

VALHI INC /DE/
Form 10-Q
May 08, 2015

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, 2015

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
(Address of principal executive offices)

75240-2697
(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

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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 (Do not check if a smaller reporting company) 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 1, 2015: 339,132,449

VALHI, INC. AND SUBSIDIARIES

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VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2014	March 31, 2015 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 255.8	\$ 199.5
Restricted cash equivalents	10.6	9.4
Marketable securities	2.7	.9
Accounts and other receivables, net	303.9	322.6
Inventories, net	443.0	413.8
Land held for development	15.0	10.6
Other current assets	17.6	14.4
Deferred income taxes	13.4	13.4
Total current assets	1,062.0	984.6
Other assets:		
Marketable securities	255.6	255.6
Investment in affiliates	89.0	77.8
Goodwill	379.7	379.7
Deferred income taxes	164.4	159.2
Other noncurrent assets	282.9	282.5
Total other assets	1,171.6	1,154.8
Property and equipment:		
Land	49.1	45.9
Buildings	263.1	240.1
Treatment, storage and disposal facility	159.9	159.9
Equipment	1,139.9	1,051.2
Mining properties	52.0	41.7
Construction in progress	26.2	25.9
	1,690.2	1,564.7
Less accumulated depreciation	956.6	887.8
Net property and equipment	733.6	676.9
Total assets	\$ 2,967.2	\$ 2,816.3

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2014	March 31, 2015 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 9.3	\$ 9.2
Accounts payable and accrued liabilities	310.2	253.0
Income taxes	7.8	8.4
Deferred income taxes	3.9	3.5
Total current liabilities	331.2	274.1
Noncurrent liabilities:		
Long-term debt	924.8	928.9
Deferred income taxes	412.8	409.0
Accrued pension costs	249.4	220.5
Accrued environmental remediation and related costs	108.3	108.0
Accrued postretirement benefits costs	14.1	13.3
Other liabilities	112.7	107.3
Total noncurrent liabilities	1,822.1	1,787.0
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	3.6	3.6
Additional paid-in capital	—	—
Retained earnings	4.9	10.0
Accumulated other comprehensive loss	(148.6)	(199.1)
Treasury stock	(49.6)	(49.6)
Total Valhi stockholders' equity	477.6	432.2
Noncontrolling interest in subsidiaries	336.3	323.0
Total equity	813.9	755.2
Total liabilities and equity	\$ 2,967.2	\$ 2,816.3

Commitments and contingencies (Notes 12 and 15)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three months ended March 31, 2014 2015 (unaudited)	
Revenues and other income:		
Net sales	\$462.4	\$416.1
Other income, net	5.1	12.1
Total revenues and other income	467.5	428.2
Costs and expenses:		
Cost of sales	376.6	326.8
Selling, general and administrative	68.8	65.2
Interest	13.7	14.6
Total costs and expenses	459.1	406.6
Income before income taxes	8.4	21.6
Income tax expense	3.8	4.3
Net income	4.6	17.3
Noncontrolling interest in net income of subsidiaries	3.8	5.4
Net income attributable to Valhi stockholders	\$.8	\$ 11.9
Amounts attributable to Valhi stockholders:		
Basic and diluted net income per share	\$—	\$.04
Cash dividends per share	\$.05	\$.02
Basic and diluted weighted average shares outstanding	342.0	342.0

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In millions)

	Three months ended March 31, 2014 2015 (unaudited)	
Net income	\$4.6	\$17.3
Other comprehensive income (loss), net of tax:		
Currency translation	(2.7)	(67.6)
Marketable securities	(17.1)	(.6)
Defined benefit pension plans	2.1	2.8
Other postretirement benefit plans	(.4)	(.3)
Total other comprehensive loss, net	(18.1)	(65.7)
Comprehensive loss	(13.5)	(48.4)
Comprehensive loss attributable to noncontrolling interest	(12.7)	(9.8)
Comprehensive loss attributable to Valhi stockholders	\$(.8)	\$(38.6)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Three months ended March 31, 2014 2015 (unaudited)	
Cash flows from operating activities:		
Net income	\$4.6	\$17.3
Depreciation and amortization	19.5	18.3
Benefit plan expense less than cash funding	(2.3)	(.8)
Deferred income taxes	(3.4)	(1.0)
Distributions from TiO ₂ manufacturing joint venture, net	4.5	11.2
Other, net	1.6	3.3
Change in assets and liabilities:		
Accounts and other receivables, net	(61.6)	(50.5)
Inventories, net	6.6	(8.8)
Land held for development, net	(1.8)	2.0
Accounts payable and accrued liabilities	11.4	(30.8)
Accounts with affiliates	11.8	13.5
Income taxes	1.1	(1.8)
Other, net	2.2	(2.1)
Net cash used in operating activities	(5.8)	(30.2)
Cash flows from investing activities:		
Capital expenditures	(19.9)	(13.3)
Capitalized permit costs	(.2)	(.1)
Purchases of marketable securities	(4.2)	(5.2)
Disposal of marketable securities	1.7	7.2
Change in restricted cash equivalents, net	(2.1)	(.2)
Other, net	(.3)	—
Net cash used in investing activities	(25.0)	(11.6)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	457.6	19.2
Principal payments	(281.8)	(14.9)
Deferred financing costs paid	(6.0)	—
Valhi cash dividends paid	(17.0)	(6.8)
Distributions to noncontrolling interest in subsidiaries	(8.5)	(3.8)
Net cash provided by (used in) financing activities	144.3	(6.3)
Cash and cash equivalents – net change from:		
Operating, investing and financing activities	113.5	(48.1)
Effect of exchange rate on cash	(.1)	(8.2)

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Cash and cash equivalents at beginning of period	142.8	255.8
Cash and cash equivalents at end of period	\$256.2	\$199.5
Supplemental disclosures:		
Cash paid for:		
Interest, net of capitalized interest	\$12.7	\$14.2
Income taxes, net	5.7	9.1
Noncash investing activities:		
Change in accruals for capital expenditures	4.5	1.8

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Three months ended March 31, 2015

(In millions)

(unaudited)

	Valhi Stockholders' Equity				Accumulated other comprehensive loss	Treasury stock	Non- controlling interest	Total equity
	Preferred stock	Common stock	Additional paid-in capital	Retained earnings				
Balance at December 31, 2014	\$667.3	\$ 3.6	\$ —	\$ 4.9	\$ (148.6)	\$ (49.6)	\$ 336.3	\$813.9
Net income	—	—	—	11.9	—	—	5.4	17.3
Other comprehensive loss, net	—	—	—	—	(50.5)	—	(15.2)	(65.7)
Dividends	—	—	—	(6.8)	—	—	(3.5)	(10.3)
Balance at March 31, 2015	\$667.3	\$ 3.6	\$ —	\$ 10.0	\$ (199.1)	\$ (49.6)	\$ 323.0	\$755.2

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

(unaudited)

Note 1—Organization and basis of presentation:

Organization— We are majority owned by a wholly-owned subsidiary of Contran Corporation (“Contran”), which owns approximately 93% of our outstanding common stock at March 31, 2015. Substantially all of Contran’s outstanding voting stock is held by family trusts established for the benefit of Lisa K. Simmons and Serena Simmons Connelly, daughters of Harold C. Simmons, and their children (for which Ms. Lisa Simmons and Ms. Connelly are co-trustees) or is held directly by Ms. Lisa Simmons and Ms. Connelly or persons or entities related to them, including their step-mother Annette C. Simmons, the widow of Mr. Simmons. Prior to his death in December 2013, Mr. Simmons served as sole trustee of the family trusts. Under a voting agreement entered into by all of the voting stockholders of Contran, effective in February 2014 and as amended, the size of the board of directors of Contran was fixed at five members, Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons (and in the event of their death, their heirs) each has the right to designate one of the five members of the Contran board and the remaining two members of the Contran board must consist of members of Contran management. Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons each serve as members of the Contran board. The voting agreement expires in February 2017 (unless Ms. Lisa Simmons, Ms. Connelly and Ms. Annette Simmons otherwise mutually agree), and the ability of Ms. Lisa Simmons, Ms. Connelly, and Ms. Annette Simmons to each designate one member of the Contran board is dependent upon each of their continued beneficial ownership of at least 5% of the combined voting stock of Contran. Consequently, Ms. Lisa Simmons, Ms. Connelly and Ms. Annette 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., Waste Control Specialists LLC (“WCS”), Tremont LLC, Basic Management, Inc. (“BMI”) and The LandWell Company (“LandWell”). Kronos (NYSE: KRO), NL (NYSE: NL), and CompX (NYSE MKT: CIX) each file periodic reports with the Securities and Exchange Commission (“SEC”).

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 that we filed with the SEC on March 13, 2015 (the “2014 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, 2014 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, 2014) 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, 2015 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 2014 Consolidated Financial Statements contained in our 2014 Annual Report.

In May 2014, after considering our results of operations, financial conditions, cash requirements for our businesses and our current expectations regarding reduced aggregate dividend distributions to be received from our subsidiaries; our Board of Directors reduced our regular quarterly dividend to \$.02 per share effective with the second quarter 2014 dividend payment. The declaration and payment of future dividends, and the amount thereof, is discretionary and is dependent upon these and other factors deemed relevant by our Board of Directors.

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, 2015	
Chemicals	Kronos	80	%
Component products	CompX	87	%
Waste management	WCS	100	%
Real estate management and development	BMI and LandWell	63% - 77	%

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

	Three months ended March 31,	
	2014	2015
	(unaudited)	
Net sales:		
Chemicals	\$ 420.1	\$ 365.1
Component products	25.8	27.9
Waste management	7.0	15.0
Real estate management and development	9.5	8.1
Total net sales	\$ 462.4	\$ 416.1
Cost of sales:		
Chemicals	\$ 340.2	\$ 288.2
Component products	18.0	19.3
Waste management	10.7	12.1
Real estate management and development	7.7	7.2
Total cost of sales	\$ 376.6	\$ 326.8
Gross margin:		
Chemicals	\$ 79.9	\$ 76.9
Component products	7.8	8.6
Waste management	(3.7)	2.9
Real estate management and development	1.8	.9
Total gross margin	\$ 85.8	\$ 89.3
Operating income (loss):		
Chemicals	\$ 27.6	\$ 34.0
Component products	3.3	3.7
Waste management	(8.5)	(2.9)
Real estate management and development	.4	(.2)
Total operating income	22.8	34.6
General corporate items:		
Securities earnings	6.8	6.7
Insurance recoveries	.8	3.1
General expenses, net	(8.3)	(8.2)
Interest expense	(13.7)	(14.6)
Income before income taxes	\$ 8.4	\$ 21.6

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.

Note 3—Marketable securities:

	Market value	Cost basis	Unrealized losses, net
(In millions)			
December 31, 2014:			
Current assets	\$2.7	\$2.7	\$ —
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$250.0	\$250.0	\$ —
Other	5.6	5.8	(.2)
Total	\$255.6	\$255.8	\$ (.2)
March 31, 2015:			
Current assets	\$.9	\$.9	\$ —
Noncurrent assets:			
The Amalgamated Sugar Company LLC	\$250.0	\$250.0	\$ —
Other	5.6	5.7	(.1)
Total	\$255.6	\$255.7	\$ (.1)

All of our marketable securities are accounted for as available-for-sale, which are carried at fair value, with any unrealized gains or losses recognized through accumulated other comprehensive income. Our marketable securities are carried at fair value using quoted market prices, primarily Level 1 inputs as defined by ASC Topic 820, Fair Value Measurements and Disclosures, except for our investment in The Amalgamated Sugar Company LLC (“Amalgamated”). Our current marketable securities are included with “other current assets” on our Condensed Consolidated Balance Sheets. Our investment in Amalgamated is measured using significant unobservable inputs, which are Level 3 inputs. Please refer to Note 4 in our 2014 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 16.

Note 4—Accounts and other receivables, net:

	December 31, 2014	March 31, 2015
(In millions)		
Trade accounts receivable:		
Kronos	\$230.9	\$256.5
CompX	8.8	12.3
WCS	7.7	10.9
BMI and LandWell	1.4	.9
VAT and other receivables	24.3	23.0
Refundable income taxes	8.7	11.1
Receivable from affiliates:		

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LPC – trade items	13.0	—
Contran – trade items	.2	.2
Contran – income taxes	9.2	6.8
Other	1.5	2.1
Allowance for doubtful accounts	(1.8)	(1.2)
Total	\$303.9	\$322.6

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Note 5—Inventories, net:

	December 31, 2014	March 31, 2015
(In millions)		
Raw materials:		
Chemicals	\$76.0	\$76.7
Component products	3.4	3.3
Total raw materials	79.4	80.0
Work in process:		
Chemicals	32.9	33.0
Component products	10.3	10.7
Total in-process products	43.2	43.7
Finished products:		
Chemicals	253.2	228.9
Component products	3.2	2.8
Total finished products	256.4	231.7
Supplies (primarily chemicals)	64.0	58.4
Total	\$443.0	\$413.8

Note 6—Investment in affiliate and other assets:

	December 31, 2014	March 31, 2015
(In millions)		
Investment in TiO ₂ manufacturing joint venture, Louisiana Pigment Company, L.P. (“LPC”)	\$89.0	\$77.8
Other assets:		
Land held for development	\$165.1	\$164.6
Waste disposal site operating permits, net	53.2	51.7
Restricted cash	13.9	15.2
Deferred financing costs	6.9	6.4
IBNR receivables	6.8	6.9
Capital lease deposit	6.2	6.2
Intangible assets	5.1	5.1
Other	25.7	