KRONOS WORLDWIDE INC
Form 10-Q
November 03, 2009

UNITED STATES
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 September 30, 2009
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 incorporation or organization)	(IRS Employer 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 No

* The registrant has not yet been phased into the interactive data requirements.

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 Non-accelerated filer X 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, 2009: 48,970,549.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

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

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

ASSETS	December 31, 2008	September 30, 2009 (Unaudited)
Current assets:		
Cash and cash equivalents	$13.6	$40.4
Restricted cash	1.5	1.1
Accounts and other receivables	178.6	220.5
Inventories	385.1	256.0
Prepaid expenses and other	6.6	10.8
Deferred income taxes	4.1	4.3
Total current assets	589.5	533.1
Other assets:		
Investment in TiO2 manufacturing joint venture	105.6	104.1
Deferred income taxes	166.4	197.7
Other	11.7	11.5
Total other assets	283.7	313.3
Property and equipment:		
Land	37.5	43.9
Buildings	215.9	230.6
Equipment	949.8	1,019.3
Mining properties	73.9	114.9
Construction in progress	41.7	19.6
	1,318.8	1,428.3
Less accumulated depreciation and amortization	833.3	928.0
Net property and equipment	485.5	500.3
Total assets	$1,358.7	$1,346.7

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2008	September 30, 2009 (Unaudited)
Current liabilities:		
Current maturities of long-term debt	$ .8	$ 1.7
Accounts payable and accrued liabilities	195.3	190.0
Income taxes	3.7	3.1
Deferred income taxes	4.6	4.9
Total current liabilities	204.4	199.7
Noncurrent liabilities:		
Long-term debt	637.7	641.6
Deferred income taxes	35.7	41.6
Accrued pension cost	125.5	123.6
Accrued postretirement benefit cost	8.7	9.7
Other	28.8	29.4
Total noncurrent liabilities	836.4	845.9
Stockholders' equity:		
Common stock	.5	.5
Additional paid-in capital	1,061.8	1,061.9
Retained deficit	(567.9)	(607.8)
Accumulated other comprehensive loss	(176.5)	(153.5)
Total stockholders' equity	317.9	301.1
Total liabilities and stockholders’ equity	$ 1,358.7	$ 1,346.7

Commitments and contingencies (Notes 7 and 10)

See accompanying Notes to Condensed Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

	Three months ended September 30, 2008	Three months ended September 30, 2009	Nine months ended September 30, 2008	Nine months ended September 30, 2009
	(Unaudited)			
Net sales	$345.6	$310.1	$1,070.0	$840.2
Cost of sales	295.2	250.6	903.3	762.4
Gross margin	50.4	59.5	166.7	77.8
Selling, general and administrative expense	43.9	39.2	134.2	108.1
Currency transaction gains (losses), net	2.6	2.7	(.3)	9.1
Other operating expense, net	(1.2)	(1.9)	(4.9)	(5.7)
Income (loss) from operations	7.9	21.1	27.3	(26.9)
Other income (expense):				
Interest income	.3	.1	.9	.1
Interest expense	(11.3)	(10.5)	(33.0)	(30.6)
Income (loss) before income taxes	(3.1)	10.7	(4.8)	(57.4)
Income tax expense (benefit)	.5	2.1	(6.6)	(17.5)
Net income (loss)	$(3.6)	$8.6	$1.8	$(39.9)
Net income (loss) per basic and diluted share	$(.07)	$.17	$.04	$(.82)
Cash dividends per share	$.25	$-	$.75	$-
Basic and diluted weighted-average shares used in the calculation of net income (loss) per share	49.0	49.0	49.0	49.0

See accompanying Notes to Condensed Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

Nine months ended September 30, 2009

(In millions)

	Common stock	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss	Total stockholders' equity	Comprehensive income (loss)
			(Unaudited)			
Balance at December 31, 2008	$.5	$1,061.8	$(567.9)	$ (176.5)	$ 317.9	
Net loss	-	-	(39.9)	-	(39.9)	$ (39.9)
Other comprehensive income, net	-	-	-	23.0	23.0	23.0
Issuance of common stock	-	.1	-	-	.1	-
Balance at September 30, 2009	$.5	$1,061.9	$(607.8)	$ (153.5)	$ 301.1	
Comprehensive loss						$ (16.9)

See accompanying Notes to Condensed Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Nine months ended September 30, 2008	2009
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$1.8	$(39.9)
Depreciation and amortization	40.2	34.3
Deferred income taxes	(7.7)	(20.5)
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension plans	(4.3)	(2.4)

Other postretirement benefits	.2	.2
Distributions from TiO2 manufacturing joint venture	4.9	1.5
Other, net	1.8	1.4
Change in assets and liabilities:		
Accounts and other receivables	(40.3)	(35.5)
Inventories	3.0	137.5
Prepaid expenses	(2.2)	(3.3)
Accounts payable and accrued liabilities	14.7	(5.4)
Income taxes	(2.0)	.4
Accounts with affiliates	3.5	(4.5)
Other, net	-	(.3)
Net cash provided by operating activities	13.6	63.5
Cash flows from investing activities:		
Capital expenditures	(54.3)	(17.3)
Change in restricted cash equivalents	.6	.5
Net cash used in investing activities	(53.7)	(16.8)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	318.2	216.3
Principal payments	(281.6)	(240.5)
Deferred financing fees	(1.2)	(.6)
Dividends paid	(36.7)	-
Net cash used in financing activities	(1.3)	(24.8)
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(41.4)	21.9
Currency translation	(.5)	4.9
Cash and cash equivalents at beginning of period	72.2	13.6
Cash and cash equivalents at end of period	$30.3	$40.4
Supplemental disclosures:		
Cash paid (received) for:		
Interest	$23.2	$20.7
Income taxes	(.2)	.6
Accrual for capital expenditures	3.3	.4
Capital lease obligation incurred	-	3.6

See accompanying Notes to Condensed Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

(Unaudited)

Note 1 - Organization and basis of presentation:

Organization – We are a majority-owned subsidiary of Valhi, Inc. (NYSE: VHI). At September 30, 2009, Valhi held approximately 59% of our outstanding common stock and NL Industries, Inc. (NYSE: NL) held an additional 36% of our common stock. Valhi owns approximately 83% of NL's outstanding common stock. Approximately 94% of Valhi's outstanding common stock is held by subsidiaries of Contran Corporation. 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 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 each of these companies.

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, 2008 that we filed with the Securities and Exchange Commission ("SEC") on March 12, 2009 (the "2008 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 and Comprehensive Income (Loss) at December 31, 2008 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, 2008) 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, 2009 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 2008 Consolidated Financial Statements contained in our 2008 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.

Note 2 – Accounts and other receivables:

	December 31, 2008	September 30, 2009
	(In millions)	
Trade receivables	$155.6	$199.2
Recoverable VAT and other receivables	22.2	23.8
Refundable income taxes	1.2	-
Receivable from affiliates:		
Income taxes, net - Valhi	1.2	-
Other	.2	-
Allowance for doubtful accounts	(1.8)	(2.5)
Total	$178.6	$220.5

Note 3 - Inventories:

	December 31, 2008	September 30, 2009
	(In millions)	
Raw materials	$67.1	$44.3
Work in process	19.8	18.8
Finished products	243.0	134.1
Supplies	55.2	58.8
Total	$385.1	$256.0

Note 4 - Other noncurrent assets:

	December 31, 2008	September 30, 2009
	(In millions)	
Deferred financing costs, net	$7.1	$6.6
Other	4.6	4.9
Total	$11.7	$11.5

Note 5 – Accounts payable and accrued liabilities:

	December 31, 2008	September 30, 2009
	(In millions)	
Accounts payable	$113.5	$89.0
Employee benefits	23.4	27.5
Accrued sales discounts and rebates	14.9	18.2
Accrued interest	7.8	17.7
Payable to affiliates:		
Louisiana Pigment Company, L.P.	14.3	10.4
Income taxes, net - Valhi	.4	1.4
Other	21.0	25.8
Total	$195.3	$190.0

Note 6 - Long-term debt:

	December 31,	September 30,

	2008	2009
	(In millions)	
Kronos International, Inc. - 6.5% Senior Secured Notes	$560.0	$582.2
Revolving credit facilities:		
European credit facility	42.2	26.3
U.S. credit facility	13.7	13.8
Note payable to affiliate	19.2	14.1
Other	3.4	6.9
Total debt	638.5	643.3
Less current maturities	.8	1.7
Total long-term debt	$637.7	$641.6

Revolving credit facilities – During the first nine months of 2009, we made net payments of euro 12.0 million ($18.2 million when borrowed/repaid) under our European credit facility and we had nominal net borrowings under our U.S. credit facility. The average interest rate on these outstanding borrowings at September 30, 2009 was 3.44% and 3.25%, respectively.

Our Canadian subsidiary's revolving credit facility had a maturity date of January 15, 2009. We have been temporarily extending the term of this agreement on a month-to-month basis and we are in the process of renegotiating this facility. We expect a new agreement to be in place in the fourth quarter 2009. At September 30, 2009, no amounts were outstanding under the facility.

Note payable to affiliate – During the first nine months of 2009, we repaid a net $5.1 million under our revolving note with NL. At September 30, 2009 the interest rate was 1.75% on our borrowings from NL. Our borrowings under this revolving note were classified as a noncurrent liability at September 30, 2009 because we have the ability and intent to refinance the outstanding amount payable by using borrowing availability under our U.S. revolving credit facility that matures in September 2011.

Restrictions and Other. Under the cross-default provisions of the 6.5% Senior Secured Notes, the 6.5% Notes may be accelerated prior to their stated maturity if our European subsidiaries default under any other indebtedness in excess of $20 million due to a failure to pay the other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under the other indebtedness). Under the cross-default provisions of the European revolving credit facility, any outstanding borrowings under the facility may be accelerated prior to their stated maturity if the borrowers or their parent company default under any other indebtedness in excess of euro 5 million due to a failure to pay the other indebtedness at its due date (including any due date that arises prior to the stated maturity as a result of a default under the other indebtedness). Under the cross-default provisions of the U.S. revolving credit facility, any outstanding borrowing under the facility may be accelerated prior to their stated maturity in the event of our bankruptcy. The Canadian revolving credit facility contains no cross-default provisions. The European, U.S. and Canadian revolving credit facilities each contain provisions that allow the lender to accelerate the maturity of the applicable facility in the event of a change of control, as defined in the respective agreements, of the applicable borrower. In the event any of these cross-default or change-of-control provisions become applicable, and the indebtedness is accelerated, we would be required to repay the indebtedness prior to their stated maturity.

The European credit facility described above requires the respective borrowers 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. In this regard, in the first half of 2009 we reduced our production levels in response to the current economic environment, which has favorably impacted our liquidity and cash flows by reducing our inventory levels. The reduced capacity utilization levels negatively impacted our 2009 results of operations due to the resulting unabsorbed fixed production costs that are charged to expense as incurred. Furthermore, our lower sales negatively impacted our results of operations in the first half of 2009. As a result, we did not expect we would be able to maintain compliance under our European revolving credit facility with the required financial ratio of the borrowers' net secured debt to earnings before income taxes, interest and depreciation, as defined in the credit facility, for the 12-month period ending March 31, 2009. Beginning March 20, 2009, the lenders associated with our European revolving credit facility agreed to a series of waivers for compliance with such required financial ratio. On September 15, 2009 we and the lenders entered into the Fourth Amendment to the credit facility. Among other things, the Fourth Amendment added two additional financial covenants and increased the rate on outstanding borrowings to LIBOR plus a margin ranging from 3% to 4% depending on the amount of outstanding borrowings. Upon achieving a specified financial covenant, these two additional financial covenants will no longer be in effect, and the interest rate on outstanding borrowings would be reduced to LIBOR plus 1.75%. Additionally the borrowing availability under the line has been limited to euro 51 million ($74.5 million) until we are in compliance with certain specified financial covenants, and in any event no earlier than March 31, 2010. The maturity date of the Amended Revolving Credit Facility remains May 26, 2011. We believe we will be able to comply with the new financial covenants through the maturity of the facility; however if future operating results differ materially from our expectations we may be unable to maintain compliance.

The terms of the indenture governing the Senior Secured Notes limits the ability of Kronos International, Inc. ("KII"), our wholly owned subsidiary that issued the notes, to pay dividends and make other restricted payments. At September 30, 2009, the maximum amount of dividends and other restricted payments that KII could make (the "Restricted Payment Basket") was $1.6 million. However, the indenture currently prohibits KII from utilizing the Restricted Payment Basket because we have not met a specified financial ratio contained in the indenture; such prohibition will continue until such time as we meet the specified financial ratio.

Note 7 - Income taxes:

	Nine months ended September 30,	
	2008	2009
	(In millions)	
Expected tax benefit, at U.S. federal statutory income tax rate of 35%	$(1.7)	$(20.1)
Incremental U.S. tax and rate differences on equity in earnings of non-tax group companies	(.3)	.1
Non-U.S. tax rates	.5	1.8
Nondeductible expenses	1.1	1.9
U.S. state income taxes, net	.4	.4
Change in reserve for uncertain tax positions	.8	(.2)
German tax attribute	(7.2)	(.4)
Other, net	(.2)	(1.0)