</b>
<b>Total liabilities and equity</b>	<b>\$ 2,714.3</b>	<b>\$ 2,829.0</b>

Commitments and contingencies (Notes 12 and 14)

See accompanying Notes to Condensed Consolidated Financial Statements.



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## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2010	2011	2010	2011
	(unaudited)			
<b>Revenues and other income:</b>				
Net sales	\$ 415.7	\$ 573.1	\$ 772.5	\$ 1,028.8
Other income, net	3.9	8.8	31.9	25.6
<b>Total revenues and other income</b>	<b>419.6</b>	<b>581.9</b>	<b>804.4</b>	<b>1,054.4</b>
<b>Costs and expenses:</b>				
Cost of sales	326.3	372.4	617.0	679.2
Selling, general and administrative	58.1	79.1	116.4	140.4
Loss on prepayment of debt				3.3
Litigation settlement and contract termination			33.3	
Interest	17.0	15.9	34.4	33.1
<b>Total costs and expenses</b>	<b>401.4</b>	<b>467.4</b>	<b>801.1</b>	<b>856.0</b>
Income before income taxes	18.2	114.5	3.3	198.4
Provision for income taxes (benefit)	11.8	41.6	(18.2)	72.3
Net income	6.4	72.9	21.5	126.1
Noncontrolling interest in net income of subsidiaries	1.9	20.5	3.4	35.7
Net income attributable to Valhi Stockholders	\$ 4.5	\$ 52.4	\$ 18.1	\$ 90.4
<b>Amounts attributable to Valhi stockholders:</b>				
Basic and diluted earnings per share	\$ .04	\$ .46	\$ .14	\$ .79
Cash dividends per share	\$ .10	\$ .125	\$ .20	\$ .225
Basic and diluted weighted average shares outstanding	114.3	114.0	114.3	114.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	<b>Six months ended June 30, 2010                      2011 (unaudited)                      (unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 21.5	\$ 126.1
Depreciation and amortization	31.6	31.9
Loss on prepayment of debt		3.3
Call premium paid		(2.5)
Accrued litigation settlement and contract termination	33.3	
Litigation settlement payments	(19.0)	
<b>Benefit plan expense greater (less) than cash funding requirements:</b>		
Defined benefit pension expense	1.1	(.9)
Other postretirement benefit expense	.1	(.9)
Deferred income taxes	(24.2)	31.1
Net distributions from TiO <sub>2</sub> manufacturing joint venture	1.5	3.0
Other, net	2.7	2.3
<b>Change in assets and liabilities:</b>		
Accounts and other receivables, net	(89.3)	(121.7)
Inventories, net	26.2	(19.4)
Accounts payable and accrued liabilities	(21.7)	(2.5)
Accounts with affiliates	19.5	1.7
Income taxes	1.1	12.6
Other, net	4.5	(3.0)
<b>Net cash provided by (used in) operating activities</b>	<b>(11.1)</b>	<b>61.1</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(18.6)	(54.0)
Capitalized permit costs	(1.2)	(3.6)
<b>Purchases of:</b>		
Mutual funds		(241.3)
Marketable securities	(7.5)	(5.0)
Titanium Metals Corporation ( TIMET ) common stock		(30.4)
<b>Proceeds from:</b>		
Disposal of mutual funds		162.0
Disposal of marketable securities	2.6	3.4
Disposal of restricted marketable securities	5.2	
Sale of business	.5	.3
Change in restricted cash equivalents, net	(.7)	1.0
Other, net	(.1)	(8.2)
<b>Net cash used in investing activities</b>	<b>(19.8)</b>	<b>(175.8)</b>





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

	<b>Six months ended June 30,</b>	
	<b>2010</b>	<b>2011</b>
	<b>(unaudited)</b>	
<b>Cash flows from financing activities:</b>		
<b>Indebtedness:</b>		
Borrowings	\$ 251.1	\$ 113.3
Principal payments	(207.6)	(187.7)
Valhi cash dividends paid	(22.7)	(25.5)
Distributions to noncontrolling interest in subsidiaries	(2.5)	(20.1)
Treasury stock acquired		(9.5)
Purchase of noncontrolling interest in subsidiaries	(7.0)	
Issuance of subsidiary common stock and other, net		.5
Net cash provided by (used in) financing activities	11.3	(129.0)
<b>Cash and cash equivalents - net change from:</b>		
Operating, investing and financing activities	(19.6)	(243.7)
Currency translation	(2.9)	2.5
Cash and cash equivalents at beginning of period	68.7	325.1
Cash and cash equivalents at end of period	\$ 46.2	\$ 83.9
<b>Supplemental disclosures:</b>		
<b>Cash paid for:</b>		
Interest, net of capitalized interest (including call premium paid)	\$ 32.4	\$ 37.5
Income taxes paid (refunded), net	(12.2)	31.1
<b>Noncash investing activities:</b>		
Accrual for capital expenditures	4.7	14.2
Accrual for capitalized permit costs	2.2	1.0
<b>Noncash financing activities:</b>		
Promissory notes payable incurred in connection with litigation settlement and contract termination	30.0	
See accompanying Notes to Condensed Consolidated Financial Statements.		

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## VALHI, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY AND COMPREHENSIVE INCOME

Six months ended June 30, 2011

(In millions)

	Preferred stock	Common stock	Valhi Stockholders Additional paid-in capital	Equity Accumulated deficit	Equity Accumulated other comprehensive income (unaudited)	Treasury stock	Non-controlling interest	Total equity	Comprehensive income
Balance at December 31, 2010	\$ 667.3	\$ 1.2	\$ 76.2	\$ (183.2)	\$ 21.2	\$ (40.9)	\$ 276.4	\$ 818.2	
Net income				90.4			35.7	126.1	\$ 126.1
Other comprehensive income, net					16.0		21.3	37.3	37.3
Equity transaction with noncontrolling interest, net			.3				.4	.7	
Cash dividends				(25.5)			(20.1)	(45.6)	
Treasury stock acquired						(9.5)		(9.5)	
Valhi common stock issued			.2					.2	
Balance at June 30, 2011	\$ 667.3	\$ 1.2	\$ 76.7	\$ (118.3)	\$ 37.2	\$ (50.4)	\$ 313.7	\$ 927.4	
Comprehensive income									\$ 163.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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**VALHI, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 30, 2011**

**(unaudited)**

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

*Organization* - We are majority owned by Contran Corporation, which directly and through its subsidiaries owns approximately 94% of our outstanding common stock at June 30, 2011. 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). Our controlling interest in Kronos decreased from 95% in the second quarter of 2010 to 80% as a result of Kronos' secondary stock offering completed in November 2010. 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, 2010 that we filed with the SEC on March 9, 2011 (the 2010 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, 2010 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, 2010) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain reclassifications have been made to conform the prior year's Consolidated Financial Statements to the current year's classifications. Our results of operations for the interim periods ended June 30, 2011 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 2010 Consolidated Financial Statements contained in our 2010 Annual Report.

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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

Business segment	Entity	% controlled at June 30, 2011
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 June 30,		Six months ended June 30,	
	2010	2011	2010	2011
(In millions)				
<b>Net sales:</b>				
Chemicals	\$ 380.1	\$ 537.6	\$ 699.8	\$ 958.0
Component products	34.4	35.2	67.2	70.0
Waste management	1.2	.3	5.5	.8
<b>Total net sales</b>	<b>\$ 415.7</b>	<b>\$ 573.1</b>	<b>\$ 772.5</b>	<b>\$ 1,028.8</b>
<b>Cost of sales:</b>				
Chemicals	\$ 295.3	\$ 341.2	\$ 555.3	\$ 615.8
Component products	25.5	25.4	49.2	51.5
Waste management	5.5	5.8	12.5	11.9
<b>Total cost of sales</b>	<b>\$ 326.3</b>	<b>\$ 372.4</b>	<b>\$ 617.0</b>	<b>\$ 679.2</b>
<b>Gross margin:</b>				
Chemicals	\$ 84.8	\$ 196.4	\$ 144.5	\$ 342.2
Component products	8.9	9.8	18.0	18.5
Waste management	(4.3)	(5.5)	(7.0)	(11.1)
<b>Total gross margin</b>	<b>\$ 89.4</b>	<b>\$ 200.7</b>	<b>\$ 155.5</b>	<b>\$ 349.6</b>
<b>Operating income (loss):</b>				
Chemicals	\$ 40.4	\$ 145.9	\$ 63.0	\$ 249.4
Component products	3.0	3.1	4.7	11.9
Waste management	(8.0)	(9.2)	(14.7)	(18.2)
<b>Total operating income</b>	<b>35.4</b>	<b>139.8</b>	<b>53.0</b>	<b>243.1</b>
<b>Equity in earnings of investee</b>	<b>(.2)</b>	<b>(.1)</b>	<b>(.1)</b>	<b>(.2)</b>
<b>General corporate items:</b>				
Securities earnings	6.6	7.4	13.1	14.8
Insurance recoveries	.1	.1	18.3	.5

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Litigation settlement expense			(32.2)	
General expenses, net	(6.7)	<b>(16.8)</b>	(14.4)	<b>(23.4)</b>
Loss on prepayment of debt				<b>(3.3)</b>
Interest expense	(17.0)	<b>(15.9)</b>	(34.4)	<b>(33.1)</b>
Income before income taxes	\$ 18.2	<b>\$ 114.5</b>	\$ 3.3	<b>\$ 198.4</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

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Segment results we report may differ from amounts separately reported by our various subsidiaries and affiliates due to purchase accounting adjustments and related amortization or differences in the way we define operating income. Intersegment sales are not material. We received approximately \$7.5 million for a patent litigation settlement in the first quarter of 2011 related to CompX which is included in the determination of its operating income. See Notes 11 and 14. Of the \$33.3 million aggregate litigation settlement and contract termination expense we recognized in the first quarter of 2010, \$1.1 million relates to WCS and is included in the determination of its operating loss, and the remaining \$32.2 million relates to NL. Please refer to Notes 9 and 17 in our 2010 Annual Report.

In July of 2011, CompX completed the acquisition of an ergonomic component products business for initial cash consideration of approximately \$5 million, with additional cash consideration of up to approximately \$1.5 million payable in the first quarter of 2013 contingent upon the acquired business achieving certain specified financial targets. The acquisition is intended to expand CompX's ergonomics product line. The business had net sales of \$4.2 million in 2010 and the pro-forma effect to us, assuming this acquisition had been completed as of January 1, 2011, is not material.

**Note 3 - Marketable securities:**

Marketable securities	Market value	Cost basis (In millions)	Unrealized gains, net
<b>December 31, 2010:</b>			
Current assets -			
Other	\$ 1.7	\$ 1.7	\$
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$ 250.0	\$ 250.0	\$
TIMET common stock	86.1	59.0	27.1
Other	4.3	4.3	
Total	\$ 340.4	\$ 313.3	\$ 27.1
<b>June 30, 2011:</b>			
Current assets:			
Mutual funds	\$ 79.7	\$ 79.4	\$ .3
Other	1.1	1.1	
Total	\$ 80.8	\$ 80.5	\$ .3
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$ 250.0	\$ 250.0	\$
TIMET common stock	119.5	86.1	33.4
Other	6.6	6.5	.1
Total	\$ 376.1	\$ 342.6	\$ 33.5

All of our marketable securities are accounted for as available-for-sale, which are carried at fair value, with any unrealized gains or losses recognized through accumulated other comprehensive income. Our marketable securities are carried at fair value using quoted market prices, primarily Level 1 inputs as defined by Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, except for our investment in The Amalgamated Sugar Company LLC (Amalgamated). Our investment in Amalgamated

See accompanying Notes to Condensed Consolidated Financial Statements.





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is measured using significant unobservable inputs, which are Level 3 inputs. Please refer to Note 4 in our 2010 Annual Report for a complete description of the valuation methodology for our investment in Amalgamated. There have been no changes to the carrying value of this investment during the periods presented. See Note 15.

At December 31, 2010, we, Kronos and NL and its subsidiaries held an aggregate of 5.0 million shares of TIMET common stock and the quoted per share market price was \$17.18. At June 30, 2011 we held an aggregate of 6.5 million shares of TIMET common stock and the quoted per share market price was \$18.32. During the first six months of 2011, Kronos purchased an aggregate of 1.5 million shares of TIMET common stock for an aggregate of \$27.0 million. Contran, Mr. Harold Simmons and persons and other entities related to Mr. Simmons own a majority of TIMET's outstanding common stock.

At June 30, 2011, we held investments in various mutual funds which have a primary investment objective of holding corporate and government debt securities from U.S. and other markets. These funds have daily liquidity and are held for the temporary investment of cash available for our current operations in order to generate a higher return than would be available if such funds were invested in an asset qualifying for classification as a cash equivalent, and accordingly we have classified our investments in these mutual funds as a current asset.

**Note 4 - Accounts and other receivables, net:**

	December 31, 2010	June 30, 2011
	(In millions)	
Accounts receivable	\$ 246.1	\$ 376.3
Real-estate related note receivable	15.0	15.0
Notes receivable	2.9	1.7
Refundable income taxes	1.3	.6
Receivable from affiliates	.1	
Accrued interest and dividend receivable	.1	
Allowance for doubtful accounts	(2.8)	(1.9)
 Total	 \$ 262.7	 \$ 391.7

See accompanying Notes to Condensed Consolidated Financial Statements.

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	December 31, 2010	June 30, 2011
	(In millions)	
<b>Raw materials:</b>		
Chemicals	\$ 52.1	\$ 51.1
Component products	6.3	8.0
 Total raw materials	 58.4	 59.1
<b>Work in process:</b>		
Chemicals	13.6	12.5
Component products	6.7	7.2
 Total in-process products	 20.3	 19.7
<b>Finished products:</b>		
Chemicals	155.3	185.1
Component products	5.4	5.4
 Total finished products	 160.7	 190.5
 Supplies (primarily chemicals)	 55.5	 60.9
 Total	 \$ 294.9	 \$ 330.2

**Note 6 - Other noncurrent assets:**

	December 31, 2010	June 30, 2011
	(In millions)	
<b>Investment in affiliates:</b>		
TiO <sub>2</sub> manufacturing joint venture, Louisiana Pigment Company, L.P. ( LPC )	\$ 96.2	\$ 93.2
Other	17.0	16.8
 Total	 \$ 113.2	 \$ 110.0
<b>Other assets:</b>		
Waste disposal site operating permits, net	\$ 58.8	\$ 62.5
IBNR receivables	6.6	6.7
Capital lease deposit	6.2	6.2
Deferred financing costs	4.5	3.2
Assets held for sale	3.0	3.0

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Other intangible assets	.8	.6
Pension asset	.3	.4
Other	23.2	53.4
Total	\$ 103.4	\$ 136.0

See accompanying Notes to Condensed Consolidated Financial Statements.

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**Table of Contents****Note 7 - Accounts payable and accrued liabilities:**

	December 31, 2010	June 30, 2011
	(In millions)	
Accounts payable	\$ 129.6	\$ 122.3
Payable to affiliates:		
Contran income taxes	4.3	.3
Contran trade items	17.4	19.3
LPC	7.4	12.5
TIMET	1.0	
Other	.1	
Employee benefits	44.8	38.1
Environmental remediation and related costs	9.7	12.6
Accrued sales discounts and rebates	11.3	11.6
Interest	7.4	6.6
Deferred income	3.3	.5
Other	39.3	55.3
Total	\$ 275.6	\$ 279.1

**Note 8 - Other noncurrent liabilities:**

	December 31, 2010	June 30, 2011
	(In millions)	
Reserve for uncertain tax positions	\$ 41.3	\$ 43.3
Insurance claims and expenses	10.3	10.3
Employee benefits	9.8	10.3
Deferred income	1.1	1.1
Other	7.0	7.2
Total	\$ 69.5	\$ 72.2

**Note 9 - Long-term debt:**

	December 31, 2010	June 30, 2011
	(In millions)	
Valhi:		
Snake River Sugar Company	\$ 250.0	\$ 250.0