VALHI INC /DE/
Form 10-Q
August 08, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended June 30, 2007 **Commission file number 1-5467**

VALHI, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**87-0110150**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

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

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

Indicate by check mark:

Whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No __

Whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Act). Large accelerated filer _ Accelerated filer X non-accelerated filer _.

Whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes _ No X.

Number of shares of the Registrant's common stock outstanding on July 31, 2007: 113,999,078.

VALHI, INC. AND SUBSIDIARIES

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

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

ASSETS	**December 31, 2006**	**June 30, 2007 (unaudited)**
Current assets:		
Cash and cash equivalents	$ 189.2	**$ 147.0**
Restricted cash equivalents	9.1	**6.8**
Marketable securities	12.6	**8.8**
Accounts and other receivables, net	231.0	**299.2**
Inventories, net	309.0	**321.1**
Prepaid expenses and other	17.9	**16.6**
Deferred income taxes	10.6	**9.9**
Total current assets	779.4	**809.4**
Other assets:		
Marketable securities	259.0	**332.4**
Investment in affiliates	396.7	**133.9**
Pension asset	40.1	**44.9**
Goodwill	385.2	**384.9**
Other intangible assets	3.9	**3.5**
Deferred income taxes	264.4	**273.3**
Other assets	64.7	**61.2**
Total other assets	1,414.0	**1,234.1**
Property and equipment:		
Land	42.1	**42.9**
Buildings	242.2	**254.6**
Equipment	928.4	**953.6**
Mining properties	30.7	**33.4**
Construction in progress	20.6	**41.3**
	1,264.0	**1,325.8**
Less accumulated depreciation	652.7	**704.8**
Net property and equipment	611.3	**621.0**
Total assets	$ 2,804.7	**$ 2,664.5**

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2006	June 30, 2007 (unaudited)
Current liabilities:		
Current maturities of long-term debt	$ 1.2	**$ 1.2**
Accounts payable and accrued liabilities	238.7	**242.1**
Income taxes	11.1	**18.8**
Deferred income taxes	2.2	**1.7**
Total current liabilities	253.2	**263.8**
Noncurrent liabilities:		
Long-term debt	785.3	**814.0**
Deferred income taxes	479.2	**430.0**
Accrued pension costs	188.7	**188.8**
Accrued post retirement benefit (OPEB) costs	33.6	**34.3**
Accrued environmental costs	46.1	**43.3**
Other liabilities	28.1	**90.0**
Total noncurrent liabilities	1,561.0	**1,600.4**
Minority interest	123.7	**127.3**
Stockholders' equity:		
Preferred stock	-	**667.3**
Common stock	1.2	**1.2**
Additional paid-in capital	107.4	**39.2**
Retained earnings (deficit)	839.2	**(4.9)**
Accumulated other comprehensive income (loss)	(43.1)	**8.1**
Treasury stock	(37.9)	**(37.9)**
Total stockholders' equity	866.8	**673.0**
Total liabilities, minority interest and stockholders' equity	$ 2,804.7	**$ 2,664.5**

Commitments and contingencies (Notes 11 and 13)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three months ended June 30, 2006 (as adjusted)	Three months ended June 30, 2007	Six months ended June 30, 2006 (as adjusted)	Six months ended June 30, 2007
	(unaudited)			
Revenues and other income:				
Net sales	$ 399.6	**$ 389.0**	$ 753.9	**$ 748.0**
Other, net	10.3	**11.4**	23.1	**23.8**
Equity in earnings of:				
Titanium Metals Corporation ("TIMET")	20.3	**-**	42.5	**26.9**
Other	(.2)	**1.0**	(2.0)	**.5**
Total revenues and other income	430.0	**401.4**	817.5	**799.2**
Costs and expenses:				
Cost of sales	309.6	**316.1**	581.1	**595.0**
Selling, general and administrative	59.9	**60.5**	114.0	**115.4**
Loss on prepayment of debt	22.3	**-**	22.3	**-**
Interest	19.2	**15.9**	36.0	**31.5**
Total costs and expenses	411.0	**392.5**	753.4	**741.9**
Income before income taxes	19.0	**8.9**	64.1	**57.3**
Provision (benefit) for income taxes	(1.1)	**13.3**	18.0	**33.1**
Minority interest in after-tax Earnings	2.4	**.5**	5.0	**3.0**
Net income (loss)	$ 17.7	**$ (4.9)**	$ 41.1	**$ 21.2**
Net income (loss) per basic and diluted share	$ .15	**$ (.04)**	$ .35	**$ .18**
Cash dividends per share	$ .10	**$ .10**	$ .20	**$ .20**
Weighted average shares outstanding:				
Basic	116.4	**114.9**	116.5	**114.9**
Outstanding stock options impact	.4	**.2**	.4	**.2**

Diluted	116.8	**115.1**	116.9	**115.1**

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Six months ended June 30, 2006 (as adjusted)	Six months ended June 30, 2007
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 41.1	**$ 21.2**
Depreciation and amortization	37.1	**32.6**
Loss on prepayment of debt	22.3	**-**
Call premium paid on Senior Secured Notes	(20.9)	**-**
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension plans	(2.5)	**(2.5)**
Other postretirement benefit plans	(1.7)	**.3**
Deferred income taxes	10.8	**28.0**
Minority interest	5.0	**3.0**
Other, net	.7	**1.9**
Equity in:		
TIMET	(42.5)	**(26.9)**
Other	2.0	**(.5)**
Net distributions from (contributions to):		
Manufacturing joint venture	(.2)	**(1.4)**
Other	.3	**.3**
Change in assets and liabilities:		
Accounts and other receivables, net	(50.6)	**(50.2)**
Inventories, net	18.6	**(3.7)**
Accounts payable and accrued liabilities	(18.8)	**(8.7)**
Accounts with affiliates	3.8	**(10.4)**
Income taxes	(22.5)	**6.7**
Other, net	3.0	**(1.3)**
Net cash used in operating activities	(15.0)	**(11.6)**
Cash flows from investing activities:		
Capital expenditures	(19.2)	**(22.8)**
Capitalized permit costs	(3.7)	**(5.0)**
Purchases of:		
Kronos common stock	(25.2)	**-**
CompX common stock	(1.8)	**-**
TIMET common stock	(17.0)	**(.7)**
Business unit, net of cash acquired	(9.8)	**-**
Marketable securities	(16.9)	**(17.2)**

Proceeds from disposal of marketable securities	15.8	**20.9**
Change in restricted cash equivalents, net	(1.1)	**2.4**
Other, net	1.7	**2.0**
Net cash used in investing activities	(77.2)	**(20.4)**

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Six months ended June 30, 2006 (as adjusted)	2007
	(unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 649.2	**$ 177.6**
Principal payments	(597.8)	**(159.7)**
Deferred financing costs paid	(8.9)	**-**
Dividends paid	(24.1)	**(22.8)**
Distributions to minority interest	(4.5)	**(4.4)**
Treasury stock acquired	(10.2)	**(3.1)**
Issuance of common stock and other	.3	**1.0**
Net cash provided by (used in) financing activities	4.0	**(11.4)**
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(88.2)	**(43.4)**
Currency translation	2.0	**1.2**
Cash and cash equivalents at beginning of period	275.0	**189.2**
Cash and cash equivalents at end of period	$ 188.8	**$ 147.0**
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 28.1	**$ 30.6**
Income taxes, net	28.1	**11.0**
Non-cash financing activities:		
Dividend of TIMET common stock	$ -	**$ 899.3**
Issuance of preferred stock in settlement of tax obligation	-	**667.3**

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Six months ended June 30, 2007

(In millions)

	Preferred stock	Common Stock	Additional paid-in capital	Retained earnings (deficit)	Accumulated Other comprehensive income (loss)	Treasury stock	Total stockholders' equity	Comprehensive income
				(unaudited)				
Balance at December 31, 2006	$ -	$ 1.2	$ 107.4	$ 839.2	$ (43.1)	$ (37.9)	$ 866.8	
Net income	-	-	-	21.2	-	-	21.2	$ 21.2
Dividends	-	-	(11.4)	(11.4)	-	-	(22.8)	-
Dividend of TIMET common stock	-	-	(56.9)	(850.4)	8.0	-	(899.3)	8.0
Change in accounting – FIN No. 48	-	-	-	(1.6)	-	-	(1.6)	-
Issuance of preferred stock	667.3	-	-	-	-	-	667.3	-
Other comprehensive income, net	-	-	-	-	43.2	-	43.2	43.2
Treasury stock:								
Acquired	-	-	-	-	-	(3.1)	(3.1)	-
Retired	-	-	(1.2)	(1.9)	-	3.1	-	-
Other, net	-	-	1.3	-	-	-	1.3	-
Balance at June 30, 2007	$ 667.3	$ 1.2	$ 39.2	$ (4.9)	$ 8.1	$ (37.9)	$ 673.0	
Comprehensive income								$ 72.4

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority owned by Contran Corporation, which directly or through its subsidiaries owns approximately 93% of our outstanding common stock at June 30, 2007. 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 related companies 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"). Prior to March 26, 2007 we were the largest shareholder of Titanium Metals Corporation ("TIMET"), although we owned less than a majority interest and therefore we accounted for our investment by the equity method. See Note 5. Kronos (NYSE: KRO), NL (NYSE: NL), CompX (NYSE: CIX) and TIMET (NYSE: TIE) 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, 2006 that we filed with the SEC on March 13, 2007 (the "2006 Annual Report"), except as disclosed in Note 14. 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, 2006 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, 2006) 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 periods ended June 30, 2007 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 2006 Consolidated Financial Statements contained in our 2006 Annual Report.

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

Note 2 - Business segment information:

Business segment	Entity	% owned at June 30, 2007
Chemicals	Kronos Worldwide, Inc.	95%
Component products	CompX International Inc.	70%
Waste management	Waste Control Specialists LLC	100%
Titanium metals	TIMET	1%

Our ownership of Kronos includes 59% we hold directly and 36% held directly by NL. We own 83% of NL. Our ownership of TIMET includes 1% held by NL.

Our ownership of CompX is primarily through CompX Group, Inc, a majority-owned subsidiary of NL. NL owns 82.4% of CompX Group, and TIMET owns the remaining 17.6% of CompX Group. CompX Group's sole asset is 82% of the outstanding common stock of CompX. NL also owns an additional 2% of CompX directly.

Prior to March 26, 2007, we owned 35% of TIMET directly and through a wholly-owned subsidiary. On March 26, 2007 we completed a special dividend of the TIMET stock we owned. As a result we now own approximately 1% of the TIMET shares outstanding. We accounted for our ownership of TIMET by the equity method through the date of the special dividend. See Note 5. TIMET owns an additional 3% of CompX, .5% of NL and less than .1% of Kronos. Because we do not consolidate TIMET, the shares of CompX Group, CompX, NL and Kronos held by TIMET are not considered as owned by us for financial reporting purposes.

	Three months ended June 30,		Six months ended June 30,	
	2006 (as adjusted)	2007	2006 (as adjusted)	2007
	(In millions)			
Net sales:				
Chemicals	$ 345.1	**$ 342.6**	$ 649.4	**$ 656.6**
Component products	50.2	**45.3**	97.2	**88.8**
Waste management	4.3	**1.1**	7.3	**2.6**
Total net sales	$ 399.6	**$ 389.0**	$ 753.9	**$ 748.0**
Cost of sales:				
Chemicals	$ 268.0	**$ 279.7**	$ 500.0	**$ 524.1**
Component products	37.8	**33.4**	73.2	**64.8**
Waste management	3.8	**3.0**	7.9	**6.1**
Total cost of sales	$ 309.6	**$ 316.1**	$ 581.1	**$ 595.0**
Gross margin:				
Chemicals	$ 77.1	**$ 62.9**	$ 149.4	**$ 132.5**
Component products	12.4	**11.9**	24.0	**24.0**
Waste management	.5	**(1.9)**	(.6)	**(3.5)**
Total gross margin	$ 90.0	**$ 72.9**	$ 172.8	**$ 153.0**
Operating income (loss):				
Chemicals	$ 33.2	**$ 24.6**	$ 66.4	**$ 54.9**
Component products	5.7	**4.8**	10.8	**10.4**
Waste management	(1.1)	**(3.2)**	(3.7)	**(6.2)**
Total operating income	37.8	**26.2**	73.5	**59.1**
Equity in:				
TIMET	20.4	**-**	42.5	**26.9**

Other	(.3)	**1.0**	(2.0)	**.5**
General corporate items:				
Interest and dividend income	10.6	**7.9**	20.4	**15.8**
Insurance recoveries	.6	**.5**	2.8	**3.0**
Securities transaction gains, net	-	**.2**	.2	**.5**
General expenses, net	(8.6)	**(11.0)**	(15.0)	**(17.0)**
Loss on prepayment of debt	(22.3)	**-**	(22.3)	**-**
Interest expense	(19.2)	**(15.9)**	(36.0)	**(31.5)**
Income before income taxes	$ 19.0	**$ 8.9**	$ 64.1	**$ 57.3**

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 – Accounts and other receivables, net:

	December 31, 2006	June 30, 2007
	(In millions)	
Accounts receivable	$ 228.0	**$ 283.4**
Notes receivable	3.2	**4.0**
Refundable income taxes	1.9	**1.6**
Receivable from affiliates:		
Contran – income taxes, net	.6	**12.9**
Other	.2	**-**
Accrued interest and dividends receivable	.1	**.1**
Allowance for doubtful accounts	(3.0)	**(2.8)**
Total	$ 231.0	**$ 299.2**

Note 4 - Inventories, net:

	December 31, 2006	June 30, 2007
	(In millions)	
Raw materials:		
Chemicals	$ 46.1	**$ 57.5**
Component products	5.8	**7.3**
Total raw materials	51.9	**64.8**
In-process products:		
Chemicals	25.7	**13.1**
Component products	8.7	**10.5**
Total in-process products	34.4	**23.6**
Finished products:		
Chemicals	168.4	**172.2**
Component products	7.1	**7.7**
Total finished products	175.5	**179.9**
Supplies (primarily chemicals)	47.2	**52.8**

Total	$	309.0	**$**	**321.1**

Note 5 - Other noncurrent assets:

	December 31, 2006	June 30, 2007
	(In millions)	
Available-for-sale marketable securities:		
The Amalgamated Sugar Company LLC	$ 250.0	**$ 250.0**
TIMET	-	**72.6**
Other	9.0	**9.8**
Total	$ 259.0	**$ 332.4**
Investment in affiliates:		
TIMET:		
Common stock	$ 264.1	**$ -**
Preferred stock	.2	**-**
Total investment in TIMET	264.3	**-**
TiO_2 manufacturing joint venture	113.6	**115.0**
Other	18.8	**18.9**
Total	$ 396.7	**$ 133.9**
Other assets:		
Waste disposal site operating permits, net	$ 22.8	**$ 27.7**
IBNR receivables	6.6	**7.1**
Deferred financing costs	9.2	**8.5**
Loans and other receivables	3.2	**1.7**
Restricted cash equivalents	.4	**.4**
Other	22.5	**15.8**
Total	$ 64.7	**$ 61.2**

On March 26, 2007, we completed a special dividend of the TIMET common stock we owned to our stockholders. Each of our stockholders received .4776 of a share of TIMET common stock for each share of our common stock held. For financial reporting purposes, we continued to apply the equity method to our investment in TIMET through March 31, 2007. We accounted for our dividend of TIMET common stock as a spin-off in which we reduced our stockholders' equity by the aggregate book value of the shares distributed, net of applicable tax, or approximately $899.3 million. For income tax purposes, the dividend of TIMET common stock was taxable to us based on the difference between the aggregate fair value of the TIMET shares distributed ($36.90 per share, or an aggregate of $2.1 billion) and our tax basis of the shares distributed. This tax obligation was approximately $667.7 million, after we utilized available net operating loss ("NOL") carryforwards of $57.8 million and alternative minimum tax credit ("AMT") carryforwards of $1.1 million.

We and our qualifying subsidiaries are members of Contran's consolidated U.S. federal income tax group (the "Contran Tax Group"), and we make payments to Contran for income taxes in amounts that we would have paid to the U.S. Internal Revenue Service had we not been a member of the Contran Tax Group. As a member of the Contran Tax Group, the tax obligation generated from the special dividend is payable to Contran. In order to discharge substantially all of this tax obligation we owed to Contran, in March 2007 we issued to Contran shares of a new issue of our preferred stock. See Note 9. Because Contran directly or indirectly owned approximately 92% of our common stock at March 26, 2007, we distributed a substantial portion of the TIMET shares to other members of the Contran Tax Group. As a result, Contran is not currently required to pay approximately $619.0 million of this tax obligation to the applicable tax authority, because the gain on the shares distributed to members of Contran's Tax Group is currently deferred at the Contran level. This income tax liability would become payable by Contran to the applicable tax authority when the shares of TIMET common stock we distributed to other members of the Contran Tax Group are sold or otherwise transferred outside the Contran Tax Group or in the event of certain restructuring transactions involving Contran and us.

As discussed in the 2006 Annual Report, NL owns approximately 4.7 million shares of our common stock, and for financial reporting purposes we account for our proportional interest in such shares as treasury stock. Under Delaware Corporation Law, NL receives dividends on its Valhi shares. As a result, NL received approximately 2.2 million shares of the TIMET common stock we distributed in the special dividend. In addition, in March 2007 we purchased shares of our common stock in market transactions under our repurchase program described in Note 9. Because we purchased these shares between the record date and payment date of the special dividend, we became entitled to receive the shares of TIMET common stock we distributed in the special dividend with respect to the shares of our common stock we repurchased, or approximately 19,000 shares of TIMET common stock. We allocated the cost of our shares we repurchased between the TIMET and Valhi common stock acquired based upon relative market values on the date of purchase, and we allocated an aggregate of $.7 million to the TIMET shares we acquired. At the end of the first quarter, the aggregate number of TIMET shares we owned represented approximately 1% of TIMET's outstanding common stock. Accordingly, effective March 31, 2007 we began accounting for our shares of TIMET common stock as available-for-sale marketable securities carried at fair value, and the difference between the aggregate fair value and the cost basis of our TIMET shares is recognized as a component of accumulated other comprehensive income, net of applicable income tax and minority interest. The cost basis of the TIMET shares received by NL is $11.4 million, which represents our basis in such TIMET shares under the equity method immediately before the special dividend. At June 30, 2007, the quoted market price for TIMET's common stock was $31.90 per share, for an aggregate market value of our TIMET shares of $72.6 million. As a result, approximately $32.5 million of unrealized gain, net of applicable income tax and minority interest, related to these share of TIMET common stock is included in our other comprehensive income. The income tax recognized in other comprehensive income includes $21.2 million of current income tax generated at the Valhi level related to the distribution, for the TIMET shares NL received.

For income tax purposes, the tax basis in the shares of TIMET received by NL in the special dividend is equal to the fair value of such TIMET shares on the date of the special dividend. However, if the fair value of all of the TIMET shares we distributed exceeds our cumulative earnings and profits as of the end of 2007, NL would be required to reduce the tax basis of its shares of Valhi common stock by an amount equal to the lesser of (i) its tax basis in such Valhi shares and (ii) its pro-rata share of the amount by which the aggregate fair value of the TIMET shares we distributed exceeds our earnings and profits. Additionally, if NL's pro-rata share of the amount by which the aggregate fair value of the TIMET shares we distributed exceeds our earnings and profits is greater than the tax basis of its Valhi shares, NL would be required to recognize a capital gain for the difference. We have estimated we will have no cumulative earnings and profits as of the end of 2007. In addition, the fair value of the TIMET shares received by NL exceeds the aggregate tax basis of its Valhi shares. Accordingly, the benefit to NL associated with receiving a fair-value tax basis in its TIMET shares was completely offset by the elimination of the tax basis in its Valhi shares and the capital gain NL is required to recognize for the excess. NL's income tax generated from this capital gain is approximately $13.5 million. For financial reporting purposes, NL provides deferred income taxes for the excess of the carrying value over the tax basis of its shares of both Valhi and TIMET common stock, and as a result the $13.5 million current income tax generated by NL was offset by deferred income taxes NL had previously provided on its shares of Valhi common stock. However, because we account for our proportional interest in the Valhi shares held by NL as treasury stock, we also eliminate our proportional interest in the deferred income taxes NL recognizes at its level with respect to the Valhi shares it holds. As a result, for financial reporting purposes we had not previously recognized our proportional interest in the $13.5 million of income taxes (or $11.2 million) that NL had previously recognized. Accordingly, as part of the special dividend we were required to recognize $11.2 million of income taxes related to the income tax effect to NL of the special dividend.

NL is also a member of the Contran Tax Group, and NL makes payments to us for income taxes in amounts it would have paid to the U.S. Internal Revenue Service had NL not been a member of the Contran Tax Group. Approximately $12.6 million of the $13.5 million tax generated by NL is payable to us (the remaining $.9 million relates to one of NL's subsidiaries that is not a member of the Contran Tax Group). We are not currently required to pay this $12.6 million tax liability to Contran, nor is Contran currently required to pay this tax liability to the applicable tax authority, because the related taxable gain is currently deferred at our level and the Contran level since we and NL are members of the Valhi tax group on a separate company basis and of the Contran Tax Group. This income tax liability would become payable by us to Contran, and by Contran to the applicable tax authority, when the shares of Valhi common stock held by NL are sold or otherwise transferred outside the Contran Tax Group or in the event of certain restructuring transactions involving NL and Valhi. At June 30, 2007, this $12.6 million is recognized as a component of our deferred income taxes.

A summary of the $899.3 million net reduction in our stockholders' equity as a result of the special dividend is summarized as follows:

	Amount (In millions)
Investment in TIMET	**$ 276.7**
Deferred income taxes previously recognized:	
Investment in TIMET	**(56.9)**
NOL and AMT carryforwards	**21.4**
Income taxes generated from the special dividend:	
Valhi level, net of amount included in other comprehensive income	**646.9**
NL level	**11.2**
Total	**$ 899.3**

Certain selected financial information of TIMET is summarized below:

	December 31, 2006 (In millions)
Current assets	**$ 757.6**
Property and equipment	**329.8**
Marketable securities	**56.8**
Other noncurrent assets	**72.7**
Total assets	**$ 1,216.9**
Current liabilities	**$ 211.1**
Accrued pension and postretirement benefits	**80.2**

Other noncurrent liabilities		**25.4**
Minority interest		**21.3**
Stockholders' equity		**878.9**
Total liabilities, minority interest and stockholders' equity	**$**	**1,216.9**

	Three months ended June 30,		Six months ended June 30,	
	2006	2007	2006	2007
	(In millions)			
Net sales	$ 300.9	$ 341.2	**$ 587.8**	**$ 682.9**
Cost of sales	194.6	205.7	**373.2**	**414.0**
Operating income	93.6	118.0	**188.7**	**234.2**
Net income attributable to common stockholders	54.3	76.3	**111.1**	**151.4**

Note 6 - Accounts payable and accrued liabilities:

	December 31, 2006	June 30, 2007
	(In millions)	
Current:		
Accounts payable	$ 101.8	**$ 98.4**
Employee benefits	37.4	**32.7**
Payable to affiliates:		
Louisiana Pigment Company	11.7	**11.4**
Contran – trade items	5.5	**6.2**
Environmental costs	13.6	**12.2**
Deferred income	4.9	**.8**
Interest	7.6	**7.6**
Reserve for uncertain tax positions	-	**.3**
Other	56.2	**72.5**
Total	$ 238.7	**$ 242.1**
Noncurrent:		
Reserve for uncertain tax positions	$ -	**$ 62.5**
Insurance claims and expenses	13.9	**13.0**
Employee benefits	7.2	**7.2**
Other	7.0	**7.3**
Total	$ 28.1	**$ 90.0**

Our reserve for uncertain tax positions is discussed in Note 14.

Note 7 - Long-term debt:

	December 31, 2006	June 30, 2007
	(In millions)	

Valhi - Snake River Sugar Company	$	250.0	**$**	**250.0**
Subsidiary debt:				
Kronos International 6.5% Senior Secured Notes		525.0		**535.6**
Kronos U.S. bank credit facility		6.4		**24.3**
Other		5.1		**5.3**
Total subsidiary debt		536.5		**565.2**
Total debt		786.5		**815.2**
Less current maturities		1.2		**1.2**
Total long-term debt	$	785.3	**$**	**814.0**

During the first six months of 2007, we borrowed a net $17.9 million under Kronos' U.S. bank credit facility. The average interest rate on the outstanding borrowings under this facility at June 30, 2007 was 8.25%.

Note 8 - Employee benefit plans:

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

Three months ended June 30,		Six months ended June 30,	
2006	**2007**	**2006**	**2007**
(In millions)			