

Tronox Ltd
Form 10-Q
November 14, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2012

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-35573

TRONOX LIMITED

(ACN 153 348 111)

(Exact Name of Registrant as Specified in its Charter)

Edgar Filing: Tronox Ltd - Form 10-Q

Western Australia, Australia
(State or Other Jurisdiction of

98-1026700
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

One Stamford Plaza

263 Tresser Boulevard, Suite 1100

Stamford, Connecticut 06901

(Address of principal executive offices)

Registrant's telephone number, including area code: (203) 705-3800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing 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 (§232.405 of this chapter) 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. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 Exchange Act). Yes ☐ No ☒

As of October 31, 2012, there were 113,254,634 shares of the Registrant's Class A ordinary shares and Class B ordinary shares outstanding.

Table of Contents

Table of Contents

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (Unaudited)</u>	2
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	53
<u>Item 4. Controls and Procedures</u>	54
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	54
<u>Item 1A. Risk Factors</u>	55
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
<u>Item 3. Defaults Upon Senior Securities</u>	55
<u>Item 4. Mine Safety Disclosures</u>	55
<u>Item 5. Other Information</u>	55
<u>Item 6. Exhibits</u>	56
<u>Signatures</u>	57

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

	Page
<u>Condensed Consolidated Balance Sheets as of September 30, 2012 (Successor) and December 31, 2011 (Successor)</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended September 30, 2012 and 2011 (Successor) and the Nine Months Ended September 30, 2012 (Successor), Eight Months Ended September 30, 2011 (Successor) and One Month Ended January 31, 2011 (Predecessor)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income for the Nine Months Ended September 30, 2012 (Successor), Eight Months Ended September 30, 2011 (Successor) and One Month Ended January 31, 2011 (Predecessor)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 (Successor), Eight Months Ended September 30, 2011 (Successor) and One Month Ended January 31, 2011 (Predecessor)</u>	6
<u>Condensed Consolidated Statements of Shareholders' Equity for the Nine Months Ended September 30, 2012 (Successor), Eight Months Ended September 30, 2011 (Successor) and One Month Ended January 31, 2011 (Predecessor)</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8

* On September 25, 2011, Tronox Incorporated entered into a definitive agreement (the "Transaction Agreement") with Exxaro Resources Limited ("Exxaro") and certain of its affiliated companies, to acquire 74% of its South African mineral sands operations, including its Namakwa and KwaZulu-Natal ("KZN") Sands mines, separation facilities and slag furnaces, along with Exxaro's 50% share of the Tiwest Joint Venture in Western Australia (together the "mineral sands business") (the "Transaction"). In anticipation of the consummation of the Transaction, Tronox Incorporated formed an Australian subsidiary, Tronox Limited.

Pursuant to a Registration Statement on Form S-4 (File No. 333-178835) declared effective by the Securities and Exchange Commission (the "SEC") on May 4, 2012 (the "Registration Statement"), Tronox Limited registered up to 16,445,827 Class A ordinary shares ("Class A Shares") to be issued to stockholders in Tronox Incorporated in connection with the completion of the Transaction.

On June 15, 2012, the date of the Transaction, the existing business of Tronox Incorporated was combined with the mineral sands business under Tronox Limited. The Transaction was effectuated in two primary steps. In the first step, Tronox Incorporated became a subsidiary of Tronox Limited, with Tronox Incorporated stockholders receiving one Class A Share and \$12.50 in cash for each share of Tronox Incorporated common stock. In the second step, Tronox Limited issued 9,950,856 Class B ordinary shares ("Class B Shares") to Exxaro and one of its subsidiaries in consideration for the mineral sands business. Upon completion of the Transaction, former Tronox Incorporated stockholders held 15,413,083 Class A Shares and Exxaro held 9,950,856 Class B Shares, respectively, representing approximately 60.8% and 39.2%, respectively, of the voting interest in Tronox Limited.

These unaudited condensed consolidated financial statements reflect the historical results of operations and financial position of Tronox Limited and the mineral sands business for all periods after June 15, 2012. Prior to June 15, 2012, the date of the Transaction, the unaudited condensed consolidated financial statements included herein represent the financial statements of Tronox Incorporated.

Table of Contents**TRONOX LIMITED****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(Millions of dollars, except share and per share data)**

	September 30, 2012	Successor December 31, 2011
Current Assets		
Cash and cash equivalents	\$ 774.4	\$ 154.0
Accounts receivable, net of allowance for doubtful accounts of \$1.2 and \$0.4	364.4	277.8
Inventories	1,033.1	311.2
Prepaid and other assets	31.2	21.7
Deferred income taxes	19.2	4.3
Total Current Assets	2,222.3	769.0
Noncurrent Assets		
Property, Plant and Equipment, Net	1,555.8	504.3
Mineral Leaseholds, Net	1,342.8	38.4
Intangible Assets, Net	312.0	325.1
Long-Term Deferred Tax Assets	169.9	9.0
Other Long-Term Assets	63.1	11.6
Total Assets	\$ 5,665.9	\$ 1,657.4
Current Liabilities		
Accounts payable:		
Third party	\$ 164.7	\$ 126.9
Related party		74.8
Accrued liabilities	177.1	45.7
Short-term debt	30.4	
Long-term debt due within one year	11.0	5.9
Income taxes payable	29.0	27.6
Deferred income taxes	22.9	
Total Current Liabilities	435.1	280.9
Noncurrent Liabilities		
Long-term debt	1,607.7	421.4
Pension and postretirement healthcare benefits	122.9	142.7
Asset retirement obligations	100.4	29.2
Deferred income taxes	229.2	19.1
Other	27.4	11.8
Total Liabilities	2,522.7	905.1
Contingencies and Commitments (Note 14)		
Shareholders' Equity		
Tronox Limited Class A ordinary shares, par value \$0.01	64,624,924 shares issued and 63,486,889	
shares outstanding at September 30, 2012(1)		0.6
		0.5

Edgar Filing: Tronox Ltd - Form 10-Q

Tronox Limited Class B ordinary shares, par value \$0.01 49,754,280 shares issued and outstanding at September 30, 2012(1)		
Tronox Incorporated common stock, par value \$0.01 100,000,000 shares authorized, 15,406,803 shares issued and 15,076,691 shares outstanding at December 31, 2011		
Capital in excess of par value	1,426.1	579.2
Retained earnings	1,434.5	241.5
Accumulated other comprehensive loss	(21.9)	(57.0)
Tronox Incorporated treasury stock, at cost 94,513 shares at December 31, 2011		(11.5)
Total Shareholders' Equity	2,839.8	752.3
Noncontrolling interest	303.4	
Total Equity	3,143.2	752.3
Total Liabilities and Shareholders' Equity	\$ 5,665.9	\$ 1,657.4

- (1) On June 26, 2012, the Board of Directors of Tronox Limited approved a 5-to-1 stock split for holders of its Class A ordinary shares and Class B ordinary shares at the close of business on July 20, 2012, by issuance of four additional shares for each share of the same class by way of bonus issue. All references to number of shares and per share data in the Successor's unaudited condensed consolidated financial statements have been adjusted to reflect the stock split, unless otherwise noted. See Note 19 for additional information regarding the Company's stock split.

See notes to unaudited condensed consolidated financial statements.

Table of Contents**TRONOX LIMITED****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Millions of dollars, except share and per share data)**

	Successor				Predecessor One Month Ended
	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Eight Months Ended September 30, 2011	January 31, 2011
Net Sales	\$ 487.3	\$ 465.4	\$ 1,349.8	\$ 1,160.8	\$ 107.6
Cost of goods sold	(465.8)	(322.4)	(1,048.2)	(862.1)	(82.3)
Gross Margin	21.5	143.0	301.6	298.7	25.3
Selling, general and administrative expenses	(59.6)	(53.8)	(206.2)	(111.2)	(5.4)
Litigation/arbitration settlement		9.8		9.8	
Provision for environmental remediation and restoration, net of reimbursements		0.2		4.5	
Income (Loss) from Operations	(38.1)	99.2	95.4	201.8	19.9
Interest and debt expense	(18.1)	(8.0)	(39.0)	(21.5)	(2.9)
Other income (expense)	0.2	(1.3)	(4.8)	(1.7)	1.6
Gain on bargain purchase			1,045.6		
Reorganization income					613.6
Income (Loss) from Continuing Operations before Income Taxes	(56.0)	89.9	1,097.2	178.6	632.2
Income tax benefit (provision)	38.0	9.0	127.5	(3.3)	(0.7)
Income (Loss) from Continuing Operations	(18.0)	98.9	1,224.7	175.3	631.5
Loss from discontinued operations, net of income tax benefit					(0.2)
Net Income (Loss)	(18.0)	98.9	1,224.7	175.3	631.3
Income (loss) attributable to noncontrolling interest	(1.3)		(0.8)		
Net Income (Loss) attributable to Tronox Limited	\$ (16.7)	\$ 98.9	\$ 1,225.5	\$ 175.3	\$ 631.3
Income (Loss) per Share, Basic and Diluted(1):					
Basic					
Continuing operations	\$ (0.14)	\$ 1.32	\$ 12.94	\$ 2.39	\$ 15.29
Discontinued operations					(0.01)
Net income (loss) per share	\$ (0.14)	\$ 1.32	\$ 12.94	\$ 2.39	\$ 15.28
Diluted					
Continuing operations	\$ (0.14)	\$ 1.25	\$ 12.57	\$ 2.26	\$ 15.25
Discontinued operations					
Net income (loss) per share	\$ (0.14)	\$ 1.25	\$ 12.57	\$ 2.26	\$ 15.25

Weighted Average Shares Outstanding (in thousands):

Basic	122,352	74,910	94,193	73,325	41,311
Diluted	122,352	79,175	96,903	77,660	41,399

- (1) On June 26, 2012, the Board of Directors of Tronox Limited approved a 5-to-1 stock split for holders of its Class A ordinary shares and Class B ordinary shares at the close of business on July 20, 2012, by issuance of four additional shares for each share of the same class by way of bonus issue. All references to number of shares and per share data in the Successor's unaudited condensed consolidated financial statements have been adjusted to reflect the stock split, unless otherwise noted. See Note 19 for additional information regarding the Company's stock split.

See notes to unaudited condensed consolidated financial statements.

Table of Contents**TRONOX LIMITED****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)****(Millions of dollars)**

	Successor			Predecessor	
	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Eight Months Ended September 30, 2011	One Month Ended January 31, 2011
Net Income:					
Net Income (Loss)	\$ (18.0)	\$ 98.9	\$ 1,224.7	\$ 175.3	\$ 631.3
Other Comprehensive Income (Loss):					
Foreign currency translation adjustments	14.8	(5.5)	48.2	(3.3)	0.9
Retirement and postretirement plans:					
Amortization of actuarial gains, net of taxes of nil, nil, nil, nil and nil					0.5
Amortization of prior service cost, net of taxes of nil, nil, nil, nil and nil					(1.1)
Other comprehensive income (loss)	14.8	(5.5)	48.2	(3.3)	0.3
Total comprehensive income (loss)	\$ (3.2)	\$ 93.4	\$ 1,272.9	\$ 172.0	\$ 631.6
Comprehensive income (loss) attributable to noncontrolling interest:					
Net income (loss)	(1.3)		(0.8)		
Foreign currency translation adjustments	2.8		13.1		
Comprehensive income (loss) attributable to noncontrolling interest	1.5		12.3		
Comprehensive income (loss) attributable to Tronox Limited	\$ (4.7)	\$ 93.4	\$ 1,260.6	\$ 172.0	\$ 631.6

See notes to unaudited condensed consolidated financial statements.

Table of Contents**TRONOX LIMITED****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(Millions of dollars)**

	Successor Nine Months Ended September 30, 2012	Successor Eight Months Ended September 30, 2011	Predecessor One Month Ended January 31, 2011
Cash Flows from Operating Activities:			
Net income	\$ 1,224.7	\$ 175.3	\$ 631.3
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation, depletion and amortization	120.2	56.8	4.1
Deferred income taxes	(154.1)	(1.5)	0.8
Amortization of debt issuance costs	7.5	0.6	0.3
Pension and postretirement healthcare benefit (income) expense, net	3.6	3.2	(0.4)
Share-based compensation expense	28.6	7.7	
Gain on bargain purchase, net of cash received	(1,160.4)		
Other noncash items affecting net income	152.3	4.2	(0.2)
Reorganization items		(14.3)	(953.7)
Contributions to employee pension and postretirement plans	(29.9)	(5.2)	
Changes in assets and liabilities (net of effects of acquisition):			
(Increase) decrease in accounts receivable	53.3	(69.7)	(10.2)
(Increase) decrease in inventories	(216.9)	29.6	(15.3)
(Increase) decrease in prepaids and other assets	6.5	20.9	35.4
Increase (decrease) in accounts payable and accrued liabilities	22.4	(20.3)	23.6
Increase (decrease) in taxes payable	8.5	(1.6)	0.2
Other, net	1.7	31.9	1.0
Cash provided by (used in) operating activities	68.0	217.6	(283.1)
Cash Flows from Investing Activities:			
Capital expenditures	(91.2)	(120.7)	(5.5)
Cash received in acquisition of minerals sands business	114.8		
Proceeds from sale of assets		0.5	
Cash provided by (used in) investing activities	23.6	(120.2)	(5.5)
Cash Flows from Financing Activities			
Reductions of debt	(582.6)	(43.6)	
Proceeds from borrowings	1,689.8	22.0	25.0
Debt issuance costs and commitment fees	(20.3)	(5.5)	(2.4)
Merger consideration	(192.6)		
Class A ordinary share repurchases, including commissions paid	(326.2)		
Shares purchased for the Employee Participation Program	(14.6)		
Dividends paid	(31.5)		
Proceeds from conversion of warrants	0.6	1.3	
Proceeds from rights offering			185.0

Edgar Filing: Tronox Ltd - Form 10-Q

Cash provided by (used in) financing activities	522.6	(25.8)	207.6
Effects of Exchange Rate Changes on Cash and Cash Equivalents	6.2	(2.0)	0.3
Net Increase (Decrease) in Cash and Cash Equivalents	620.4	69.6	(80.7)
Cash and Cash Equivalents at Beginning of Period	154.0	61.0	141.7
Cash and Cash Equivalents at End of Period	\$ 774.4	\$ 130.6	\$ 61.0

See notes to unaudited condensed consolidated financial statements.

Table of Contents**TRONOX LIMITED****CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY****(Unaudited)****(Millions of dollars)**

	Tronox Limited Class A Ordinary Shares	Tronox Limited Class B Ordinary Shares	Tronox Incorporated Common Stock	Capital in Excess of par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity	Non- controlling Interest	Total Equity
Successor: Nine Months Ended September 30, 2012										
Balance at December 31, 2011	\$	\$	\$ 0.1	\$ 579.2	\$ 241.5	\$ (57.0)	\$ (11.5)	\$ 752.3	\$	\$ 752.3
Fair value of noncontrolling interest on Transaction Date									291.1	291.1
Net income (loss)					1,225.5			1,225.5	(0.8)	1,224.7
Other comprehensive income (loss)										