

KRONOS WORLDWIDE INC
Form 10-Q
May 04, 2011

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 March 31, 2011
Commission file number 1-31763

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

76-0294959
(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 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

Edgar Filing: KRONOS WORLDWIDE INC - Form 10-Q

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 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

Number of shares of the Registrant's common stock outstanding on April 29, 2011: 57,947,549.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

INDEX

	Page number	
Part I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets - December 31, 2010; March 31, 2011 (Unaudited)	3
	Condensed Consolidated Statements of Income (Unaudited) - Three months ended March 31, 2010 and 2011	5
	Condensed Consolidated Statement of Stockholders' Equity and Comprehensive Income (Unaudited) – Three months ended March 31, 2011	6
	Condensed Consolidated Statements of Cash Flows (Unaudited) - Three months ended March 31, 2010 and 2011	7
	Notes to Condensed Consolidated Financial Statements (Unaudited)	9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	27
Item 4.	Controls and Procedures	27
Part II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 6.	Exhibits	29

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, 2010	March 31, 2011 (Unaudited)
Current assets:		
Cash and cash equivalents	\$ 304.7	\$ 126.4
Restricted cash	1.9	1.3
Marketable securities	-	106.1
Accounts and other receivables	231.2	295.9
Inventories	275.8	327.2
Prepaid expenses and other	6.1	6.9
Note receivable from Valhi	-	47.6
Deferred income taxes	4.6	4.5
Total current assets	824.3	915.9
Other assets:		
Investment in TiO2 manufacturing joint venture	96.2	95.1
Note receivable from Valhi	61.9	-
Marketable securities	49.7	79.0
Deferred income taxes	192.0	192.2
Other	9.9	9.4
Total other assets	409.7	375.7
Property and equipment:		
Land	44.3	46.6
Buildings	227.4	238.7
Equipment	1,008.6	1,061.5
Mining properties	115.9	121.6
Construction in progress	11.9	12.6
	1,408.1	1,481.0
Less accumulated depreciation and amortization	934.5	990.4
Net property and equipment	473.6	490.6
Total assets	\$1,707.6	\$1,782.2

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

LIABILITIES AND STOCKHOLDERS' EQUITY	December 31, 2010	March 31, 2011 (Unaudited)
Current liabilities:		
Current maturities of long-term debt	\$2.2	\$2.2
Accounts payable and accrued liabilities	206.2	227.1
Income taxes	7.0	16.2
Deferred income taxes	4.7	5.1
Total current liabilities	220.1	250.6
Noncurrent liabilities:		
Long-term debt	537.4	567.6
Deferred income taxes	33.2	37.1
Accrued pension cost	119.5	121.9
Accrued postretirement benefit cost	10.6	10.9
Other	25.6	26.8
Total noncurrent liabilities	726.3	764.3
Stockholders' equity:		
Common stock	.6	.6
Additional paid-in capital	1,399.4	1,399.4
Retained deficit	(486.5)	(498.6)
Accumulated other comprehensive loss	(152.3)	(134.1)
Total stockholders' equity	761.2	767.3
Total liabilities and stockholders' equity	\$1,707.6	\$1,782.2

Commitments and contingencies (Notes 8 and 11)

See accompanying Notes to Condensed Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three months ended March 31,	
	2010	2011 (Unaudited)
Net sales	\$319.7	\$420.4
Cost of sales	259.2	274.0
Gross margin	60.5	146.4
Selling, general and administrative expense	40.1	43.7
Currency transaction gains, net	2.6	1.4
Other operating income (expense), net	(1.3)	(1.7)
Income from operations	21.7	102.4
Other income (expense):		
Interest and dividend income	-	1.7
Loss on prepayment of debt	-	(3.3)
Interest expense	(10.4)	(9.6)
Income before income taxes	11.3	91.2
Income tax expense (benefit)	(31.5)	30.9
Net income	\$42.8	\$60.3
Net income per basic and diluted share	\$.87	\$1.04
Cash dividends per share	\$-	\$1.25
Basic and diluted weighted-average shares used in the calculation of net income per share	49.0	57.9

See accompanying Notes to Condensed Consolidated Financial Statements.

- 5 -

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE
INCOME

Three months ended March 31, 2011

(In millions)

	Common stock	Additional paid-in capital	Retained deficit	Accumulated other comprehensive loss (unaudited)	Total stockholders' equity	Comprehensive income
Balance at December 31, 2010	\$.6	\$ 1,399.4	\$ (486.5)	\$ (152.3)	\$ 761.2	
Net income	-	-	60.3	-	60.3	\$ 60.3
Other comprehensive income, net	-	-	-	18.2	18.2	18.2
Dividends paid	-	-	(72.4)	-	(72.4)	-
Balance at March 31, 2011	\$.6	\$ 1,399.4	\$ (498.6)	\$ (134.1)	\$ 767.3	
Comprehensive income						\$ 78.5

See accompanying Notes to Condensed Consolidated Financial Statements.

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions)

	Three months ended March 31,	
	2010	2011 (Unaudited)
Cash flows from operating activities:		
Net income	\$42.8	\$ 60.3
Depreciation and amortization	11.6	11.6
Deferred income taxes	(33.4)	10.3
Loss on prepayment of debt	-	3.3
Call premium paid	-	(2.5)
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension plans	1.2	(2.0)
Other postretirement benefits	.2	(.1)
Distributions from TiO2 manufacturing joint venture, net	.8	1.1
Other, net	-	.3
Change in assets and liabilities:		
Accounts and other receivables	(39.6)	(55.7)
Inventories	7.3	(37.6)
Prepaid expenses	(.8)	(.5)
Accounts payable and accrued liabilities	(6.2)	17.1
Income taxes	(.6)	9.1
Accounts with affiliates	1.2	7.6
Other, net	(.5)	(1.1)
Net cash provided by (used in) operating activities	(16.0)	21.2
Cash flows from investing activities:		
Capital expenditures	(8.5)	(13.3)
Change in restricted cash equivalents	.5	.6
Loans to Valhi:		
Loans	-	(38.2)
Collections	-	52.5
Proceeds from sale of marketable securities	-	92.0
Purchase of marketable securities:		
Mutual funds	-	(197.8)
TIMET stock	-	(20.4)
Valhi stock	-	(4.6)
Net cash used in investing activities	(8.0)	(129.2)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	88.9	113.3
Principal payments	(71.4)	(113.8)

Edgar Filing: KRONOS WORLDWIDE INC - Form 10-Q

Dividends paid	-	(72.4)
Other, net	-		(.1)
Net cash provided by (used in) financing activities	17.5	(73.0)
Cash and cash equivalents - net change from:			
Operating, investing and financing activities	(6.5)	(181.0
Currency translation	(1.8)	2.7
Balance at beginning of period	31.1		304.7
Balance at end of period	\$22.8	\$	126.4

- 7 -

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

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

	Three months ended March 31,	
	2010	2011
	(Unaudited)	
Supplemental disclosures:		
Cash paid for:		
Interest (including call premium paid)	\$.4	\$5.9
Income taxes	1.1	8.2
Accrual for capital expenditures	1.9	2.7

See accompanying Notes to Condensed Consolidated Financial Statements.

- 8 -

KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2011

(Unaudited)

Note 1 - Organization and basis of presentation:

Organization – We are a majority-owned subsidiary of Valhi, Inc. (NYSE: VHI). At March 31, 2011, 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 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, 2010 that we filed with the Securities and Exchange Commission (“SEC”) on March 4, 2011 (the “2010 Annual Report”). In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet and Statement of Stockholders’ Equity and Comprehensive Income (Loss) at December 31, 2010 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2010) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Our results of operations for the interim period ended March 31, 2011 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2010 Consolidated Financial Statements contained in our 2010 Annual Report.

Cash dividends in 2011 include a \$1.00 per share special dividend.

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 – Marketable securities:

Our marketable securities include investments in mutual funds and 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 outstanding common stock, and NL owns a majority of CompX’s outstanding common stock. All of our marketable securities are accounted for as available-for-sale, which are carried at fair value using quoted market prices in active markets for each marketable security, representing 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.

Edgar Filing: KRONOS WORLDWIDE INC - Form 10-Q

Marketable security	Market Value	Cost Basis (In millions)	Unrealized gains (losses)
As of December 31, 2010:			
Noncurrent assets:			
TIMET common stock	\$46.9	\$46.9	\$ -
Valhi common stock	2.7	2.7	-
NL and CompX common stocks	.1	.1	-
Total	\$49.7	\$49.7	\$ -
As of March 31, 2011:			
Current assets:			
Mutual funds	\$106.1	\$105.8	\$.3
Noncurrent assets:			
TIMET common stock	\$69.6	\$64.6	\$ 5.0
Valhi common stock	9.3	7.6	1.7
NL and CompX common stocks	.1	.1	-
Total	\$79.0	\$72.3	\$ 6.7

At March 31, 2011, we held approximately 3.7 million shares, or 2.1%, of TIMET's outstanding common stock and approximately .4 million shares of Valhi's outstanding common stock. We also held a nominal number of shares of CompX and NL common stocks. During the first quarter of 2011, we purchased an aggregate of 1.0 million shares of TIMET common stock and .3 million shares of Valhi common stock for an aggregate of \$17.7 million and \$4.9 million, respectively. At March 31, 2011, the quoted per share market price of TIMET's and Valhi's common stock was \$18.58 and \$26.37, respectively (December 31, 2010 - \$17.18 and \$22.11, respectively).

The TIMET, Valhi, CompX and NL common stocks we own are subject to the restrictions on resale pursuant to certain provisions of the Securities and Exchange Commission ("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.

At March 31, 2011, we held investments in various mutual funds which have a primary investment objective of holding corporate and government debt securities from U.S. and other markets. These funds have daily liquidity and are held for the temporary investment of cash available for our current operations in order to generate a higher return than would be available if such funds were invested in an asset qualifying for classification as a cash equivalent and have daily liquidity, and accordingly we have classified our investments in these mutual funds as a current asset.

Note 3 – Accounts and other receivables:

	December 31, 2010	March 31, 2011
	(In millions)	
Trade receivables	\$202.2	\$260.2
Recoverable VAT and other receivables	29.9	35.9
Refundable income taxes	1.3	1.4
Allowance for doubtful accounts	(2.2)	(1.6)
Total	\$231.2	\$295.9

Note 4 - Inventories:

	December 31, 2010	March 31, 2011
	(In millions)	
Raw materials	\$52.1	\$67.2
Work in process	13.6	17.3
Finished products	154.6	183.9
Supplies	55.5	58.8
Total	\$275.8	\$327.2

Note 5 - Other noncurrent assets:

	December 31, 2010	March 31, 2011
	(In millions)	
Deferred financing costs, net	\$4.4	\$3.5
Pension asset	.3	.5
Other	5.2	5.4
Total	\$9.9	\$9.4

Note 6 – Accounts payable and accrued liabilities:

	December 31, 2010	March 31, 2011
	(In millions)	

Edgar Filing: KRONOS WORLDWIDE INC - Form 10-Q

Accounts payable	\$119.2	\$132.1
Employee benefits	34.1	31.6
Accrued sales discounts and rebates	11.3	6.9
Accrued interest	7.4	13.6
Payable to affiliates:		
Louisiana Pigment Company, L.P.	7.4	13.0
Income taxes, net - Valhi	2.1	5.2
Other	.1	-
Other	24.6	24.7
Total	\$206.2	\$227.1

- 11 -

Note 7 - Long-term debt:

	December 31, 2010	March 31, 2011
	(In millions)	
Kronos International, Inc. 6.5% Senior Secured Notes	\$532.8	\$450.5
Revolving European credit facility	-	112.9
Other	6.8	6.4
Total debt	539.6	569.8
Less current maturities	2.2	2.2
Total long-term debt	\$537.4	\$567.6

Senior Secured Notes - On March 24, 2011, we redeemed euro 80 million of our euro 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. Following such partial redemption, euro 320 million principal amount of the Senior Notes remain outstanding. We borrowed under our European revolving credit facility, as discussed below, in order to fund the redemption. We recognized a \$3.3 million pre-tax interest charge related to the prepayment of the 6.5% Senior Secured 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.

Revolving European credit facility - During the first three months of 2011, we borrowed a net euro 80 million (\$113.3 million when borrowed) under our European credit facility. The average interest rate on these borrowings at March 31, 2011 was 2.39%.

Restrictions and Other – Our 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. We are in compliance with all of our debt covenants at March 31, 2011. We believe we will be able to comply with the financial covenants contained in our credit facility through its maturity; however if future operating results differ materially from our expectations we may be unable to maintain compliance.

At March 31, 2011, there were no restrictions on our ability to pay dividends. The terms of the indenture governing the 6.5% Senior Secured Notes limit the ability of our wholly owned subsidiary, Kronos International, Inc. (“KII”), to pay dividends and make other restricted payments. At March 31, 2011, the maximum amount of dividends and other restricted payments that KII could make (the “Restricted Payment Basket”) was \$83.0 million.

Note 8 - Income taxes:

	Three months ended	
	2010	2011
	(In millions)	
Expected tax expense (benefit), at U.S. Federal statutory income tax rate of 35%	\$4.0	\$31.9
Non-U.S. tax rates	(.1)	(3.0)
Incremental tax and rate differences on equity in earnings of non-tax group companies	.1	1.5
Nondeductible expenses	.7	.4
U.S. state income taxes, net	.3	.3
German tax attribute adjustment	(35.2)	-
Prior year adjustment	(.7)	-
Nontaxable income	(.2)	(.2)
Other, net	(.4)	-
Total	\$(31.5)	\$30.9

Tax authorities are examining certain of our 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 September 2010, we received a revised notice of proposed adjustment from the Canadian tax authorities related to the years 2002 through 2004. We objected to the proposed assessment and we are currently in discussions with the Canadian tax authorities regarding such proposed assessment. If the full amount of the proposed adjustment were ultimately to be assessed against us the net impact to our consolidated financial statements would be approximately \$5.5 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.

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

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 March 31,
2010	