

KRONOS WORLDWIDE INC
Form 10-Q
August 03, 2011
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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 quarter ended June 30, 2011

Commission file number 1-31763

KRONOS WORLDWIDE, INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of

76-0294959
(IRS Employer

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incorporation or organization)

5430 LBJ Freeway, Suite 1700

Identification No.)

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

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 July 29, 2011: 115,902,098.

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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	December 31, 2010	June 30, 2011 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 304.7	\$ 72.2
Restricted cash	1.9	1.8
Marketable securities		79.6
Accounts and other receivables	231.2	358.0
Inventories	275.8	308.8
Prepaid expenses and other	6.1	4.8
Deferred income taxes	4.6	4.5
Total current assets	824.3	829.7
Other assets:		
Investment in TiO ₂ manufacturing joint venture	96.2	93.2
Note receivable from Valhi	61.9	69.0
Marketable securities	49.7	106.4
Deferred income taxes	192.0	177.8
Other	9.9	12.5
Total other assets	409.7	458.9
Property and equipment:		
Land	44.3	47.2
Buildings	227.4	240.3
Equipment	1,008.6	1,070.5
Mining properties	115.9	124.2
Construction in progress	11.9	25.3
	1,408.1	1,507.5
Less accumulated depreciation and amortization	934.5	1,009.4
Net property and equipment	473.6	498.1
Total assets	\$ 1,707.6	\$ 1,786.7

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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In millions)

	December 31, 2010	June 30, 2011 (Unaudited)
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 2.2	\$ 2.3
Accounts payable and accrued liabilities	206.2	200.7
Income taxes	7.0	18.0
Deferred income taxes	4.7	5.0
Total current liabilities	220.1	226.0
Noncurrent liabilities:		
Long-term debt	537.4	509.4
Deferred income taxes	33.2	43.2
Accrued pension cost	119.5	121.4
Accrued postretirement benefit cost	10.6	10.9
Other	25.6	28.1
Total noncurrent liabilities	726.3	713.0
Stockholders' equity:		
Common stock	1.2	1.2
Additional paid-in capital	1,398.8	1,399.0
Retained deficit	(486.5)	(427.0)
Accumulated other comprehensive loss	(152.3)	(125.5)
Total stockholders' equity	761.2	847.7
Total liabilities and stockholders' equity	\$ 1,707.6	\$ 1,786.7

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 June 30,		Six months ended June 30,	
	2010	2011	2010	2011
	(Unaudited)			
Net sales	\$ 380.1	\$ 537.5	\$ 699.8	\$ 957.9
Cost of sales	294.9	340.5	554.1	614.5
Gross margin	85.2	197.0	145.7	343.4
Selling, general and administrative expense	41.3	51.1	81.4	94.8
Currency transaction gains (losses), net	(3.1)	.9	(.5)	2.3
Other operating expense, net	(2.0)	(2.6)	(3.3)	(4.3)
Income from operations	38.8	144.2	60.5	246.6
Other income (expense):				
Interest and dividend income		1.7		3.4
Loss on prepayment of debt				(3.3)
Interest expense	(9.7)	(8.5)	(20.1)	(18.1)
Income before income taxes	29.1	137.4	40.4	228.6
Income tax expense (benefit)	9.8	48.4	(21.7)	79.3
Net income	\$ 19.3	\$ 89.0	\$ 62.1	\$ 149.3
Net income per basic and diluted share	\$.20	\$.77	\$.63	\$ 1.29
Cash dividends per share	\$	\$.150	\$	\$.775
Basic and diluted weighted-average shares used in the calculation of net income per share	97.9	115.9	97.9	115.9

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**KRONOS WORLDWIDE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**

Six months ended June 30, 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	\$ 1.2	\$ 1,398.8	\$ (486.5)	\$ (152.3)	\$ 761.2	
Net income			149.3		149.3	\$ 149.3
Other comprehensive income, net				26.8	26.8	26.8
Issuance of common stock		.2			.2	
Dividends paid			(89.8)		(89.8)	
Balance at June 30, 2011	\$ 1.2	\$ 1,399.0	\$ (427.0)	\$ (125.5)	\$ 847.7	
Comprehensive income						\$ 176.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Six months ended June 30, 2010 2011 (Unaudited)	
Cash flows from operating activities:		
Net income	\$ 62.1	\$ 149.3
Depreciation and amortization	22.6	23.8
Deferred income taxes	(30.0)	28.7
Loss on prepayment of debt		3.3
Call premium paid		(2.5)
Benefit plan expense greater (less) than cash funding:		
Defined benefit pension plans	.7	(.8)
Other postretirement benefits	.3	(.1)
Distributions from TiO ₂ manufacturing joint venture, net	1.5	3.0
Other, net	2.2	1.8
Change in assets and liabilities:		
Accounts and other receivables	(85.8)	(119.0)
Inventories	28.3	(17.0)
Prepaid expenses	1.6	1.7
Accounts payable and accrued liabilities	(12.7)	(5.2)
Income taxes	1.2	11.7
Accounts with affiliates	2.0	1.4
Other, net	2.6	.1
Net cash provided by (used in) operating activities	(3.4)	80.2
Cash flows from investing activities:		
Capital expenditures	(15.4)	(24.6)
Change in restricted cash equivalents	.4	.2
Loans to Valhi:		
Loans		(82.9)
Collections		75.8
Proceeds from sale of marketable securities mutual funds		162.0
Purchase of marketable securities:		
Mutual funds		(241.3)
TIMET stock		(30.4)
Valhi stock		(12.8)
Other, net		(5.1)
Net cash used in investing activities	(15.0)	(159.1)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	126.1	113.3
Principal payments	(133.2)	(179.5)
Note payable to affiliate Contran:		

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Borrowings	71.1	
Principal payments	(39.5)	
Dividends paid		(89.8)
Other, net		(.1)
Net cash provided by (used in) financing activities	24.5	(156.1)

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Table of Contents**KRONOS WORLDWIDE, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****(In millions)**

	Six months ended June 30, 2010 2011 (Unaudited)	
Cash and cash equivalents net change from:		
Operating, investing and financing activities	6.1	(235.0)
Currency translation	(3.1)	2.5
Balance at beginning of period	31.1	304.7
Balance at end of period	\$ 34.1	\$ 72.2
Supplemental disclosures:		
Cash paid for:		
Interest (including call premium paid)	\$ 18.6	\$ 21.4
Income taxes	6.3	40.0
Accrual for capital expenditures	4.6	6.7
	See accompanying Notes to Condensed Consolidated Financial Statements.	

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KRONOS WORLDWIDE, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(Unaudited)

Note 1 Organization and basis of presentation:

Organization We are a majority-owned subsidiary of Valhi, Inc. (NYSE: VHI). At June 30, 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 periods ended June 30, 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.

In May 2011, we amended our certificate of incorporation to increase the authorized number of shares of our common stock from 60 million to 240 million. Also in May 2011, we implemented a 2-for-1 split of our common stock effected in the form of a stock dividend. Other than the disclosure of the authorized number of shares of our common stock discussed in the preceding sentence, we have adjusted all share and per-share disclosures for all periods presented in our condensed consolidated financial statements to give effect to the stock split, and we have adjusted our stockholders' equity at December 31, 2010 to reflect the split by reclassifying \$.6 million from additional paid-in capital to common stock representing \$.01 per share par value of each share of common stock issued as a result of the stock split.

Cash dividends include a \$.50 per share special dividend paid to stockholders in the first quarter of 2011.

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In June 2011, we amended the maturity date of our \$175 million unsecured revolving demand promissory note receivable from Valhi. As amended, all principal is due on demand, but in any event no earlier than December 31, 2013.

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 securities, 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	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 June 30, 2011:			
Current assets:			
Mutual funds	\$ 79.6	\$ 79.4	\$.2
Noncurrent assets:			
TIMET common stock	\$ 77.8	\$ 73.9	\$ 3.9
Valhi common stock	28.5	15.3	13.2
NL and CompX common stocks	.1	.1	
Total	\$ 106.4	\$ 89.3	\$ 17.1

At June 30, 2011, we held approximately 4.2 million shares, or 2.4%, of TIMET's outstanding common stock and approximately .6 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 six months of 2011, we purchased an aggregate of 1.5 million shares of TIMET common stock and .5 million shares of Valhi common stock for an aggregate of \$27.0 million and \$12.6 million, respectively. At June 30, 2011, the quoted per share market price of TIMET's and Valhi's common stock was \$18.32 and \$49.67, 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.

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At June 30, 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 accordingly we have classified our investments in these mutual funds as a current asset.

Note 3 Accounts and other receivables:

	December 31, 2010	June 30, 2011
	(In millions)	
Trade receivables	\$ 202.2	\$ 322.3
Recoverable VAT and other receivables	29.9	36.3
Refundable income taxes	1.3	.6
Receivable from affiliate income taxes, net Valhi		.2
Allowance for doubtful accounts	(2.2)	(1.4)
 Total	 \$ 231.2	 \$ 358.0

Note 4 Inventories:

	December 31, 2010	June 30, 2011
	(In millions)	
Raw materials	\$ 52.1	\$ 51.1
Work in process	13.6	12.5
Finished products	154.6	184.4
Supplies	55.5	60.8
 Total	 \$ 275.8	 \$ 308.8

Note 5 Other noncurrent assets:

	December 31, 2010	June 30, 2011
	(In millions)	
Deferred financing costs, net	\$ 4.4	\$ 3.2
Pension asset	.3	.4
Other	5.2	8.9
 Total	 \$ 9.9	 \$ 12.5

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	December 31, 2010	June 30, 2011
	(In millions)	
Accounts payable	\$ 119.2	\$ 113.0
Employee benefits	34.1	29.2
Accrued sales discounts and rebates	11.3	11.6
Accrued interest	7.4	6.3
Payable to affiliates:		
Louisiana Pigment Company, L.P.	7.4	12.5
Income taxes, net Valhi	2.1	
Other	.1	
Other	24.6	28.1
Total	\$ 206.2	\$ 200.7

Note 7 Long-term debt:

	December 31, 2010	June 30, 2011
	(In millions)	
Kronos International, Inc. 6.5% Senior Secured Notes	\$ 532.8	\$ 455.8
Revolving European credit facility		49.9
Other	6.8	6.0
Total debt	539.6	511.7
Less current maturities	2.2	2.3
Total long-term debt	\$ 537.4	\$ 509.4