

VALHI INC /DE/
Form 10-Q
May 09, 2016

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, 2016

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

Edgar Filing: VALHI INC /DE/ - Form 10-Q

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 April 30, 2016: 339,142,949

VALHI, INC. AND SUBSIDIARIES

INDEX

	Page number
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets – December 31, 2015 and March 31, 2016 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations (unaudited) – Three months ended March 31, 2015 and 2016</u>	5
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) (unaudited) – Three months ended March 31, 2015 and 2016</u>	6
<u>Condensed Consolidated Statements of Cash Flows (unaudited) – Three months ended March 31, 2015 and 2016</u>	7
<u>Condensed Consolidated Statement of Equity (unaudited) – Three months ended March 31, 2016</u>	8
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	9
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
Item 4. <u>Controls and Procedures</u>	45
Part II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	46
Item 1A. <u>Risk Factors</u>	46
Item 6. <u>Exhibits</u>	47
Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.	

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2015	March 31, 2016 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 202.3	\$ 162.2
Restricted cash equivalents	7.2	7.1
Marketable securities	2.0	1.7
Accounts and other receivables, net	246.6	279.1
Inventories, net	405.2	394.9
Land held for development	9.9	10.4
Other current assets	23.0	20.6
Total current assets	896.2	876.0
Other assets:		
Marketable securities	254.9	254.6
Investment in TiO ₂ manufacturing joint venture, Louisiana Pigment Company, L.P. ("LPC")	82.9	83.7
Goodwill	379.7	379.7
Deferred income taxes	1.3	1.3
Other noncurrent assets	256.7	252.4
Total other assets	975.5	971.7
Property and equipment:		
Land	45.4	46.5
Buildings	239.7	243.3
Treatment, storage and disposal facility	159.5	159.5
Equipment	1,061.6	1,083.3
Mining properties	35.5	36.7
Construction in progress	33.1	38.1
	1,574.8	1,607.4
Less accumulated depreciation	909.1	932.8
Net property and equipment	665.7	674.6
Total assets	\$ 2,537.4	\$ 2,522.3

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2015	March 31, 2016 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 9.5	\$ 9.4
Accounts payable and accrued liabilities	271.4	259.8
Income taxes	5.7	3.1
Total current liabilities	286.6	272.3
Noncurrent liabilities:		
Long-term debt	951.0	971.4
Deferred income taxes	321.0	313.1
Accrued pension costs	216.8	220.7
Accrued environmental remediation and related costs	108.7	108.5
Accrued postretirement benefits costs	11.8	11.9
Other liabilities	114.6	118.2
Total noncurrent liabilities	1,723.9	1,743.8
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	3.6	3.6
Additional paid-in capital	—	—
Retained deficit	(155.6)	(181.9)
Accumulated other comprehensive loss	(197.0)	(188.4)
Treasury stock	(49.6)	(49.6)
Total Valhi stockholders' equity	268.7	251.0
Noncontrolling interest in subsidiaries	258.2	255.2
Total equity	526.9	506.2
Total liabilities and equity	\$ 2,537.4	\$ 2,522.3

Commitments and contingencies (Notes 13 and 16)

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 March 31, 2015 2016 (unaudited)	
Revenues and other income:		
Net sales	\$416.1	\$353.5
Other income, net	12.1	11.4
Total revenues and other income	428.2	364.9
Costs and expenses:		
Cost of sales	326.8	311.5
Selling, general and administrative	65.2	63.2
Contract related intangible asset impairment		5.1
Interest	14.6	15.7
Total costs and expenses	406.6	395.5
Income (loss) before income taxes	21.6	(30.6)
Income tax expense (benefit)	4.3	(8.6)
Net income (loss)	17.3	(22.0)
Noncontrolling interest in net income (loss) of subsidiaries	5.4	(2.5)
Net income (loss) attributable to Valhi stockholders	\$11.9	\$(19.5)
Amounts attributable to Valhi stockholders:		
Basic and diluted net income (loss) per share	\$.04	\$(.06)
Cash dividends per share	\$.02	\$.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, 2015 2016 (unaudited)	
Net income (loss)	\$17.3	\$(22.0)
Other comprehensive income (loss), net of tax:		
Currency translation	(67.6)	11.9
Interest rate swap	—	(2.3)
Marketable securities	(.6)	(.3)
Defined benefit pension plans	2.8	2.6
Other postretirement benefit plans	(.3)	(.3)
Total other comprehensive income (loss), net	(65.7)	11.6
Comprehensive loss	(48.4)	(10.4)
Comprehensive income (loss) attributable to noncontrolling interest	(9.8)	.5
Comprehensive loss attributable to Valhi stockholders	\$(38.6)	\$(10.9)

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, 2015 2016 (unaudited)	
Cash flows from operating activities:		
Net income (loss)	\$17.3	\$(22.0)
Depreciation and amortization	18.3	17.0
Benefit plan expense greater (less) than cash funding	(.8)	1.5
Deferred income taxes	(1.0)	(9.4)
Distributions from (contributions to) TiO ₂ manufacturing joint venture, net	11.2	(.8)
Contract related intangible asset impairment	—	5.1
Other, net	3.3	(1.6)
Change in assets and liabilities:		
Accounts and other receivables, net	(50.5)	(17.5)
Inventories, net	(8.8)	20.1
Land held for development, net	2.0	(1.0)
Accounts payable and accrued liabilities	(30.8)	(10.6)
Accounts with affiliates	13.5	(15.6)
Income taxes	(1.8)	(3.5)
Other, net	(2.1)	4.9
Net cash used in operating activities	(30.2)	(33.4)
Cash flows from investing activities:		
Capital expenditures	(13.3)	(16.4)
Capitalized permit costs	(.1)	(.8)
Purchases of marketable securities	(5.2)	(1.5)
Disposals of marketable securities	7.2	2.1
Change in restricted cash equivalents, net	(.2)	(.9)
Other, net	—	.2
Net cash used in investing activities	(11.6)	(17.3)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	19.2	30.9
Principal payments	(14.9)	(11.3)
Valhi cash dividends paid	(6.8)	(6.8)
Distributions to noncontrolling interest in subsidiaries	(3.8)	(3.5)
Net cash provided by (used in) financing activities	(6.3)	9.3
Cash and cash equivalents – net change from:		
Operating, investing and financing activities	(48.1)	(41.4)
Effect of exchange rate on cash	(8.2)	1.3
Cash and cash equivalents at beginning of period	255.8	202.3

Edgar Filing: VALHI INC /DE/ - Form 10-Q

Cash and cash equivalents at end of period	\$199.5	\$162.2
Supplemental disclosures:		
Cash paid for:		
Interest, net of capitalized interest	\$14.2	\$14.9
Income taxes, net	9.1	3.7
Noncash investing activities:		
Change in accruals for capital expenditures	1.8	2.3

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

Three months ended March 31, 2016

(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 deficit					
Balance at December 31, 2015	\$667.3	\$ 3.6	\$ —	\$(155.6)	\$ (197.0)				