KRONOS WORLDWIDE INC
Form 10-Q
November 05, 2012
Table of Contents

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 quarter ended September 30, 2012

Commission file number 1-31763

KRONOS WORLDWIDE, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE	**76-0294959**
(State or other jurisdiction of	**(IRS Employer**

incorporation or organization) **Identification No.)**

5430 LBJ Freeway, Suite 1700

Dallas, Texas 75240-2697

(Address of principal executive offices)

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 and (2) has been subject to such filing requirements for the past 90 days. Yes x **No** ¨

Indicate by check mark 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 x **No** ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Large accelerated filer	¨	**Accelerated filer**	x
Non-accelerated filer	¨	**Smaller reporting company**	¨

Indicate by check mark 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 October 31, 2012: 115,906,598.

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

INDEX

Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2011	September 30, 2012 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 82.5	**$ 110.9**
Restricted cash	1.9	**1.9**
Marketable securities	20.9	
Accounts and other receivables	299.9	**316.3**
Inventories	444.2	**604.2**
Prepaid expenses and other	5.7	**11.5**
Deferred income taxes	9.9	**9.8**
Total current assets	865.0	**1,054.6**
Other assets:		
Investment in TiO_2 manufacturing joint venture	89.2	**119.3**
Note receivable from Valhi	136.1	**167.6**
Marketable securities	98.4	**75.6**
Deferred income taxes	133.0	**104.4**
Other	16.7	**23.3**
Total other assets	473.4	**490.2**
Property and equipment:		
Land	43.2	**43.9**
Buildings	226.6	**230.6**
Equipment	1,018.0	**1,046.2**
Mining properties	114.9	**126.0**
Construction in progress	27.0	**35.3**
	1,429.7	**1,482.0**
Less accumulated depreciation and amortization	944.2	**990.6**
Net property and equipment	485.5	**491.4**
Total assets	$ 1,823.9	**$ 2,036.2**

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2011	September 30, 2012 (unaudited)
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 2.2	**$ 21.5**
Accounts payable and accrued liabilities	294.4	**256.9**
Income taxes	25.2	**20.9**
Deferred income taxes	6.2	**6.2**
Total current liabilities	328.0	**305.5**
Noncurrent liabilities:		
Long-term debt	362.9	**416.1**
Deferred income taxes	41.0	**34.0**
Accrued pension cost	127.6	**122.4**
Accrued postretirement benefit cost	12.7	**13.6**
Other	27.4	**29.0**
Total noncurrent liabilities	571.6	**615.1**
Stockholders equity:		
Common stock	1.2	**1.2**
Additional paid-in capital	1,399.0	**1,399.1**
Retained deficit	(290.1)	**(105.7)**
Accumulated other comprehensive loss	(185.8)	**(179.0)**
Total stockholders equity	924.3	**1,115.6**
Total liabilities and stockholders equity	$ 1,823.9	**$ 2,036.2**

Commitments and contingencies (Notes 8 and 11)

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2012	2011	2012
	(unaudited)			
Net sales	$ 548.0	**$ 472.9**	$ 1,505.9	**$ 1,579.5**
Cost of sales	337.1	**386.9**	951.6	**1,068.7**
Gross margin	210.9	**86.0**	554.3	**510.8**
Selling, general and administrative expense	49.9	**43.3**	144.7	**139.2**
Currency transaction gains (losses), net	(1.9)	**(1.0)**	.4	**(.5)**
Other operating expense, net	(2.5)	**(3.2)**	(6.8)	**(12.6)**
Income from operations	156.6	**38.5**	403.2	**358.5**
Other income (expense):				
Interest and dividend income	1.1	**2.3**	4.5	**6.6**
Gain (loss) on prepayment of debt, net	.1		(3.2)	**(7.2)**
Interest expense	(8.1)	**(7.0)**	(26.2)	**(20.0)**
Income before income taxes	149.7	**33.8**	378.3	**337.9**
Income tax expense (benefit)	63.8	**(1.4)**	143.1	**101.3**
Net income	$ 85.9	**$ 35.2**	$ 235.2	**$ 236.6**
Net income per basic and diluted share	$ .74	**$ .30**	$ 2.03	**$ 2.04**
Cash dividends per share	$ .15	**$ .15**	$ .925	**$ .45**
Weighted-average shares used in the calculation of net income per share	115.9	**115.9**	115.9	**115.9**

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Three months ended September 30, 2011	Three months ended September 30, 2012	Nine months ended September 30, 2011	Nine months ended September 30, 2012
		(unaudited)		
Net income	$ 85.9	**$ 35.2**	$ 235.2	**$ 236.6**
Other comprehensive income (loss), net of tax:				
Marketable securities adjustment	(7.8)	**4.0**	2.2	**(13.9)**
Currency translation adjustment	(20.8)	**38.1**	(6.9)	**15.6**
Pension plans	1.5	**1.7**	4.6	**5.2**
OPEB plans	(.1)		(.3)	**(.1)**
Total other comprehensive income (loss)	(27.2)	**43.8**	(.4)	**6.8**
Comprehensive income	$ 58.7	**$ 79.0**	$ 234.8	**$ 243.4**

See accompanying Notes to Condensed Consolidated Financial Statements.

- 6 -

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

Nine months ended September 30, 2012

(In millions)

	Common stock	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Total stockholders equity
			(unaudited)		
Balance at December 31, 2011	$ 1.2	$ 1,399.0	$ (290.1)	$ (185.8)	$ 924.3
Net income			236.6		236.6
Other comprehensive income, net				6.8	6.8
Issuance of common stock		.1			.1
Dividends paid			(52.2)		(52.2)
Balance at September 30, 2012	$ 1.2	$ 1,399.1	$ (105.7)	$ (179.0)	$ 1,115.6

- 7 -

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Nine months ended September 30, 2011	2012
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 235.2	**$ 236.6**
Depreciation and amortization	35.9	**35.4**
Deferred income taxes	47.2	**25.0**
Loss on prepayment of debt, net	3.2	**7.2**
Call premium and interest paid on Senior Notes redeemed	(2.5)	**(6.2)**
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension plans	.4	**.2**
Other postretirement benefits	(.1)	**.2**
Distributions from (contributions to) TiO_2 manufacturing joint venture, net	2.1	**(30.1)**
Other, net	5.7	**.7**
Change in assets and liabilities:		
Accounts and other receivables	(103.3)	**(49.3)**
Inventories	(59.8)	**(158.2)**
Prepaid expenses	(1.2)	**(5.4)**
Accounts payable and accrued liabilities	56.0	**(46.8)**
Income taxes	18.3	**(5.3)**
Accounts with affiliates	6.1	**51.1**
Other, net	.2	**2.4**
Net cash provided by operating activities	243.4	**57.5**
Cash flows from investing activities:		
Capital expenditures	(38.7)	**(45.5)**
Change in restricted cash equivalents	.5	**(1.6)**
Loans to Valhi:		
Loans	(146.6)	**(95.3)**
Collections	105.2	**63.8**
Proceeds from sale of marketable securities mutual funds	227.0	**21.1**
Purchase of marketable securities:		
Mutual funds	(272.6)	
TIMET stock	(30.4)	
Valhi stock	(12.8)	
Other, net	(5.1)	
Net cash used in investing activities	(173.5)	**(57.5)**
Cash flows from financing activities:		
Indebtedness:		
Borrowings	113.3	**501.4**
Principal payments	(269.2)	**(414.9)**
Dividends paid	(107.2)	**(52.2)**

Other, net	(.2)	**(7.1)**
Net cash provided by (used in) financing activities	(263.3)	**27.2**

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(In millions)

	Nine months ended September 30, 2011	Nine months ended September 30, 2012
	(unaudited)	
Cash and cash equivalents net change from:		
Operating, investing and financing activities	(193.4)	**27.2**
Currency translation	.8	**1.2**
Balance at beginning of period	304.7	**82.5**
Balance at end of period	$ 112.1	**$ 110.9**
Supplemental disclosures:		
Cash paid for:		
Interest (including call premium paid)	$ 22.5	**$ 28.9**
Income taxes	66.4	**84.6**
Accrual for capital expenditures	7.3	**4.5**

See accompanying Notes to Condensed Consolidated Financial Statements.

- 9 -

Table of Contents

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(unaudited)

Note 1 Organization and basis of presentation:

Organization We are a majority-owned subsidiary of Valhi, Inc. (NYSE: VHI). At September 30, 2012, Valhi held approximately 50% of our outstanding common stock and NL Industries, Inc. (NYSE: NL) held an additional 30% of our common stock. Valhi owns approximately 83% of NL s outstanding common stock. Approximately 95% of Valhi s outstanding common stock is held by Contran Corporation and its subsidiaries. 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, Valhi and us.

Basis of presentation The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 that we filed with the Securities and Exchange Commission (SEC) on March 5, 2012 (2011 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 and Statement of Stockholders Equity at December 31, 2011 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, 2011) 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 September 30, 2012 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 2011 Consolidated Financial Statements contained in our 2011 Annual Report.

Unless otherwise indicated, references in this report to we, us or our refer to Kronos Worldwide, Inc. and its subsidiaries (NYSE: KRO) taken as a whole.

In May 2011, we implemented a 2-for-1 split of our common stock effected in the form of a stock dividend. We have adjusted all share and per-share disclosures for all periods presented prior to May 2011 to give effect to the stock split. Cash dividends in the first quarter of 2011 include a $.50 per share special dividend.

Table of Contents

Note 2 Marketable securities:

Our marketable securities at September 30, 2012 consist of investments in the publicly-traded shares of related parties: Titanium Metals Corporation (TIMET), Valhi, NL and CompX International Inc. Contran, Mr. Harold Simmons and persons and other entities related to Mr. Simmons own a majority of TIMET s and Valhi s outstanding common stock, and NL owns a majority of CompX s outstanding common stock. All of our marketable securities at September 30, 2012 and December 31, 2011 are accounted for as available-for-sale, which are carried at fair value using quoted market prices in active markets for each marketable security, and represent a Level 1 input within the fair value hierarchy. See Note 12. Because we have classified all of our marketable securities as available-for-sale, any unrealized gains or losses on the securities are recognized through other comprehensive income.

Marketable security	Fair value measurement level	Market Value	Cost Basis (In millions)	Unrealized gains (losses)
As of December 31, 2011:				
Current assets:				
Mutual funds	1	$ 20.9	$ 21.1	$ (.2)
Noncurrent assets:				
TIMET common stock	1	$ 63.6	$ 73.9	$ (10.3)
Valhi common stock	1	34.7	15.3	19.4
NL and CompX common stocks	1	.1	.1	
Total		$ 98.4	$ 89.3	$ 9.1
As of September 30, 2012:				
Noncurrent assets:				
TIMET common stock	1	**$ 54.5**	**$ 73.9**	**$ (19.4)**
Valhi common stock	1	**21.0**	**15.3**	**5.7**
NL and CompX common stocks	1	**.1**	**.1**	
Total		**$ 75.6**	**$ 89.3**	**$ (13.7)**

At December 31, 2011 and September 30, 2012, we held approximately 4.2 million shares, or 2.4%, of TIMET s outstanding common stock and approximately 1.7 million shares of Valhi s common stock. At September 30, 2012, the quoted market price of TIMET s and Valhi s common stock was $12.83 and $12.20 per share, respectively. At December 31, 2011, such quoted market prices were $14.98 and $20.16 per share, respectively. In May 2012, Valhi implemented a 3-for-1 split of its common stock. We have adjusted all share and per-share disclosures related to our investment in Valhi stock for all periods prior to May 2012 to give effect to the stock split. The stock split had no financial statement impact to us, and our ownership interest in Valhi did not change as a result of the split. We also held a nominal number of shares of CompX and NL common stocks.

The TIMET, Valhi, CompX and NL common stocks we own are subject to the restrictions on resale pursuant to certain provisions of SEC Rule 144. In addition, as a majority-owned subsidiary of Valhi we cannot vote our shares of Valhi common stock under Delaware Corporation Law, but we do receive dividends from Valhi on these shares, when declared and paid.

Table of Contents

With respect to our investment in TIMET, our cost basis has exceeded its market value since October 2011 but we consider such decline in market price to be temporary at September 30, 2012. We considered all available evidence in reaching this conclusion, including our ability and intent to hold this investment for a reasonable period of time sufficient for the recovery of fair value, as evidenced by the amount of liquidity we currently have with cash on hand. We will continue to monitor the quoted market price for this investment and consider any evidence that becomes available. If we conclude in the future, based on all evidence then available, that a decline in value of one or more of these securities was other than temporary, we would recognize impairment through an income statement charge at that time. Such income statement impairment charge would be offset in other comprehensive income by the reversal of the previously recognized unrealized losses to the extent they were previously recognized in accumulated other comprehensive income.

At December 31, 2011, we held investments in various mutual funds which had a primary investment objective of holding corporate and government debt securities from U.S. and other markets. These funds were liquidated for cash proceeds in the first quarter of 2012.

Note 3 Accounts and other receivables:

	December 31, 2011	September 30, 2012
	(In millions)	
Trade receivables	$ 247.2	**$ 288.9**
Receivable from affiliate - Louisiana Pigment Company, L.P.	29.6	
Recoverable VAT and other receivables	22.3	**26.6**
Refundable income taxes	2.0	**2.0**
Allowance for doubtful accounts	(1.2)	**(1.2)**
Total	$ 299.9	**$ 316.3**

Note 4 Inventories:

	December 31, 2011	September 30, 2012
	(In millions)	
Raw materials	$ 89.6	**$ 180.6**
Work in process	17.3	**21.8**
Finished products	280.7	**338.0**
Supplies	56.6	**63.8**
Total	$ 444.2	**$ 604.2**

- 12 -

Table of Contents

Note 5 Other noncurrent assets:

	December 31, 2011	September 30, 2012
	(In millions)	
Deferred financing costs, net	$ 2.0	**$ 7.3**
Restricted cash	5.4	**7.6**
Other	9.3	**8.4**
Total	$ 16.7	**$ 23.3**

Note 6 Accounts payable and accrued liabilities:

	December 31, 2011	September 30, 2012
	(In millions)	
Accounts payable	$ 186.6	**$ 153.2**
Employee benefits	35.3	**31.3**
Accrued sales discounts and rebates	11.9	**15.9**
Accrued interest	5.0	**.8**
Payable to affiliates:		
Income taxes, net Valhi	8.6	**4.2**
Louisiana Pigment Company, L.P.		**22.7**
Other	47.0	**28.8**
Total	$ 294.4	**$ 256.9**

Note 7 Long-term debt:

	December 31, 2011	September 30, 2012
	(In millions)	
Term loan	$	**$ 389.3**
Kronos International, Inc. 6.5% Senior Secured Notes	360.6	
Revolving European credit facility		**45.2**
Other	4.5	**3.1**
Total debt	365.1	**437.6**
Less current maturities	2.2	**21.5**
Total long-term debt	$ 362.9	**$ 416.1**

Term Loan In June 2012, we entered into a $400 million term loan. We used a portion of the net proceeds of the term loan to redeem the remaining outstanding 6.5% Senior Secured Notes (279.2 million principal amount outstanding), as discussed below. The term loan was issued at 98.5% of the principal amount, or an aggregate of $394 million. The term loan provides for an additional $100 million of term loan borrowings in the future under certain conditions. The remaining net proceeds of the term loan, plus any additional term loan which might be borrowed in the future, are available for our general corporate purposes. The term loan permits the continued payment of regular quarterly dividends as well as the payment of special dividends, if any. The term loan:

Table of Contents

bears interest, at our option, at LIBOR (with LIBOR no less than 1.0%) plus 4.75%, or the base rate, as defined in the agreement, plus 3.75%. The average interest rate on these borrowings at September 30, 2012, and for the period from issuance to September 30, 2012, was 5.75% and 5.82%, respectively;

requires quarterly principal repayments of $5.0 million commencing in September 2012, other mandatory principal repayments of formula-determined amounts under specified conditions with all remaining principal balance due in June 2018. Voluntary principal prepayments are permitted at any time (without penalty);

is collateralized by, among other things, a first priority lien on (i) 100% of the common stock of certain of our U.S. wholly-owned subsidiaries, (ii) 65% of the common stock or other ownership interest of our Canadian subsidiary (Kronos Canada, Inc.) and certain first-tier European subsidiaries (Kronos Titan GmbH and Kronos Denmark ApS) and (iii) a $362.1 million unsecured promissory note issued by our wholly-owned subsidiary, Kronos International, Inc. (KII) to us;

is also collateralized by a second priority lien on all of the U.S. assets which collateralize our new North American revolving facility, as discussed below;

contains a number of covenants and restrictions which, among other things, restrict our ability to incur additional debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer substantially all of our assets to, another entity, contains other provisions and restrictive covenants customary in lending transactions of this type and requires the maintenance of a specified financial covenant (leverage to EBITDA, as defined) to be less than or equal to 3.5 to 1.0; and

contains customary default provisions, including a default under any of our other indebtedness in excess of $50 million.

The carrying amount of the term loan includes unamortized original issue discount of $5.7 million at September 30, 2012.

Senior Secured Notes In March 2011, we redeemed 80 million of our 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 and fourth quarters of 2011, we repurchased in open market transactions an aggregate of 40.8 million principal amount of the Senior Notes for an aggregate of 40.6 million (an aggregate of $57.6 million when repurchased). Following such partial redemption and repurchases, 279.2 million principal amount of Senior Notes remained outstanding. We recognized a $3.3 million pre-tax interest charge related to the prepayment of the Senior Notes in the first quarter of 2011, consisting of the call premium and the write-off of unamortized deferred financing costs and original issue discount associated with the redeemed Senior Notes, and 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.

Immediately upon the June 2012 issuance of the term loan as discussed above, we sent a request to the trustee under the indenture for the Senior Notes, asking that all remaining Senior Notes be called for redemption on July 20, 2012. We also directed that a portion of the proceeds from the new term loan be irrevocably sent to the trustee, in an amount sufficient to pay the principal, call premium at 1.01083% of the principal amount and all accrued and unpaid interest due through the July 20, 2012 redemption date. Upon the trustee s confirmation of receipt of such funds on June 14, 2012, the trustee discharged our obligations under the indenture and released the liens on all collateral thereunder. Because we were released as being the primary obligor under the indenture as of June 14, 2012, the Senior Notes were derecognized as of that date along with the funds irrevocably sent to the trustee to effect the July 20, 2012 redemption. We recognized an aggregate $7.2 million pre-tax charge related to the early extinguishment of debt in the second quarter of 2012, consisting of the call premium paid, interest from the June 14, 2012 indenture discharge date to the July 20, 2012 redemption date and the write-off of unamortized deferred financing costs and original issue discount associated with the redeemed Senior Notes.

Revolving North American credit facility Also in June 2012, we entered into a $125 million revolving bank credit facility which matures in June 2017. Borrowings under the revolving credit facility are available for our general corporate purposes. Available borrowings on this facility are based on formula-determined amounts of eligible trade receivables and inventories, as defined in the agreement, of certain of our North American subsidiaries less any outstanding letters of credit up to $15 million issued under the facility (with revolving borrowings by our Canadian subsidiary limited to $25 million). Any amounts outstanding under the revolving credit facility bear interest, at our option, at LIBOR plus a margin ranging from 1.5% to 2.0% or at the applicable base rate, as defined in the agreement, plus a margin ranging from .5% to 1.0%. The credit facility is collateralized by, among other things, a first priority lien on the borrowers trade receivables and inventories. The facility contains a number of covenants and restrictions which, among other things, restricts the borrowers ability to incur additional debt, incur liens, pay dividends or merge or consolidate with, or sell or transfer all or substantially all of their assets to, another entity, contains other provisions and restrictive covenants customary in lending transactions of this type and under certain conditions requires the maintenance of a specified financial covenant (fixed charge coverage ratio, as defined) to be at least 1.0 to 1.0. At September 30, 2012, we had no outstanding borrowings under this revolving credit facility and approximately $125 million was available for borrowing.

Revolving European credit facility In September 2012, we amended the terms of our European revolving credit facility to:

- increase the maximum borrowing from 80 million to 120 million;
- extend the maturity date from October 2013 to September 2017; and
- increase the interest rate on outstanding borrowings from LIBOR plus 1.50% to LIBOR plus 1.90%.

During the first nine months of 2012, we borrowed 80 million ($107.4 million when borrowed) under our European credit facility and we repaid an aggregate 45 million ($56.2 million when repaid). The average interest rate on these borrowings as of and for the nine months ended September 30, 2012 was 1.63% and 1.86%, respectively.

Table of Contents

Canada At September 30, 2012, an aggregate of Cdn. $7.5 million letters of credit were outstanding under our Canadian subsidiary s loan agreement with the Bank of Montreal which exists solely for the issuance of up to Cdn. $10.0 million in letters of credit.

Restrictions and other Our European credit facility described above requires the borrower to maintain minimum levels of equity, requires the maintenance of certain financial ratios, limits dividends and additional indebtedness and contains other provisions and restrictive covenants customary in lending transactions of this type. Our term loan and North American revolving credit facility also contain restrictive covenants, as described above. We are in compliance with all of our debt covenants at September 30, 2012. We believe that we will be able to comply with the financial covenants contained in our credit facilities and term loan through their maturity; however if future operating results differ materially from our expectations we may be unable to maintain compliance. At September 30, 2012, there were no restrictions on our ability to pay dividends.

Note 8 Income taxes:

	Nine months ended September 30,	
	2011	**2012**
	(In millions)	
Expected tax expense, at U.S. Federal statutory income tax rate of 35%	$ 132.4	**$ 118.3**
Non-U.S. tax rates	(12.2)	**(12.5)**
Incremental tax on earnings of non-U.S. companies	20.2	**(7.1)**
U.S. state income taxes, net	1.4	**2.1**
French dividend surtax		**.1**
Other, net	1.3	**.4**
Total	$ 143.1	**$ 101.3**

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 Germany subsidiary, which earnings were used to fund a portion of the repurchases of our Senior Secured Notes discussed in Note 7. Our income tax benefit in the third quarter of 2012 includes an incremental tax benefit of $11.1 million as we determined in the third quarter that due to global changes in our business, we would not remit certain dividends from our non-U.S. jurisdictions. As a result, certain current year tax attributes are available for carryback to offset prior year tax expense. In addition, we accrue U.S. incremental income taxes on the earnings of our Canadian subsidiary, which earnings we previously determined are not permanently reinvested.

In the third quarter of 2012, France enacted certain changes in their income tax laws, including a 3% nondeductible surtax on all dividend distributions which tax is assessed at the time of the distribution against the company making such distribution. Consequently, our French subsidiary will be required to pay an additional 3% tax on all future dividend distributions. Our undistributed earnings in France are deemed to be permanently reinvested and such tax will be recognized as part of our income tax expense in the period during which the dividend is declared and will be remitted to the French government in accordance with the applicable tax law. During the third quarter of 2012, our French subsidiary distributed a $1.8 million dividend. At September 30, 2012, our French subsidiary has undistributed earnings of approximately $18.1 million that, if distributed, would be subject to the 3% surtax.

Table of Contents

Tax authorities are examining certain of our U.S. and non-U.S. tax returns and have or may propose tax deficiencies, including interest and penalties. Because of the inherent uncertainties involved in settlement initiatives and court and tax proceedings, we cannot guarantee that these matters will be resolved in our favor, and therefore our potential exposure, if any, is also uncertain. In 2011 and 2012, we received notices of re-assessment from the Canadian federal and provincial tax authorities related to the years 2002 through 2004. We object to the re-assessments and believe the position is without merit. Accordingly, we are appealing the re-assessments and in connection with such appeal we were required to post letters of credit aggregating Cdn. $7.5 million (see Note 7). If the full amount of the proposed adjustment were ultimately to be assessed against us, the cash tax liability would be approximately $15.9 million. We believe we have adequate accruals for additional taxes and related interest expense which 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 not change materially during the next twelve months.

Note 9 Employee benefit plans:

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	**2012**	**2011**	**2012**
	(In millions)			
Service cost	$ 2.8	**$ 2.5**	$ 8.3	**$ 7.7**
Interest cost	6.2	**5.6**	18.4	**17.2**
Expected return on plan assets	(4.8)	**(4.5)**	(14.3)	**(13.7)**
Amortization of prior service cost	.3	**.4**	1.1	**1.2**
Amortization of net transition obligations	.2	**.1**	.4	**.3**
Recognized actuarial losses	1.7	**1.9**	5.0	**5.9**
Total	$ 6.4	**$ 6.0**	$ 18.9	**$ 18.6**

Table of Contents

Postretirement benefits The components of net periodic postretirement benefits other than pension (OPEB) cost are presented in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2011	2012	2011	2012
	(In millions)			
Service cost	$ .1	**$ .1**	$ .2	**$ .2**
Interest cost	.1	**.1**	.4	**.4**
Amortization of prior service credit	(.2)	**(.2)**	(.6)	**(.5)**
Recognized actuarial loss	.1	**.1**	.2	**.3**
Total	$ .1	**$ .1**	$ .2	**$ .4**

Contributions We expect our 2012 contributions for our pension and other postretirement plans to be approximately $27 million.

Note 10 Other noncurrent liabilities:

	December 31, 2011	September 30, 2012
	(In millions)	
Reserve for uncertain tax positions	$ 11.9	**$ 13.7**
Employee benefits	10.2	**9.8**
Other	5.3	**5.5**
Total	$ 27.4	**$ 29.0**

Note 11 Commitments and contingencies:

Litigation matters From time-to-time, we are involved in various environmental, contractual, product liability, patent (or intellectual property), employment and other claims and disputes incidental to our operations. In certain cases, we have insurance coverage for these items. We currently believe the disposition of all 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 we have already provided.

Please refer to our 2011 Annual Report for a discussion of certain other legal proceedings to which we are a party.

Note 12 Financial instruments:

The following table summarizes the valuation of our financial instruments recorded on a fair value basis as of December 31, 2011 and September 30, 2012:

Table of Contents

	Total	Fair Value Measurements Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In millions)		
Asset (liability)				
December 31, 2011				
Currency forward contracts	$ (.8)	$ (.8)	$	$
Current marketable securities (See Note 2)	20.9	20.9		
Noncurrent marketable securities(See Note 2)	98.4	98.4		
September 30, 2012				
Currency forward contracts	**$ 2.0**	**$ 2.0**	**$**	**$**
Noncurrent marketable securities (See Note 2)	**75.6**	**75.6**		

Certain of our sales generated by our non-U.S. operations are denominated in U.S. dollars. We periodically use currency forward contracts to manage a very nominal portion of currency exchange rate risk associated with trade receivables denominated in a currency other than the holder s functional currency or similar exchange rate risk associated with future sales. 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. Derivatives used to hedge forecasted transactions and specific cash flows associated with financial assets and liabilities denominated in currencies other than the U.S. dollar and which meet the criteria for hedge accounting are designated as cash flow hedges. Consequently, the effective portion of gains and losses is deferred as a component of accumulated other comprehensive income and is recognized in earnings at the time the hedged item affects earnings. Contracts that do not meet the criteria for hedge accounting are marked-to-market 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, 2012, we had currency forward contracts to exchange:

- an aggregate of $12.0 million for an equivalent value of Canadian dollars at exchange rates ranging from Cdn. $1.0 to Cdn. $1.03 per U.S. dollar. These contracts with Wells Fargo Bank, N.A. mature from October 2012 through December 2012 at a rate of $4.0 million per month, subject to early redemption provisions at our option; and

- an aggregate $30.0 million for an equivalent value of Norwegian kroner at exchange rates ranging from kroner 5.99 to kroner 6.13 per U.S. dollar. These contracts with DnB Nor Bank ASA mature at a rate of $5.0 million per month in certain months from November 2012 through May 2013.

The estimated fair value of our currency forward contracts at September 30, 2012 was a $2.0 million net asset, of which $2.0 million is recognized as part of accounts and other receivables. There is also a corresponding $2.0 million currency transaction gain recognized in our Condensed Consolidated Statement of Income. We are not currently using hedge accounting for our outstanding currency forward contracts at September 30, 2012, and we did not use hedge accounting for any of such contracts we previously held in 2011 or 2012.

Table of Contents

The following table presents the financial instruments that are not carried at fair value but which require fair value disclosure as of December 31, 2011 and September 30, 2012.

	December 31, 2011		September 30, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Cash, cash equivalents and restricted cash	$ 89.8	$ 89.8	**$ 120.4**	**$ 120.4**
Notes payable and long-term debt:				
Fixed rate with market quotes - 6.5% Senior Secured Notes	360.6	362.6		
Variable Rate:				
European credit facility			**45.2**	**45.2**
Term loan			**389.3**	**400.4**
Common stockholders equity	924.3	2,090.9	**1,115.6**	**1,731.6**

At December 31, 2011, the estimated market price of the 6.5% Notes was approximately 1,004 per 1,000 principal amount. At September 30, 2012, the estimated market price of our term loan was $1,014 per $1,000 principal amount. The fair value of our 6.5% Notes and term loan was based on quoted market prices; however, these quoted market prices represent Level 2 inputs because the markets in which the Notes and term loan trade were not active. The fair value of our European credit facility represents a Level 2 input, and is deemed to approximate book value. The fair value of our common stockholders equity is based upon quoted market prices at each balance sheet date, which represent Level 1 inputs. Due to their near-term maturities, the carrying amounts of accounts receivable and accounts payable are considered equivalent to fair value.

Note 13 Recent accounting standards:

In June 2011 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, *Presentation of Comprehensive Income*. ASU 2011-05 eliminates the option of presenting comprehensive income as a component of the Consolidated Statement of Stockholders Equity and instead requires 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. In accordance with ASU 2011-05, we now present our comprehensive income in a separate Condensed Consolidated Statement of Comprehensive Income. Additionally, ASU 2011-05 would have required us to present on the face of our financial statements the effect of reclassifications out of accumulative other comprehensive income on the components of net income and other comprehensive income. However, in December 2011 the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. ASU 2011-12 defers the effective date for the requirement to present on the face of our financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income. Adoption of ASU 2011-05, as amended by ASU 2011-12, did not have a material effect on our Condensed Consolidated Financial Statements.

In December 2011 the FASB issued ASU 2011-11 *Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. This standard will be effective for annual and interim periods beginning with our first quarter 2013 report. We do not believe the adoption of this standard will have a material effect on our Condensed Consolidated Financial Statements.

Table of Contents

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

RESULTS OF OPERATIONS:

Business overview

We are a leading global producer and marketer of value-added titanium dioxide pigments (TiO_2). TiO_2 is used for a variety of manufacturing applications, including plastics, paints, paper and other industrial products. For the nine months ended September 30, 2012, approximately one-half of our sales volumes were into European markets. Our production facilities are located in Europe and North America.

We consider TiO_2 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 demand for TiO_2 will grow by 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 TiO_2 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 TiO_2 inventory levels of our customers. We believe that our customers inventory levels are influenced in part by their expectations for future changes in market TiO_2 selling prices as well as their expectations for future availability of product. Although certain of our TiO_2 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 TiO_2 sales and production volumes,
- TiO_2 selling prices,
- currency exchange rates (particularly the exchange rate for the U.S. dollar relative to the euro, Norwegian krone and Canadian dollar) and
- manufacturing costs, particularly raw materials, maintenance and energy-related expenses.

Our key performance indicators are our TiO_2 average selling prices and our TiO_2 sales and production volumes. TiO_2 selling prices generally follow industry trends and prices will increase or decrease generally as a result of competitive market pressures.

Executive summary

We reported net income of $35.2 million, or $.30 per share, in the third quarter of 2012 as compared to net income of $85.9 million, or $.74 per share, in the third quarter of 2011. For the first nine months of 2012, we reported net income of $236.6 million, or $2.04 per share, compared to net income of

$235.2 million, or $2.03 per share, in the first nine months of 2011. Our net income for the t