TRONOX INC
Form 10-Q
November 07, 2008

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UNITED STATES 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 quarterly period ended September 30, 2008

Commission file number 1-32669

TRONOX INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware	**20-2868245**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification Number)*

One Leadership Square, Suite 300
211 N. Robinson Ave, Oklahoma City, Oklahoma 73102
(Address of principal executive offices)

Registrant s telephone number, including area code:
(405) 775-5000

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 requirement for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of October 31, 2008, 18,556,127 shares of the company s Class A common stock and 22,889,431 shares of the company s Class B common stock were outstanding.

Tronox Incorporated

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

TRONOX INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net sales	$ 418.3	$ 363.1	$ 1,171.2	$ 1,068.7
Cost of goods sold	399.2	332.0	1,126.4	970.4
Gross margin	19.1	31.1	44.8	98.3
Selling, general and administrative expenses	30.3	27.8	85.1	92.8
Gain on land sales	(7.4)	(0.5)	(25.1)	(0.5)
Impairment of goodwill			13.5	
Restructuring charges		9.6	4.2	9.6
Provision for environmental remediation and restoration, net of reimbursements		1.3	0.5	3.0
	(3.8)	(7.1)	(33.4)	(6.6)
Interest and debt expense	(13.9)	(12.8)	(38.9)	(37.5)
Other income (expense), net	(12.7)	1.7	(5.9)	4.1
Loss from continuing operations before income taxes	(30.4)	(18.2)	(78.2)	(40.0)
Income tax benefit (provision)	(9.5)	(0.5)	7.0	(7.7)
Loss from continuing operations	(39.9)	(18.7)	(71.2)	(47.7)
Income (loss) from discontinued operations, net of income tax benefit of nil, $0.1, nil and $1.1, respectively	2.0	(0.4)	(1.3)	(2.0)
Net loss	$ (37.9)	$ (19.1)	$ (72.5)	$ (49.7)
Loss per common share:				
Basic				
Continuing operations	$ (0.97)	$ (0.46)	$ (1.74)	$ (1.17)
Discontinued operations	0.05	(0.01)	(0.03)	(0.05)
Net loss	$ (0.92)	$ (0.47)	$ (1.77)	$ (1.22)
Diluted				

Continuing operations	$	(0.97)	$	(0.46)	$	(1.74)	$	(1.17)
Discontinued operations		0.05		(0.01)		(0.03)		(0.05)
Net loss	$	(0.92)	$	(0.47)	$	(1.77)	$	(1.22)
Dividends declared per common share	$		$	0.05	$		$	0.10
Weighted average shares outstanding:								
Basic		41.0		40.7		41.0		40.7
Diluted		41.0		40.7		41.0		40.7

The accompanying notes are an integral part of these financial statements.

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TRONOX INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55.7	$ 21.0
Accounts receivable, net	252.6	290.5
Inventories, net	313.7	350.0
Prepaid and other assets	21.7	23.6
Income tax receivable	0.5	4.3
Deferred income taxes	2.7	3.7
Total current assets	646.9	693.1
Property, plant and equipment, net	776.2	848.9
Goodwill		12.7
Other long-term assets	191.6	168.7
Total assets	$ 1,614.7	$ 1,723.4
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 183.7	$ 234.9
Accrued liabilities	141.8	197.7
Long-term debt due within one year	1.1	9.2
Income taxes payable	6.7	6.4
Long-term debt classified as current	548.3	
Total current liabilities	881.6	448.2
Noncurrent liabilities:		
Deferred income taxes	44.4	57.2
Environmental remediation and/or restoration	134.2	93.9
Long-term debt		475.6
Other	177.3	218.9
Total noncurrent liabilities	355.9	845.6
Commitments and contingencies (Notes 13 and 14)		
Stockholders equity		
Class A common stock, par value $0.01 100,000,000 shares authorized, 19,098,917 and 18,746,329 shares issued at September 30, 2008, and	0.2	0.2

December 31, 2007, respectively				
Class B common stock, par value $0.01 100,000,000 shares authorized, 22,889,431 shares issued		0.2		0.2
Capital in excess of par value		494.6		490.8
Accumulated deficit		(209.3)		(136.8)
Accumulated other comprehensive income		97.7		78.2
Treasury stock, at cost 303,927 shares and 210,638 shares, respectively		(6.2)		(3.0)
Total stockholders equity		377.2		429.6
Total liabilities and stockholders equity	$	1,614.7	$	1,723.4

The accompanying notes are an integral part of these financial statements.

TRONOX INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities		
Net loss	$ (72.5)	$ (49.7)
Adjustments to reconcile net cash flows from operating activities		
Depreciation and amortization	86.4	82.8
Deferred income taxes	(5.6)	(1.6)
Impairment of goodwill	13.5	
Gain on sales of land	(25.1)	
Provision for environmental remediation and restoration, net of reimbursements	(3.1)	2.1
Other noncash items affecting net loss	8.6	30.7
Changes in assets and liabilities	(26.3)	32.1
Net cash flows from operating activities	(24.1)	96.4
Cash flows from investing activities		
Capital expenditures	(25.2)	(51.5)
Proceeds from sale of assets	25.6	1.0
Net cash flows from investing activities	0.4	(50.5)
Cash flows from financing activities		
Proceeds from borrowings	96.3	
Repayment of debt	(31.9)	(44.6)
Debt costs	(5.0)	(0.3)
Stock option exercises		1.6
Dividends paid	(4.2)	(6.2)
Net cash flows from financing activities	55.2	(49.5)
Effects of exchange rate changes on cash and cash equivalents	3.2	(8.1)
Net change in cash and cash equivalents	34.7	(11.7)
Cash and cash equivalents at beginning of period	21.0	76.6
Cash and cash equivalents at end of period	$ 55.7	$ 64.9

The accompanying notes are an integral part of these financial statements.

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TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

Tronox Incorporated (the company), a Delaware Corporation was formed on May 17, 2005, in preparation for the contribution and transfer by Kerr-McGee Corporation (Kerr-McGee) of certain entities, including those comprising substantially all of its chemical business (the Contribution). The company has one reportable segment representing the company s pigment business. The pigment segment primarily produces and markets titanium dioxide pigment (TiO_2) and has production facilities in the United States, Australia, Germany and The Netherlands. The pigment segment also includes heavy minerals production operated through our joint venture. The heavy minerals production is integrated with our Australian pigment plant, but also has third-party sales of minerals not utilized by the company s pigment operations. Electrolytic and other chemical products (which does not constitute a reportable segment) represents the company s other operations which are comprised of electrolytic manufacturing and marketing operations, all of which are located in the United States. The company has in the past operated or held businesses or properties, or currently holds properties, that do not relate to the current chemical business.

The terms Tronox or the company are used interchangeably in these condensed consolidated financial statements to refer to the consolidated group or to one or more of the companies that are part of the consolidated group.

Formation

The Contribution was completed in November 2005, along with the recapitalization of the company, whereby common stock held by Kerr-McGee converted into approximately 22.9 million shares of Class B common stock. An initial public offering (IPO) of Class A common stock was completed on November 28, 2005. On March 8, 2006, Kerr-McGee s Board of Directors declared a dividend of the company s Class B common stock owned by Kerr-McGee to its stockholders (the Distribution). The Distribution was completed on March 30, 2006, resulting in Kerr-McGee having no ownership or voting interest in the company.

2. Basis of Presentation and Accounting Policies

These statements should be read in conjunction with the audited consolidated and combined financial statements and the related notes which are included in the company s annual report on Form 10-K for the year ended December 31, 2007. The interim condensed consolidated financial information furnished herein is unaudited. The information reflects all adjustments (which include normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods included in the report. These adjustments also include those made to record an impairment of goodwill (see Note 4), to classify debt as current (see Note 7) and to adjust the estimated forfeiture rate for compensation expenses recognized for stock based awards (see Note 12).

Our financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have experienced significant losses in recent periods and continue to generate negative cash flows from operations. As we continue to generate losses and negative cash flows, this raises substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern will depend upon our ability to generate positive cash flows, restructure our capital structure including, among other alternatives, obtaining additional financing and mitigating the legacy environmental liabilities carried by the company. Failure to address these issues could result in, among other things, the depletion of available funds and our not being able to pay our obligations when they become due, as well as defaults under our debt obligations. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109). The company adopted FIN No. 48 as of January 1, 2007. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. FIN No. 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The guidance required application through recognition of a cumulative effect adjustment to opening retained earnings in the period of adoption (2007), with no charge to current earnings for prior periods. As a result of the adoption of FIN No. 48, the company recognized a $9.3 million charge to the January 1, 2007, balance of retained earnings. The total amount of unrecognized tax positions at January 1, 2007, was $46.5 million.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) FAS 157-2 Effective Date of FASB Statement No. 157 which amends SFAS No. 157 to defer its effective date to fiscal years beginning after November 15, 2008, and for interim periods within such years. The delayed effective date applies to all assets and liabilities except financial assets or financial liabilities (as defined). The company has adopted the provisions of SFAS No. 157 for its financial assets and liabilities effective January 2008 with no material impact on its condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an Amendment of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 159). The company did not elect to adopt the provisions of this statement.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations which will change the accounting for business combinations such that an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction, at the acquisition date fair value with limited exceptions. SFAS No. 141 also changes the accounting treatment for certain specific items such as expensing acquisition costs versus capitalizing them, recording in process research and development as an indefinite lived intangible asset and expensing restructuring costs after the acquisition date. SFAS No. 141 also includes additional disclosure requirements. The statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards pertaining to ownership interests in subsidiaries held by parties other than the parent, the amount of net income attributable to the parent and to the noncontrolling interest, changes in a parent s ownership interest, and the valuation of any retained noncontrolling equity investment when a subsidiary is deconsolidated. This statement also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The company does not expect the provisions of SFAS No. 160 to have a material impact on its condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Statement of Operations Data

The components of other income (expense), net are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,
	2008	2007	