

VALHI INC /DE/
Form 10-Q
August 06, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2008

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)

87-0110150
(IRS Employer
Identification No.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697
(Address of principal executive offices) (Zip Code)

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

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 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 31, 2008: 113,681,778.

VALHI, INC. AND SUBSIDIARIES

INDEX

	Page number	
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements.	
	Condensed Consolidated Balance Sheets – December 31, 2007; and June 30, 2008 (unaudited)	3
	Condensed Consolidated Statements of Operations (unaudited) – Three and six months ended June 30, 2007 and 2008	5
	Condensed Consolidated Statements of Cash Flows (unaudited) – Six months ended June 30, 2007 and 2008	6
	Condensed Consolidated Statement of Stockholders’ Equity and Comprehensive Loss – Six months ended June 30, 2008 (unaudited)	8
	Notes to Condensed Consolidated Financial Statements (unaudited)	9
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	42
Item 4.	Controls and Procedures	42
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings.	44
Item 1A.	Risk Factors.	45
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds; Share Repurchases	45
Item 4.	Submission of Matters to a Vote of Security Holders	45
Item 6.	Exhibits.	45

Items 3 and 5 of Part II are omitted because there is no information to report.

VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

ASSETS	December 31, 2007	June 30, 2008 (unaudited)
Current assets:		
Cash and cash equivalents	\$ 138.3	\$ 55.4
Restricted cash equivalents	7.2	11.9
Marketable securities	7.2	9.0
Accounts and other receivables, net	253.7	333.9
Inventories, net	337.9	337.2
Prepaid expenses and other	16.2	15.1
Deferred income taxes	10.4	10.3
Total current assets	770.9	772.8
Other assets:		
Marketable securities	319.8	290.0
Investment in affiliates	137.9	134.4
Pension asset	47.6	51.6
Goodwill	406.8	406.8
Other intangible assets	2.7	2.4
Deferred income taxes	168.7	186.8
Other assets	67.3	84.3
Total other assets	1,150.8	1,156.3
Property and equipment:		
Land	48.2	51.5
Buildings	277.1	301.0
Equipment	1,051.9	1,143.8
Mining properties	39.8	46.5
Construction in progress	48.9	59.8
	1,465.9	1,602.6
Less accumulated depreciation	784.6	885.4
Net property and equipment	681.3	717.2
Total assets	\$ 2,603.0	\$ 2,646.3

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2007	June 30, 2008 (unaudited)
Current liabilities:		
Current maturities of long-term debt	\$ 16.8	\$ 24.7
Accounts payable and accrued liabilities	267.8	282.3
Income taxes	9.8	3.9
Deferred income taxes	3.3	3.5
Total current liabilities	297.7	314.4
Noncurrent liabilities:		
Long-term debt	889.8	958.2
Deferred income taxes	415.0	406.6
Accrued pension costs	140.0	141.9
Accrued postretirement benefits cost	33.6	33.1
Accrued environmental costs	40.3	38.2
Other liabilities	77.7	79.2
Total noncurrent liabilities	1,596.4	1,657.2
Minority interest in net assets of subsidiaries	90.5	92.3
Stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	1.2	1.2
Additional paid-in capital	10.4	-
Accumulated deficit	(74.1)	(92.4)
Accumulated other comprehensive income	51.5	44.2
Treasury stock	(37.9)	(37.9)
Total stockholders' equity	618.4	582.4
Total liabilities, minority interest and stockholders' equity	\$ 2,603.0	\$ 2,646.3

Commitments and contingencies (Notes 11 and 13)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
	(unaudited)			
Revenues and other income:				
Net sales	\$ 389.0	\$ 436.1	\$ 748.0	\$ 810.1
Other income, net	11.4	12.7	23.8	18.1
Equity in earnings of:				
Titanium Metals Corporation ("TIMET")	-	-	26.9	-
Other	1.0	(.2)	.5	(.6)
 Total revenues and other income	 401.4	 448.6	 799.2	 827.6
Costs and expenses:				
Cost of sales	316.1	369.7	595.0	680.1
Selling, general and administrative	60.5	65.7	115.4	124.0
Interest	15.9	17.7	31.5	35.1
 Total costs and expenses	 392.5	 453.1	 741.9	 839.2
 Income (loss) before income taxes	 8.9	 (4.5)	 57.3	 (11.6)
 Provision for income taxes (benefit)	 13.3	 (5.6)	 33.1	 (6.9)
 Minority interest in after-tax earnings	 .5	 1.3	 3.0	 1.4
 Net income (loss)	 \$ (4.9)	 \$ (.2)	 \$ 21.2	 \$ (6.1)
 Basic and diluted net income (loss) per share	 \$ (.04)	 \$ -	 \$.18	 \$ (.05)
 Cash dividends per share	 \$.10	 \$.10	 \$.20	 \$.20
Weighted average shares outstanding:				
Basic	114.9	114.4	114.9	114.4
Outstanding stock options impact	-	-	.2	-
 Diluted	 114.9	 114.4	 115.1	 114.4

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Six months ended June 30,	
	2007	2008
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$ 21.2	\$ (6.1)
Depreciation and amortization	32.6	34.1
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension expense	(2.5)	(7.0)
Other postretirement benefit expense	.3	.2
Deferred income taxes	28.0	(13.5)
Minority interest	3.0	1.4
Equity in:		
TIMET	(26.9)	-
Other	(.5)	.6
Net distributions from (contributions to) Ti02 manufacturing joint venture	(1.4)	2.9
Other, net	2.2	2.6
Change in assets and liabilities:		
Accounts and other receivables, net	(50.2)	(73.0)
Inventories, net	(3.7)	14.9
Accounts payable and accrued liabilities	(8.7)	1.3
Accounts with affiliates	(10.4)	10.4
Income taxes	6.7	(6.8)
Other, net	(1.3)	(2.0)
Net cash used in operating activities	(11.6)	(40.0)
Cash flows from investing activities:		
Capital expenditures	(22.8)	(40.6)
Capitalized permit costs	(5.0)	(7.2)
Purchases of:		
CompX common stock	-	(1.0)
TIMET common stock	(.7)	-
Marketable securities	(17.2)	(5.6)
Proceeds from disposal of marketable securities	20.9	4.9
Change in restricted cash equivalents, net	2.4	(4.5)
Other, net	2.0	1.7
Net cash used in investing activities	(20.4)	(52.3)

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Six months ended June 30, 2007 2008 (unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	\$ 177.6	\$ 216.6
Principal payments	(159.7)	(181.9)
Deferred financing costs paid	-	(.9)
Valhi cash dividends paid	(22.8)	(22.7)
Distributions to minority interest	(4.4)	(3.7)
Treasury stock acquired	(3.1)	-
Issuance of common stock and other	1.0	-
Net cash provided by (used in) financing activities	(11.4)	7.4
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(43.4)	(84.9)
Currency translation	1.2	2.0
Cash and cash equivalents at beginning of period	189.2	138.3
Cash and cash equivalents at end of period	\$ 147.0	\$ 55.4
Supplemental disclosures:		
Cash paid for:		