

VALHI INC /DE/
Form 10-Q
November 03, 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 September 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)

87-0110150
(IRS Employer
Identification No.)

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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

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 October 28, 2011: 113,036,483.

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VALHI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2010	September 30, 2011 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 325.1	\$ 128.4
Restricted cash equivalents	9.4	6.3
Marketable securities	1.7	45.7
Accounts and other receivables, net	262.7	382.6
Inventories, net	294.9	357.5
Other current assets	14.1	25.9
Deferred income taxes	13.9	13.9
Total current assets	921.8	960.3
Other assets:		
Marketable securities	340.4	354.6
Investment in affiliates	113.2	110.8
Goodwill	397.4	400.0
Deferred income taxes	192.0	154.3
Other noncurrent assets	103.4	151.2
Total other assets	1,146.4	1,170.9
Property and equipment:		
Land	54.9	54.6
Buildings	287.4	281.1
Equipment	1,170.3	1,189.5
Mining properties	69.1	66.7
Construction in progress	20.2	97.7
	1,601.9	1,689.6
Less accumulated depreciation	955.8	990.8
Net property and equipment	646.1	698.8
Total assets	\$ 2,714.3	\$ 2,830.0

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

(In millions)

	December 31, 2010	September 30, 2011 (unaudited)
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 17.4	\$ 22.6
Accounts payable and accrued liabilities	275.6	338.5
Income taxes	7.9	25.6
Deferred income taxes	5.0	5.1
Total current liabilities	305.9	391.8
Noncurrent liabilities:		
Long-term debt	922.9	779.8
Deferred income taxes	417.6	449.6
Accrued pension costs	128.1	122.1
Accrued environmental remediation and related costs	32.6	34.6
Accrued postretirement benefits costs	19.5	19.3
Other liabilities	69.5	58.9
Total noncurrent liabilities	1,590.2	1,464.3
Equity:		
Valhi stockholders' equity:		
Preferred stock	667.3	667.3
Common stock	1.2	1.2
Additional paid-in capital	76.2	81.0
Accumulated deficit	(183.2)	(60.9)
Accumulated other comprehensive income	21.2	9.4
Treasury stock	(40.9)	(49.6)
Total Valhi stockholders' equity	541.8	648.4
Noncontrolling interest in subsidiaries	276.4	325.5
Total equity	818.2	973.9
Total liabilities and equity	\$ 2,714.3	\$ 2,830.0

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 September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
	(unaudited)			
Revenues and other income:				
Net sales	\$ 413.2	\$ 584.1	\$ 1,185.7	\$ 1,612.9
Other income, net	17.7	21.1	49.6	46.7
Total revenues and other income	430.9	605.2	1,235.3	1,659.6
Costs and expenses:				
Cost of sales	313.1	371.4	930.1	1,050.6
Selling, general and administrative	58.5	69.1	174.9	209.5
Loss (gain) on prepayment of debt, net		(.1)		3.2
Litigation settlement and contract termination			33.3	
Assets held for sale write-down	.5	1.1	.5	1.1
Interest	16.7	15.2	51.1	48.3
Total costs and expenses	388.8	456.7	1,189.9	1,312.7
Income before income taxes	42.1	148.5	45.4	346.9
Provision for income taxes	24.0	55.4	5.8	127.7
Net income	18.1	93.1	39.6	219.2
Noncontrolling interest in net income of subsidiaries	3.7	21.6	7.1	57.3
Net income attributable to Valhi Stockholders	\$ 14.4	\$ 71.5	\$ 32.5	\$ 161.9
Amounts attributable to Valhi stockholders:				
Basic and diluted earnings per share	\$.13	\$.63	\$.27	\$ 1.42
Cash dividends per share	\$.10	\$.125	\$.30	\$.35
Basic and diluted weighted average shares outstanding	114.3	114.0	114.3	114.0

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30, 2010 2011 (unaudited)	
Cash flows from operating activities:		
Net income	\$ 39.6	\$ 219.2
Depreciation and amortization	46.6	48.2
Loss on prepayment of debt		3.2
Call premium paid		(2.5)
Accrued litigation settlement and contract termination	33.3	
Litigation settlement payments	(19.0)	
Assets held for sale write-down	.5	1.1
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension expense	2.1	.2
Other postretirement benefit expense		(1.3)
Deferred income taxes	(8.5)	69.3
Net distributions from TiO ₂ manufacturing joint venture	1.8	2.1
Other, net	3.8	6.5
Change in assets and liabilities:		
Accounts and other receivables, net	(84.2)	(121.1)
Inventories, net	28.3	(60.7)
Accounts payable and accrued liabilities	(2.5)	63.1
Accounts with affiliates	19.1	(2.0)
Income taxes	2.9	18.8
Other, net	(2.3)	(23.6)
Net cash provided by operating activities	61.5	220.5
Cash flows from investing activities:		
Capital expenditures	(28.3)	(91.1)
Capitalized permit costs	(4.4)	(6.6)
Purchases of:		
Mutual funds		(272.6)
Marketable securities	(9.8)	(5.8)
Titanium Metals Corporation (TIMET) common stock		(30.4)
Proceeds from:		
Disposal of mutual funds		227.0
Disposal of marketable securities	3.6	3.6
Disposal of restricted marketable securities	5.2	
Sale of business	.5	.3
Acquisition, net of cash acquired		(4.9)
Change in restricted cash equivalents, net	1.3	3.4
Other, net	(.1)	(8.1)
Net cash used in investing activities	(32.0)	(185.2)

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

	Nine months ended September 30, 2010 2011 (unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	\$ 318.0	\$ 119.1
Principal payments	(308.1)	(278.1)
Valhi cash dividends paid	(34.1)	(39.6)
Distributions to noncontrolling interest in subsidiaries	(3.7)	(24.7)
Treasury stock acquired		(9.5)
Purchase of noncontrolling interest in subsidiaries	(7.0)	
Other, net	.1	.3
 Net cash used in financing activities	 (34.8)	 (232.5)
 Cash and cash equivalents net change from:		
Operating, investing and financing activities	(5.3)	(197.2)
Currency translation	(1.6)	.5
Cash and cash equivalents at beginning of period	68.7	325.1
 Cash and cash equivalents at end of period	 \$ 61.8	 \$ 128.4
 Supplemental disclosures:		
Cash paid for:		
Interest, net of capitalized interest (including call premium paid)	\$ 40.1	\$ 46.1
Income taxes paid (refunded), net	(10.7)	48.1
Noncash investing activities:		
Accrual for capital expenditures	2.5	16.9
Accrual for capitalized permit costs	.2	.7
Noncash financing activities:		
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

Nine months ended September 30, 2011

(In millions)

	Preferred stock	Common stock	Valhi Stockholders Additional paid-in capital	Equity Accumulated deficit	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				161.9			57.3	219.2	\$ 219.2
Other comprehensive income (loss), net					(11.8)		16.1	4.3	4.3
Equity transaction with noncontrolling interest, net			.3				.4	.7	
Cash dividends				(39.6)			(24.7)	(64.3)	
Treasury stock acquired						(9.5)		(9.5)	
Other, net			4.5			.8		5.3	
Balance at September 30, 2011	\$ 667.3	\$ 1.2	\$ 81.0	\$ (60.9)	\$ 9.4	\$ (49.6)	\$ 325.5	\$ 973.9	
Comprehensive income									\$ 223.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 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 September 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 third quarter of 2010 to 80% as a result of Kronos's 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 September 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.

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

Business segment	Entity	% controlled at	
		September 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 September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
(In millions)				
Net sales:				
Chemicals	\$ 376.6	\$ 547.9	\$ 1,076.4	\$ 1,505.9
Component products	35.7	35.8	102.9	105.8
Waste management	.9	.4	6.4	1.2
Total net sales	\$ 413.2	\$ 584.1	\$ 1,185.7	\$ 1,612.9
Cost of sales:				
Chemicals	\$ 281.0	\$ 337.7	\$ 836.3	\$ 953.5
Component products	26.1	27.2	75.3	78.7
Waste management	6.0	6.5	18.5	18.4
Total cost of sales	\$ 313.1	\$ 371.4	\$ 930.1	\$ 1,050.6
Gross margin:				
Chemicals	\$ 95.6	\$ 210.2	\$ 240.1	\$ 552.4
Component products	9.6	8.6	27.6	27.1
Waste management	(5.1)	(6.1)	(12.1)	(17.2)
Total gross margin	\$ 100.1	\$ 212.7	\$ 255.6	\$ 562.3
Operating income (loss):				
Chemicals	\$ 58.3	\$ 158.4	\$ 121.3	\$ 407.8
Component products	3.1	1.5	7.8	13.4
Waste management	(8.1)	(9.7)	(22.8)	(27.9)
Total operating income	53.3	150.2	106.3	393.3
Equity in earnings of investee	(.1)	(.1)	(.2)	(.3)
General corporate items:				
Securities earnings	6.6	6.6	19.7	21.4
Insurance recoveries	.3	16.1	18.6	16.6
Litigation settlement gain	6.3		6.3	
Litigation settlement expense			(32.2)	
General expenses, net	(7.6)	(9.2)	(22.0)	(32.6)
Gain (loss) on prepayment of debt		.1		(3.2)
Interest expense	(16.7)	(15.2)	(51.1)	(48.3)
Income before income taxes	\$ 42.1	\$ 148.5	\$ 45.4	\$ 346.9

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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 and incurred a \$1.1 million impairment charge for assets held for sale related to CompX in the third quarter of 2011, both of which are included in the determination of its operating income. See Notes 6, 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. Component Products operating income in the third quarter of 2010 includes the effect of a \$.5 million write-down of an asset held for sale, see Note 7 in our 2010 Annual Report.

On July 29, 2011, CompX completed the acquisition of 100% of the stock of a Canadian ergonomic component products company for initial cash consideration of the equivalent of approximately \$4.9 million, net of approximately \$3,000 of cash acquired, with potential additional cash consideration ranging from nil to approximately \$1.5 million payable in the first quarter of 2013, contingent upon the acquired business achieving certain acquired product line sales targets during 2012. The estimated fair value of contingent consideration recognized at the date of acquisition was \$.8 million. The acquisition is intended to expand our Component Products Segment's furniture components ergonomics product line. We have included the results of operations and cash flows of the acquired business in our Condensed Consolidated Financial Statements subsequent to the acquisition date. The purchase price has been preliminarily allocated among net assets acquired (pending completion of the final valuation), consisting of (i) net working capital (receivable, inventory and payables) of \$1.0 million (ii) identifiable intangibles other than goodwill of \$2.0 million, (iii) goodwill of \$3.0 million and (iv) noncurrent deferred income tax liabilities of \$.4 million. The tangible and intangible net assets acquired (other than goodwill) were valued based upon a preliminary estimate of the fair value of such net assets, with the remainder of the purchase price allocated to goodwill. The business had net sales of \$4.2 million during 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/ (losses), net
December 31, 2010:			
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

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Current assets:

Mutual funds	\$ 44.5	\$ 44.9	\$ (.4)
Other	1.2	1.2	

Total	\$ 45.7	\$ 46.1	\$ (.4)
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Noncurrent assets:

The Amalgamated Sugar Company LLC	\$ 250.0	\$ 250.0	\$
TIMET common stock	97.7	86.1	11.6
Other	6.9	7.1	(.2)

Total	\$ 354.6	\$ 343.2	\$ 11.4
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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 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 September 30, 2011 we held an aggregate of 6.5 million shares of TIMET common stock and the quoted per share market price was \$14.98. During the first nine 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 September 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.

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	December 31, 2010	September 30, 2011
	(In millions)	
Accounts receivable	\$ 246.1	\$ 366.7
Real-estate related note receivable	15.0	15.0
Notes receivable	2.9	2.5
Refundable income taxes	1.3	.1
Accrued interest and dividend receivable	.1	
Receivable from affiliates	.1	
Allowance for doubtful accounts	(2.8)	(1.7)
 Total	 \$ 262.7	 \$ 382.6

Note 5 Inventories, net:

	December 31, 2010	September 30, 2011
	(In millions)	
Raw materials:		
Chemicals	\$ 52.1	\$ 86.1
Component products	6.3	7.2
 Total raw materials	 58.4	 93.3
Work in process:		
Chemicals	13.6	13.3
Component products	6.7	7.1
 Total in-process products	 20.3	 20.4
Finished products:		
Chemicals	155.3	179.8
Component products	5.4	5.7
 Total finished products	 160.7	 185.5
Supplies (primarily chemicals)	55.5	58.3
 Total	 \$ 294.9	 \$ 357.5

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	December 31, 2010	September 30, 2011
	(In millions)	
Investment in affiliates:		
TiO ₂ manufacturing joint venture, Louisiana Pigment Company, L.P. (LPC)	\$ 96.2	\$ 94.1
Other	17.0	16.7
Total	\$ 113.2	\$ 110.8
Other assets:		
Waste disposal site operating permits, net	\$ 58.8	\$ 64.9
Assets held for sale	3.0	7.3
IBNR receivables	6.6	6.8
Capital lease deposit	6.2	6.2
Deferred financing costs	4.5	2.5
Other intangible assets	.8	2.3
Pension asset	.3	.3
Other	23.2	60.9
Total	\$ 103.4	\$ 151.2

In September 2011 our Component Products Segment's management made the decision to sell its Byron Center facility, at which time such facility met all of the criteria under GAAP to be classified as an asset held for sale. In classifying the facility (land and building) as held for sale, we concluded that the carrying amount of the assets exceeded the estimated fair value less costs to sell such assets. In determining the estimated fair value, CompX obtained an independent appraisal. Based on this appraisal, we recognized a write-down of \$.9 million during the third quarter of 2011 to reduce the carrying value of the asset to its estimated fair value less cost to sell.

At September 30, 2011 substantially all of our assets held for sale consisted of properties owned by our Component Products Segment. The Byron Center facility discussed above and two additional properties (primarily land, building and building improvements) formerly used in its operations. These assets were classified as assets held for sale when they ceased to be used in our operations and met all of the applicable criteria under GAAP. During the third quarter of 2011, due to continued negative local market conditions CompX obtained an updated independent appraisal for the River Grove facility, the most significant of these other two properties. Based on this appraisal, we recognized an additional write-down of \$.2 million during the third quarter of 2011 to reduce the carrying value of that asset to its estimated fair value less cost to sell.

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	December 31, 2010	September 30, 2011
	(In millions)	
Accounts payable	\$ 129.6	\$ 166.0
Payable to affiliates:		
Contran income taxes	4.3	3.0
Contran trade items	17.4	20.1
LPC	7.4	5.1
TIMET	1.0	
Other	.1	
Employee benefits	44.8	45.4
Accrued sales discounts and rebates	11.3	13.6
Environmental remediation and related costs	9.7	9.1
Interest	7.4	12.4
Deferred income	3.3	5.0
Other	39.3	58.8
 Total	 \$ 275.6	 \$ 338.5

Note 8 Other noncurrent liabilities:

	December 31, 2010	September 30, 2011
	(In millions)	
Reserve for uncertain tax positions	\$ 41.3	\$ 29.6
Insurance claims and expenses	10.3	10.6
Employee benefits	9.8	9.7
Deferred income	1.1	1.1
Other	7.0	7.9
 Total	 \$ 69.5	 \$ 58.9

Note 9 Long-term debt:

	December 31, 2010	September 30, 2011
	(In millions)	
Valhi:		
Snake River Sugar Company	\$ 250.0	\$ 250.0
Subsidiary debt:		
Kronos International:		
6.5% Senior Secured Notes	532.8	397.6
CompX promissory note payable to TIMET	42.2	37.5
CompX revolving credit facility	3.0	4.8
NL promissory note	18.0	18.0
WCS financing capital lease	72.0	71.4
WCS 6% promissory notes	15.4	15.7

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Other	6.9	7.4
Total subsidiary debt	690.3	552.4
Total debt	940.3	802.4
Less current maturities	17.4	22.6
Total long-term debt	\$ 922.9	\$ 779.8

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Kronos In March 2011, Kronos redeemed 80 million principal amount of its 400 million 6.5% Senior Secured Notes at 102.17% of the principal amount for an aggregate of \$115.7 million, including a \$2.5 million call premium. During the third quarter of 2011, Kronos repurchased in open market transactions an aggregate of 30.4 million principal amount of its Senior Secured Notes (including 3.0 million for which settlement of the purchase did not occur until October 2011) for an aggregate of 30.2 million (including 3.0 million for the October 2011 settlement). The aggregate 27.4 million principal amount for which settlement occurred in the third quarter of 2011 was the equivalent of \$39.3 million when repurchased. Following such partial redemption and repurchases, 292.6 million principal amount of the Senior Notes remain outstanding at September 30, 2011 (including the 3.0 million principal amount of notes repurchased in late September 2011 for which settlement did not occur until October 2011). In the first quarter of 2011, we recognized a \$3.3 million pre-tax interest charge related to the redemption of 80 million of the 6.5% Senior Secured Notes consisting of the call premium, the write-off of unamortized deferred financing costs and original issue discount associated with the redeemed Senior Notes. In the third quarter of 2011, we recognized a \$1 million net gain on 30.4 million principal amount of Senior Notes repurchased in open market transactions. Kronos borrowed under its European revolving credit facility, as discussed below, in order to fund the redemption in the first quarter 2011, while we used cash on hand to fund the third quarter open market repurchases. In October 2011, Kronos repurchased an additional 10.5 million principal amount of Senior Notes for an aggregate of 10.4 million.

During the first nine months of 2011, Kronos borrowed 80 million (\$113.3 million when borrowed) under its European credit facility, and subsequently repaid 80 million (\$115.0 million when repaid). As of September 30, 2011, there were no outstanding borrowings under Kronos European credit facility and the equivalent of \$109 million was available for borrowing under this facility.

CompX In February 2011, CompX repaid all of the \$3.0 million which was outstanding at December 31, 2010 on its revolving credit facility. In July 2011, CompX borrowed the equivalent of approximately \$5.3 million under its revolving credit facility in connection with the acquisition discussed in Note 2 (such borrowing was denominated in Canadian dollars, as permitted by the terms of the credit facility).

CompX's promissory note payable to affiliate was amended in September 2009 resulting in the deferral of interest payments and postponement of quarterly principal payments on the promissory note until March 2011. As such, in March 2011 CompX paid our required quarterly principal payment of \$250,000 and all accrued interest totaling approximately \$1.0 million. In addition, CompX prepaid \$4.0 million in principal on the promissory note. In the second and third quarters of 2011, CompX continued its regularly scheduled quarterly principal payment of \$250,000 and related accrued interest for each quarter. The interest rate on the promissory note at September 30, 2011 was 1.2%.

In October 2011, CompX collected the \$15.0 million principal amount due under its real-estate related promissory note receivable (See Note 4), and subsequently made an additional \$15.0 million prepayment on its promissory note payable to affiliate.

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Restrictions and Other Certain of the credit facilities with unrelated, third-party lenders described above require the respective borrowers to maintain minimum levels of equity, require the maintenance of certain financial ratios, limit dividends and additional indebtedness and contain other provisions and restrictive covenants customary in lending transactions of this type. We are in compliance with all of our debt covenants at September 30, 2011. We believe we will be able to comply with the financial covenants contained in all of our credit facilities through the maturity of the respective facility; however, if future operating results differ materially from our expectations, we may be unable to maintain compliance.

Note 10 Employee benefit plans:

Defined benefit plans The components of our net periodic defined benefit pension cost are presented in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
	(In millions)			
Service cost	\$ 2.5	\$ 2.8	\$ 7.7	\$ 8.3
Interest cost	6.2	6.9	19.1	20.5
Expected return on plan assets	(5.0)	(5.8)	(15.5)	(17.2)
Amortization of unrecognized:				
Prior service cost	.3	.3	.9	1.1
Net transition obligations	.1	.2	.4	.4
Recognized actuarial losses	1.6	1.9	4.9	5.6
Total	\$ 5.7	\$ 6.3	\$ 17.5	\$ 18.7

Other postretirement benefits The components of our net periodic other postretirement benefit cost are presented in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
	(In millions)			
Service cost	\$.1	\$.1	\$.3	\$.2
Interest cost	.4	.2	1.1	.7
Amortization of prior service credit	(.1)	(.6)	(.3)	(1.7)
Recognized actuarial losses	(.1)		(.2)	
Total	\$.3	\$ (.3)	\$.9	\$ (.8)

Contributions We expect to contribute the equivalent of \$28.3 million and \$1.9 million, respectively, to all of our defined benefit pension plans and other postretirement benefit plans during 2011.

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	Nine months ended September 30,	
	2010	2011
	(In millions)	
Securities earnings:		
Dividends and interest	\$ 19.5	\$ 22.0
Securities transactions, net	.2	(.6)
Total	19.7	21.4
Equity in earnings of investee	(.2)	(.3)
Currency transactions, net	4.7	.8
Insurance recoveries	18.6	16.6
Gain on litigation settlement	6.3	
Patent litigation settlement gain		7.5
Other, net	.5	.7
Total	\$ 49.6	\$ 46.7

Insurance recoveries reflect, in part, amounts we received from certain of our former insurance carriers and relate to the recovery of prior lead pigment and asbestos litigation defense costs incurred by NL. In addition, a substantial portion of the insurance recoveries we recognized in the first quarter of 2010 related to the NL litigation settlement discussed in Note 14. In September 2011 we reached a settlement with one of our former insurance carriers in which they agreed to reimburse NL for a portion of its past lead pigment litigation defense costs. Substantially all of the insurance recoveries we recognized in the third quarter 2011 relates to this settlement.

The gain on litigation settlement in the third quarter of 2010 relates to an environmental related settlement which reimbursed us for certain remediation and legal costs we had previously incurred and the indemnified us for all claims (environmental or otherwise) with respect to certain specified sites. We recognized a litigation settlement gain of \$6.3 million, consisting of \$4.0 million cash reimbursement of prior remediation and legal costs and \$2.3 million related to a reduction in accrued environmental remediation and related costs resulting from the agreement to indemnify us. The gain on the CompX patent litigation settlement was recognized in the first quarter of 2011 and is discussed in Note 14.

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	Nine months ended September 30,	
	2010	2011
	(In millions)	
Expected tax expense, at U.S. federal statutory income tax rate of 35%	\$ 15.9	\$ 121.4
Incremental tax on equity in earnings	21.2	22.9
Non-U.S. tax rates	(3.0)	(13.0)
German tax attribute adjustment	(35.2)	
Adjustment to the reserve for uncertain tax positions, net	5.2	(6.7)
Nondeductible expenses	1.7	2.5
Nontaxable income	(.4)	(1.4)
U.S. state income taxes, net	.9	1.9
Other, net	(.5)	.1
 Income tax expense	 \$ 5.8	 \$ 127.7

Tax authorities are continuing to examine certain of our U.S. and foreign tax returns and have or may propose tax deficiencies, including penalties and interest. We cannot guarantee that these tax matters will be resolved in our favor due to the inherent uncertainties involved in settlement initiatives and court and tax proceedings. In August 2011, our Chemicals Segment received a revised notice of proposed adjustment from the Canadian tax authorities related to the years 2002 through 2004. We object to the re-assessment and believe the position is without merit. Accordingly, we are appealing the re-assessment, and we will be required to post a Cdn. \$4.9 million letter of credit which will be collateralized with cash or cash equivalents. We expect to post such letter of credit in the fourth quarter of 2011. If the full amount of the proposed adjustment were ultimately to be assessed against us the cash tax liability would be approximately \$11.9 million (Cdn. \$11.6 million). We believe we have adequate accruals for additional taxes and related interest expense that could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will decrease by \$2.7 million within the next twelve months due to the expiration of certain statutes of limitation.

Our provision for income taxes in the third quarter of 2011 includes \$13.2 million for U.S. incremental income taxes on current earnings repatriated from our Chemicals Segment's German subsidiary, which earnings were used to fund a portion of the repurchases of Kronos Senior Secured Notes discussed in Note 9. In addition, we accrue U.S. incremental income taxes on the earnings of our Chemicals Segment's Canadian subsidiary and the earnings of our Component Products Segment's Canadian and Taiwanese subsidiaries, which earnings we previously determined are not permanently reinvested.

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As a consequence of a European Court ruling that resulted in a favorable resolution of certain income tax issues in Germany, during the first quarter of 2010 the German tax authorities agreed to an increase in Kronos' German net operating loss carryforwards. Accordingly, we recognized a non-cash income tax benefit of \$35.2 million in the first quarter of 2010.

We are required to recognize a deferred income tax liability with respect to the incremental U.S. (federal and state) and foreign withholding taxes that would be incurred when undistributed earnings of a foreign subsidiary are subsequently repatriated, unless management has determined that those undistributed earnings are permanently reinvested for the foreseeable future. Prior to March 31, 2010, we had not recognized a deferred income tax liability related to incremental income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary, as those earnings were deemed to be permanently reinvested. We are required to reassess the permanent reinvestment conclusion on an ongoing basis to determine if our intentions have changed. At the end of March 2010, and based primarily upon changes in our cash management plans, we determined that all of the undistributed earnings of CompX's Taiwanese subsidiary could no longer be considered to be permanently reinvested in Taiwan. Accordingly, in the first quarter of 2010 we recognized an aggregate \$1.9 million provision for deferred income taxes on the pre-2005 undistributed earnings of our Taiwanese subsidiary.

Note 13 Noncontrolling interest in subsidiaries:

	December 31, 2010	September 30, 2011
	(In millions)	
Noncontrolling interest in subsidiaries:		
Kronos	\$ 208.7	\$ 233.6
NL	56.8	80.9
CompX	10.9	11.0
Total	\$ 276.4	\$ 325.5

	Nine months ended September 30,	
	2010	2011
	(In millions)	
Noncontrolling interest in net income of subsidiaries:		
Kronos	\$ 4.5	\$ 45.9
NL	2.3	10.5
CompX	.3	.9
Total	\$ 7.1	\$ 57.3

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The changes in our ownership interest in our subsidiaries and the effect on our equity is as follows:

	Nine months ended September 30,	
	2010	2011
	(In millions)	
Net income attributable to Valhi stockholders	\$ 32.5	\$ 161.9
Transfers from noncontrolling interest:		
Equity adjustment	.4	
Issuance of subsidiaries common stock	(.1)	.4
Transfers from noncontrolling interest	.3	.4
Net income attributable to Valhi stockholders and change from noncontrolling interest in subsidiaries	\$ 32.8	\$ 162.3

Note 14 Commitments and contingencies:**Lead pigment litigation NL**

NL's former operations included the manufacture of lead pigments for use in paint and lead-based paint. NL, other former manufacturers of lead pigments for use in paint and lead-based paint (together, the former pigment manufacturers), and the Lead Industries Association (LIA), which discontinued business operations in 2002, have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, counties, cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share or risk contribution liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. To the extent the plaintiffs seek compensatory or punitive damages in these actions, such damages are generally unspecified. In some cases, the damages are unspecified pursuant to the requirements of applicable state law. A number of cases are inactive or have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of either the defendants or the plaintiffs. In addition, various other cases (in which we are not a defendant) are pending that seek recovery for injury allegedly caused by lead pigment and lead-based paint. Although NL is not a defendant in these other cases, the outcome of these cases may have an impact on cases that might be filed against NL in the future.

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We believe that these actions are without merit, and we intend to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. We do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

NL has never settled any of the market share, risk contribution, intentional tort, fraud, nuisance, supplier negligence, breach of warranty, conspiracy, misrepresentation, aiding and abetting, enterprise liability, or statutory cases,

no final, non-appealable adverse verdicts have ever been entered against NL, and

NL has never ultimately been found liable with respect to any such litigation matters.

Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases. New cases may continue to be filed against us. We cannot assure you that we will not incur liability in the future in respect of any of the pending or possible litigation in view of the inherent uncertainties involved in court and jury rulings. The resolution of any of these cases could result in recognition of a loss contingency accrual that could have a material adverse impact on our net income for the interim or annual period during which such liability is recognized and a material adverse impact on our consolidated financial condition and liquidity.

Environmental matters and related litigation

Our operations are governed by various environmental laws and regulations. Certain of our businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to maintain compliance with applicable environmental laws and regulations at all of our plants and to strive to improve environmental performance. From time to time, we may be subject to environmental regulatory enforcement under U.S. and non-U.S. statutes, the resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies, could adversely affect our production, handling, use, storage, transportation, sale or disposal of such substances. We believe that all of our facilities are in substantial compliance with applicable environmental laws.

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws and common law. Additionally, in connection with past operating practices, we are

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currently involved as a defendant, potentially responsible party (PRP) or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act (CERCLA), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities we or our predecessors currently or previously owned, operated or were used by us or our subsidiaries, or their predecessors, certain of which are on the United States Environmental Protection Agency s (EPA) Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable, and among whom costs may be shared or allocated. In addition, we are also a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

Obligations associated with environmental remediation and related matters are difficult to assess and estimate for numerous reasons including the:

complexity and differing interpretations of governmental regulations,

number of PRPs and their ability or willingness to fund such allocation of costs,

financial capabilities of the PRPs and the allocation of costs among them,

solvency of other PRPs,

multiplicity of possible solutions,

number of years of investigatory, remedial and monitoring activity required,

uncertainty over the extent, if any, to which our former operations might have contributed to the conditions allegedly giving rise to such personal injury, property damage, natural resource and related claims, and

number of years between former operations and notice of claims and lack of information and documents about the former operations. In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or allocation of costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites or a determination that we are potentially responsible for the release of hazardous substances at other sites, could cause our expenditures to exceed our current estimates. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental and related matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

We record liabilities related to environmental remediation and related matters when estimated future expenditures are probable and reasonably estimable. We adjust such accruals as further information becomes available

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to us or as circumstances change. Unless the amounts and timing of such estimated future expenditures are fixed and reasonably determinable, we generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the pay out. We recognize recoveries of costs from other parties, if any, as assets when their receipt is deemed probable. At September 30, 2011, we have not recognized any receivables for recoveries.

We do not know and cannot estimate the exact time frame over which we will make payments for our accrued environmental and related costs. The timing of payments depends upon a number of factors, including but not limited to the timing of the actual remediation process; which in turn depends on factors outside of our control. At each balance sheet date, we estimate the amount of our accrued environmental and related costs which we expect to pay within the next twelve months, and we classify this estimate as a current liability. We classify the remaining accrued environmental costs as a noncurrent liability.

Changes in the accrued environmental remediation and related costs during the first nine months of 2011 are presented in the table below. Of the \$10.5 million net additions charged to expense in the first nine months of 2011, \$5.6 million relates to certain payments which have been discounted to their present value because the timing and amounts of such payments are fixed and determinable. Such payments aggregate \$6.0 million on an undiscounted basis (\$2.0 million due in 2012 and \$1.0 million due in each of 2013 through 2016) and were discounted to present value using a 3.0% discount rate. The aggregate \$.4 million discount is being charged to expense using the interest method from the third quarter of 2011 through 2016.

	Amount (In millions)
Balance at the beginning of the period	\$ 42.3
Additions charged to expense, net	10.5
Payments, net	(9.1)
Balance at the end of the period	\$ 43.7
Amounts recognized in the Condensed Consolidated Balance Sheet at the end of the period:	
Current liability	\$ 9.1
Noncurrent liability	34.6
Total	\$ 43.7

NL On a quarterly basis, NL evaluates the potential range of our liability for environmental remediation and related costs at sites where it has been named as a PRP or defendant, including sites for which its wholly-owned environmental management subsidiary, NL Environmental Management Services, Inc., (EMS), has contractually assumed its obligations. At September 30, 2011, NL had accrued approximately \$42 million related to approximately 50 sites associated with remediation and related matters that it believes are at the present time and/or in their current phase reasonably estimable. The upper end of the range of reasonably possible costs to NL for remediation and related matters for which we believe it is possible to estimate costs is approximately \$73 million, including the amount currently accrued. Other than as indicated above, these accruals have not been discounted to present value.

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NL believes that it is not possible to estimate the range of costs for certain sites. At September 30, 2011, there were approximately 5 sites for which NL is not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and NL is unable to determine whether or not it actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at and cost to remediate the site. The timing and availability of information on these sites is dependent on events outside of NL's control, such as when the party alleging liability provides information to NL. At certain of these previously inactive sites, NL has received general and special notices of liability from the EPA and/or state agencies alleging that NL, sometimes with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations. These notifications may assert that we, along with any other alleged PRPs, are liable for past and/or future clean-up costs. As further information becomes available to us for any of these sites which would allow us to estimate a range of costs, we would at that time adjust our accruals. Any such adjustment could result in the recognition of an accrual that would have a material adverse effect on our consolidated financial statements, results of operations and liquidity.

Other We have also accrued approximately \$1.6 million at September 30, 2011 for other environmental cleanup matters. This accrual is near the upper end of the range of our estimate of reasonably possible costs for such matters.

Insurance coverage claims

We are involved in certain legal proceedings with a number of our former insurance carriers regarding the nature and extent of the carriers obligations to us under insurance policies with respect to certain lead pigment and asbestos lawsuits. The issue of whether insurance coverage for defense costs or indemnity or both will be found to exist for our lead pigment and asbestos litigation depends upon a variety of factors and we cannot assure you that such insurance coverage will be available.

We have agreements with three former insurance carriers pursuant to which the carriers reimburse us for a portion of our future lead pigment litigation defense costs, and one such carrier reimburses us for a portion of our future asbestos litigation defense costs. We are not able to determine how much we will ultimately recover from these carriers for defense costs incurred by us because of certain issues that arise regarding which defense costs qualify for reimbursement. While we continue to seek additional insurance recoveries, we do not know if we will be successful in obtaining reimbursement for either defense costs or indemnity. Accordingly, we recognize insurance recoveries in income only when the receipt of the recovery is probable and we are able to reasonably estimate the amount of the recovery.

For a complete discussion of certain litigation involving NL and certain of its former insurance carriers, please refer to our 2010 Annual Report.

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Other litigation

NL NL has been named as a defendant in various lawsuits in several jurisdictions, alleging personal injuries as a result of occupational exposure primarily to products manufactured by our former operations containing asbestos, silica and/or mixed dust. In addition, some plaintiffs allege exposure to asbestos from working in various facilities previously owned and/or operated by NL. There are 1,125 of these types of cases pending, involving a total of approximately 2,350 plaintiffs. In addition, the claims of approximately 7,700 plaintiffs have been administratively dismissed or placed on the inactive docket in Ohio, Indiana and Texas state courts. We do not expect these claims will be re-opened unless the plaintiffs meet the courts' medical criteria for asbestos-related claims. We have not accrued any amounts for this litigation because of the uncertainty of liability and inability to reasonably estimate the liability, if any. To date, we have not been adjudicated liable in any of these matters. Based on information available to us, including:

facts concerning historical operations,

the rate of new claims,

the number of claims from which we have been dismissed and

our prior experience in the defense of these matters.

we believe that the range of reasonably possible outcomes of these matters will be consistent with our historical costs (which are not material). Furthermore, we do not expect any reasonably possible outcome would involve amounts material to our consolidated financial position, results of operations or liquidity. We have sought and will continue to vigorously seek, dismissal and/or a finding of no liability from each claim. In addition, from time to time, we have received notices regarding asbestos or silica claims purporting to be brought against former subsidiaries, including notices provided to insurers with which we have entered into settlements extinguishing certain insurance policies. These insurers may seek indemnification from us.

CompX Prior to March 9, 2011, CompX was involved in certain patent litigation. In March 2011, CompX entered into a confidential settlement agreement with respect to that litigation. Under the terms of the agreement, CompX's Canadian subsidiary received approximately \$7.5 million in cash (which was recognized as a patent litigation settlement gain in the first quarter of 2011), and CompX agreed to cross-license certain patents and to withdraw certain legal proceedings against the other party.

Other For a discussion of other legal proceedings to which we are a party, please refer to our 2010 Annual Report.

In addition to the litigation described above, we and our affiliates are also involved in various other environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our present and former businesses. In certain cases, we have insurance coverage for these items, although we do not expect any additional material insurance coverage for our environmental matters.

We currently believe that the disposition of all of these various other claims and disputes, individually or in the aggregate, should not have a material adverse effect on our consolidated financial position, results of operations or liquidity beyond the accruals already provided.

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The following table summarizes the valuation of our marketable securities and financial instruments recorded on a fair value basis as of:

	Total	Fair Value Measurements		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In millions)				
December 31, 2010:				
Marketable securities:				
Current	\$ 1.7	\$	\$ 1.7	\$
Noncurrent	340.4	87.2	3.2	250.0
Currency forward contracts	6.3	6.3		
September 30, 2011:				
Marketable securities:				
Current	\$ 45.7	\$ 44.5	\$ 1.2	\$
Noncurrent	354.6	97.7	6.9	250.0
Currency forward contracts	(2.8)	(2.8)		

See Note 3 for information on how we determine fair value of our noncurrent marketable securities.

We periodically use currency forward contracts to manage a nominal portion of currency exchange rate market risk associated with trade receivables, or similar exchange rate risk associated with future sales, denominated in a currency other than the holder's functional currency. These contracts generally relate to our Chemicals and Component Products operations. We have not entered into these contracts for trading or speculative purposes in the past, nor do we currently anticipate entering into such contracts for trading or speculative purposes in the future. Some of the currency forward contracts we enter into meet the criteria for hedge accounting under GAAP and are designated as cash flow hedges. For these currency forward contracts, gains and losses representing the effective portion of our hedges are deferred as a component of accumulated other comprehensive income, and are subsequently recognized in earnings at the time the hedged item affects earnings. For the currency forward contracts we enter into which do not meet the criteria for hedge accounting, we mark-to-market the estimated fair value of such contracts at each balance sheet date, with any resulting gain or loss recognized in income currently as part of net currency transactions. The fair value of the currency forward contracts is determined using Level 1 inputs based on the currency spot forward rates quoted by banks or currency dealers.

At September 30, 2011, our Chemicals Segment had currency forward contracts to exchange an aggregate of \$64.5 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. \$.9969 to Cdn. \$1.0524 per U.S. dollar. These contracts with Wells Fargo Bank, National Association, mature from October 2011 through December 2012 at a rate of \$4 million to \$5.5 million per month, subject to early redemption provisions at

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our option. The estimated fair value of these currency forward contracts at September 30, 2011 was a \$2.1 million net liability, which is included in our Condensed Consolidated Balance Sheet as part of Accounts Payable and Accrued Liabilities. There is also a corresponding \$2.1 million currency transaction loss in our Condensed Consolidated Statement of Income for the nine months ended September 30, 2011. We are not currently using hedge accounting for our Chemicals Segment's outstanding currency forward contracts at September 30, 2011 and we did not use hedge accounting for any of such contracts we previously held in 2010 and 2011.

At September 30, 2011, our Component Products Segment held a series of contracts to exchange an aggregate of U.S. \$22.4 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. \$1.03 to Cdn. \$0.99 per U.S. dollar. These contracts qualified for hedge accounting and mature through December 2012. The exchange rate was \$1.03 per U.S. dollar at September 30, 2011. The estimated fair value of the contracts was a liability of approximately \$0.7 million at September 30, 2011. Our Component Products Segment had no currency forward contracts outstanding at December 31, 2010.

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure:

	December 31, 2010		September 30, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
	(In millions)			
Cash, cash equivalents and restricted cash equivalents	\$ 334.8	\$ 334.8	\$ 134.9	\$ 134.9
Promissory note receivable	15.0	15.0	15.0	15.0
Long-term debt (excluding capitalized leases):				
Publicly-traded fixed rate debt KII Senior Secured Notes	\$ 532.8	\$ 536.0	\$ 397.6	\$ 393.6
Snake River Sugar Company fixed rate loans	250.0	250.0	250.0	250.0
WCS fixed rate debt	87.4	87.4	87.1	87.1
Variable rate bank credit facilities	3.0	3.0	4.8	4.8
CompX variable rate promissory note	42.2	42.2	37.5	37.5
NL variable rate promissory note	18.0	18.0	18.0	18.0
Noncontrolling interest in:				
Kronos common stock	\$ 208.7	\$ 482.0	\$ 233.6	\$ 364.9
NL common stock	56.8	92.0	80.9	103.7
CompX common stock	10.9	18.6	11.0	20.7
Valhi stockholders' equity	\$ 541.8	\$ 2,509.2	\$ 648.4	\$ 6,123.2

The fair value of our publicly-traded marketable securities, noncontrolling interest in NL, Kronos and CompX and our common stockholders equity are all based upon quoted market prices, Level 1 inputs at each balance sheet date. The fair value of our KII Senior Secured 6.5% Notes are also based on quoted market prices at each balance sheet date; however, these quoted market prices represent Level 2 inputs because the markets in which the Notes trade are not active. At December 31, 2010 and September 30, 2011, the estimated market price of the 6.5% Notes was approximately 1,004 and 988, respectively, per 1,000 principal amount. The fair value of our fixed-rate nonrecourse loans from Snake River Sugar Company is based upon the \$250 million redemption price of our investment in Amalgamated, which collateralizes the nonrecourse loans (this is a Level 3 input). Fair values of the variable

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interest rate note receivable and variable interest debt and other fixed-rate debt are deemed to approximate book value. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value. See Notes 4 and 7.

Note 16 Earnings per share:

Earnings per share is based on the weighted average number of common shares outstanding during each period. A reconciliation of the numerator used in the calculation of earnings per share is presented in the following table:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
	(In millions)			
Net income attributable to Valhi stockholders	\$ 14.4	\$ 71.5	\$ 32.5	\$ 161.9
Equity adjustment			(2.1)	
Adjusted net income attributable to Valhi stockholders	\$ 14.4	\$ 71.5	\$ 30.4	\$ 161.9

The \$2.1 million equity adjustment attributable to Valhi stockholders is discussed in Note 17 to our 2010 Annual Report.

Note 17 Recent accounting pronouncements:

In May 2011 the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. ASU 2011-04 contains technical adjustments and clarifications to more closely align the U.S. GAAP and International Financials Reporting Standards (IFRS) for fair value and will be effective for our first quarter 2012 report. We do not believe the adoption of this standard will have a material affect on our Condensed Consolidated Financial Statements.

In June 2011 the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 will eliminate the option of presenting comprehensive income as a component of the Consolidated Statement of Shareholders' Equity and will instead require comprehensive income to be presented as a component of the Consolidated Statement of Income or in a separate Consolidated Statement of Comprehensive Income immediately following the Consolidated Statement of Income. Additionally, ASU 2011-05 will require us to present on the face of our financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income where the components of net income and other comprehensive income are presented. This standard will be effective for our first quarter 2012 report. Upon adoption of ASU 2011-05, we intend to present our comprehensive income in a separate Consolidated Statement of Comprehensive Income.

In September 2011 the FASB issued ASU 2011-08 *Testing Goodwill for Impairment* (the revised standard). ASU 2011-08 provides the option to first assess qualitatively whether events or circumstances exist to indicate goodwill impairment may be present to determine whether further impairment testing is necessary. This standard will be effective for annual and interim goodwill testing beginning with our first quarter 2012 report, although early adoption is permitted. We do not believe the adoption of this standard will have a material effect on our Condensed Consolidated Financial Statements and we did not avail ourselves of the qualitative goodwill impairment assessment as part of our 2011 annual goodwill impairment analysis which was performed in the third quarter.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Business Overview

We are primarily a holding company. We operate through our wholly-owned and majority-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 U.S. Securities and Exchange Commission (SEC).

We have three consolidated operating segments:

Chemicals Our chemicals segment is operated through our majority control of Kronos. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments (TiO_2), a base industrial product used in a diverse range of customer applications and end-use markets, including coatings, plastics, paper, food, cosmetics, inks, textile fibers, rubber, pharmaceuticals, glass, ceramics and other industrial and consumer markets.

Component Products We operate in the component products industry through our majority control of CompX. CompX is a leading global manufacturer of security products, precision ball bearing slides and ergonomic computer support systems used in the office furniture, transportation, tool storage and a variety of other industries. CompX also manufactures steel exhaust systems, gauges and electronic and mechanical throttle controls for the performance boat industry.

Waste Management WCS is our subsidiary which operates a West Texas facility for the processing, treatment, storage and disposal of a broad range of low-level radioactive, hazardous, toxic and other wastes. WCS obtained a byproduct disposal license in 2008 and began disposal operations at this facility in October 2009. In January 2009 WCS received a low-level radioactive waste (LLRW) disposal license, which was signed in September 2009. Construction of the Compact Waste Disposal facility began in January 2011 and was completed in October 2011. The facility is expected to be operational in December 2011.

General

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Annual Report that are not historical facts are forward-looking in nature and represent management's beliefs and assumptions based on currently available information. In some cases, you can identify forward-looking statements by the use of words such as believes, intends, may, should, could, anticipates, expects or comparable terminology, or by discussions of strategies or plans. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from

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those predicted. The factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Quarterly Report and those described from time to time in our other filings with the SEC include, but are not limited to, the following:

Future supply and demand for our products;

The extent of the dependence of certain of our businesses on certain market sectors;

The cyclical nature of certain of our businesses (such as Kronos titanium dioxide pigment (TiO₂) operations);

Customer inventory levels (such as the extent to which Kronos customers may, from time to time, accelerate purchases of TiO₂ in advance of anticipated price increases or defer purchases of TiO₂ in advance of anticipated price decreases);

Changes in raw material and other operating costs (such as energy costs);

Changes in the availability of raw materials (such as ore);

General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO₂);

Competitive products and prices, including increased competition from low-cost manufacturing sources (such as China);

Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts;

Customer and competitor strategies;

The impact of pricing and production decisions;

Competitive technology positions;

Our ability to protect our intellectual property rights in our technology;

The introduction of trade barriers;

Restructuring transactions involving us and our affiliates;

Potential consolidation or solvency of our competitors;

The ability of our subsidiaries to pay us dividends (such as Kronos' suspension of its dividend in 2009 through the third quarter of 2010);

Uncertainties associated with new product development;

Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian krone, the Canadian dollar and the New Taiwan dollar);

Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime and transportation interruptions);

The timing and amounts of insurance recoveries;

Our ability to renew, amend, refinance or establish credit facilities;

Our ability to maintain sufficient liquidity;

The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters;

Our ultimate ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which have been recognized under the more-likely-than-not recognition criteria (such as Kronos' ability to utilize its German net operating loss carryforwards);

Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities, or new developments regarding environmental remediation at sites related to our former operations);

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Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on present and former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products);

The ultimate resolution of pending litigation (such as NL's lead pigment litigation, environmental and other litigation and Kronos' class action litigation);

Uncertainties associated with the development of new product features;

Our ability to comply with covenants contained in our revolving bank credit facilities;

Our ability to complete, obtain approval of and comply with the conditions of our licenses and permits (such as approval by the Texas Commission on Environmental Quality (TCEQ) of license conditions of WCS's LLRW disposal license including its financial assurance provisions); and

Possible future litigation.

Should one or more of these risks materialize (or the consequences of such development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

Operations Overview

Quarter Ended September 30, 2011 Compared to the Quarter Ended September 30, 2010

Net income attributable to Valhi stockholders was \$71.5 million, or \$.63 per diluted share, in the third quarter of 2011 compared to \$14.4 million, or \$.13 per diluted share, in the third quarter of 2010. As more fully discussed below, our diluted income per share increased from 2010 to 2011 primarily due to the net effects of:

increased operating income from our Chemicals Segment in 2011 compared to 2010 partially offset by an increased operating loss at our Waste Management segment in 2011 compared to 2010; and

a decrease in our ownership percentage of Kronos from 95% in the third quarter of 2010 to 80% due to Kronos secondary stock offering completed in November 2010;

higher insurance recoveries in 2011;

a litigation settlement gain in the third quarter of 2010; and

higher general expenses in the third quarter of 2011, primarily due to increased environmental remediation and related costs.

Our net income attributable to Valhi stockholders in 2011 includes income of \$.08 per diluted share related to insurance recoveries and \$.06 per diluted share related to a net decrease in the reserve for uncertain tax positions, and a charge of \$.01 per diluted share related to a write-down of

assets held for sale in our Component Products Segment.

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Our net income attributable to Valhi stockholders in 2010 includes income of \$.03 per diluted share related to a litigation settlement we recognized and a charge of \$.04 per diluted share related to a net increase in our reserve for uncertain tax positions.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Net income attributable to Valhi stockholders was \$161.9 million, or \$1.42 per diluted share, in the first nine months of 2011 compared to \$32.5 million, or \$.27 per diluted share, in the first nine months of 2010. As more fully discussed below, our diluted income per share increased from 2010 to 2011 primarily due to the net effects of:

increased operating income from each of our Chemicals and Component Products Segments in 2011 compared to 2010 (in 2011 our Component Products Segments operating income increased primarily due to a patent litigation settlement gain recognized in 2011) partially offset by an increased operating loss at our Waste Management segment in 2011 compared to 2010;

a decrease in our ownership percentage of Kronos from 95% in the first nine months of 2010 to 80% due to Kronos secondary stock offering completed in November 2010;

a non-cash deferred income tax benefit recognized in the first quarter of 2010;

a loss on the prepayment of debt in 2011 as a result of calling 80 million of our Senior Notes;

a litigation settlement and contract termination expense in 2010;

a litigation settlement gain in 2010; and

higher general expenses in 2011, primarily due to increased environmental remediation and related costs.

Our net income attributable to Valhi stockholders in 2011 includes:

insurance recoveries of \$.08 per diluted share;

income of \$.06 per diluted share related to a net decrease in our reserve for uncertain tax positions;

income of \$.02 per diluted share related to a patent litigation settlement we recognized;

a charge of \$.01 per diluted share from the loss on prepayment of debt; and

a charge of \$.01 per diluted share related to a write-down of assets held for sale in our Component Products Segment.

Our net income attributable to Valhi stockholders in 2010 includes:

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a non-cash deferred income tax benefit of \$.21 per diluted share recognized by Kronos related to a European Court ruling that resulted in the favorable resolution of certain German income tax issues;

insurance recoveries of \$.09 per diluted share;

a litigation settlement gain of \$.03 per diluted share;

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a charge of \$.04 per diluted share related to a net increase in our reserve for uncertain tax positions; and

a charge of \$.16 per diluted share related to a litigation settlement and contract termination.

Current Forecast for 2011

We currently expect to report higher net income attributable to Valhi stockholders for 2011 as compared to 2010 primarily due to the net effects of:

higher expected operating income from our Chemicals Segment as the expected increase in operating income will more than offset the effect of the 15% reduction in our aggregate ownership percentage of Kronos as a result of Kronos' secondary offering of its common stock completed in November 2010;

higher expected operating income from our Component Products Segment due to the patent litigation settlement gain recognized in the first quarter of 2011;

litigation settlement and contract termination expense recorded in 2010; and

higher operating losses at WCS as we expect more expenses associated with the limited operations of our byproduct disposal facility which commenced operations in the fourth quarter of 2009 and the construction of the LLRW facility which is expected to be operational in late 2011.

Segment Operating Results 2010 Compared to 2011

Chemicals

We consider TiO₂ to be a "quality of life" product, with demand affected by gross domestic product (or "GDP") and overall economic conditions in our markets located in various regions of the world. Over the long-term, we expect that demand for TiO₂ across all markets will grow on average 2% to 3% per year, consistent with our expectations for the long-term growth in GDP. However, even if we and our competitors maintain consistent shares of the worldwide market, demand for TiO₂ in any interim or annual period may not change in the same proportion as the change in GDP, in part due to relative changes in the TiO₂ inventory levels of our customers. We believe our customers' inventory levels are partly influenced by their expectation for future changes in market TiO₂ selling prices as well as their expectations for the future availability of product. Although certain of our TiO₂ grades are considered specialty pigments, the majority of our grades and substantially all of our production are considered commodity pigment products, with price and availability being the most significant competitive factors along with quality and customer service.

The factors having the most impact on our reported operating results are:

Our TiO₂ sales and production volumes,

TiO₂ selling prices,

Currency exchange rates (particularly the exchange rate for the U.S. dollar relative to the euro, Norwegian krone and the Canadian dollar) and

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Manufacturing costs, particularly raw materials, maintenance and energy-related expenses.

Our key performance indicators are our TiO₂ average selling prices and our level of TiO₂ sales and production volumes. TiO₂ selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures.