

TRONOX INC
Form 10-Q/A
May 19, 2008

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

**Form 10-Q/A
(Amendment No. 1)**

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

For the quarterly period ended March 31, 2008

Commission file number 1-32669

TRONOX INCORPORATED
(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

20-2868245
*(I.R.S. Employer
Identification Number)*

**One Leadership Square, Suite 300
211 N. Robinson Ave, Oklahoma City, Oklahoma 73102**
(Address of principal executive offices)

**Registrant's telephone number, including area code:
(405) 775-5000**

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 requirement for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (see definition of "accelerated filer" in Rule 12b-2 under the Exchange Act). (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 April 30, 2008, 18,741,623 shares of the company's Class A common stock and 22,889,431 shares of the company's Class B common stock were outstanding.

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A is being filed to revise Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 that was filed by Tronox Incorporated (the Company) on May 7, 2008 (the Report) to correct our forward looking discussion on debt covenant compliance within the Liquidity and Capital Resources section of this item. In the second full paragraph of the section entitled 2008 Credit Agreement Covenant Amendment the amendment corrects the language to accurately reflect management's projection that the company will be in compliance with its financial covenants in 2008. Management did not intend to provide projections with regards to 2009 at this time due to the uncertainty of global commodity cycles and economies. Exhibits 31.1 and 31.2 hereto have been provided with respect to and in light of the disclosure being amended.

Except for the revision above, no other information included in the Report is being amended. This amendment does not reflect events occurring after May 7, 2008, the filing date of the Report, or modify or update those disclosures affected by subsequent events. Among other things, forward-looking statements made in the Report have not been revised to reflect events that occurred or facts that became known to the company after the filing of the Report, and such forward-looking statements should be read in their historical context. Accordingly, this amendment should be read in conjunction with the Report and the Company's other filings made with the Securities and Exchange Commission subsequent to the filing of the Report.

Tronox Incorporated

Form 10-Q/A

Table of Contents

	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	1
<u>PART II OTHER INFORMATION</u>	
<u>Item 6.</u> <u>Exhibits</u>	8
<u>Signatures</u>	9
<u>Certification Pursuant to Section 302</u>	
<u>Certification Pursuant to Section 302</u>	

Table of Contents

PART I FINANCIAL INFORMATION

Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

This discussion of management's views on the financial condition and results of operations of the company should be read in conjunction with the audited consolidated and combined financial statements and the related notes which are included in the company's Annual Report on Form 10-K for the year ended December 31, 2007.

Overview

Tronox Incorporated (Tronox or the company), a Delaware Corporation, was formed on May 17, 2005, in preparation for the contribution and transfer by Kerr-McGee Corporation (Kerr-McGee) of certain entities, including those comprising substantially all of its chemical business (the Contribution). We have one reportable segment representing the company's pigment business. The pigment segment primarily produces and markets titanium dioxide pigment (TiO₂) and has production facilities in the United States, Australia, Germany and the Netherlands. The pigment segment also includes heavy minerals production operated through our joint venture (Tiwest). The heavy minerals production is integrated with our Australian pigment plant, but also has third-party sales of minerals not utilized by our pigment operations. Electrolytic and other chemical products (which does not constitute a reportable segment) represents the company's other operations which are comprised of electrolytic manufacturing and marketing operations, all of which are located in the United States. We have in the past operated or held businesses or properties, or currently hold properties, that do not relate to the current chemical business.

The Contribution was completed in November 2005, along with the recapitalization of the company, whereby common stock held by Kerr-McGee converted into approximately 22.9 million shares of Class B common stock. An initial public offering (IPO) of Class A common stock was completed on November 28, 2005. Prior to the IPO, Tronox was a wholly owned subsidiary of Kerr-McGee. Pursuant to the terms of the Master Separation Agreement dated November 28, 2005, among Kerr-McGee, Kerr-McGee Worldwide Corporation and Tronox (the MSA), the net proceeds from the IPO of \$224.7 million were distributed to Kerr-McGee.

Following the IPO, approximately 43.3% of the total outstanding common stock of Tronox was held by the general public and 56.7% was held by Kerr-McGee. The holders of Class A common stock and Class B common stock have identical rights, except that holders of Class A common stock are entitled to one vote per share, while holders of Class B common stock are entitled to six votes per share on all matters to be voted on by stockholders.

On March 8, 2006, Kerr-McGee's Board of Directors declared a dividend of the company's Class B common stock owned by Kerr-McGee to its stockholders (the Distribution). The Distribution was completed on March 30, 2006, resulting in Kerr-McGee having no ownership or voting interest in the company.

General Factors Affecting the Results of Operations

During the first quarter, the slow down in North America's housing industry and U.S. growth in general negatively impacted titanium dioxide sales, but was offset by demand increases in Asia and favorable currency translation. Excluding the impact of current quarter land sales, earnings improved slightly as a result of lower fixed cost and currency translation primarily offset by higher input, energy and freight costs.

In the first quarter of 2008, we have made the following announcements:

We, along with our 50% joint venture partner, a subsidiary of Exxaro Resources Limited, have given final approval for the expansion of the Tiwest titanium dioxide (TiO₂) pigment plant in Kwinana, Western Australia, which was announced last year. The project, which will increase the plant's current annual capacity from 110,000 tonnes per year to approximately 150,000 tonnes per year is expected to cost approximately A\$100 million. Construction is expected to begin in 2008, subject to appropriate regulatory approvals, with the additional capacity expected to come on line in early 2010. The joint venture partners have signed an agreement under which Exxaro will provide ongoing funding for the expansion. Tronox has the option to contribute its share of the capital at its discretion throughout the project and until a date two

Table of Contents

years from commissioning, which will be taken into account when calculating its final interest in the expanded production.

We signed a definitive agreement with RTI International Metals, Inc. under which RTI will purchase titanium tetrachloride (TiCl₄) from our Hamilton, Mississippi, titanium dioxide plant. The TiCl₄ will be used in the manufacture of titanium sponge at a new plant that RTI will build adjacent to our Hamilton facility. We expect to generate annual operating profits from TiCl₄ sales and incremental cost savings in the range of \$12 million to \$15 million once the plant reaches full production. RTI estimates the plant will come on line in 2010, ramping up production over the next several years.

Results of Operations***Three Months Ended March 31, 2008 Compared to Three Months Ended March 31, 2007***

Total net sales were \$349.1 million during the three months ended March 31, 2008, an increase of 2.9% from the 2007 period. The following table presents net sales for the periods indicated:

	Three Months Ended		
	March 31,		
	2008	2007	\$ Change
	(In millions)		
Net sales			
Pigment	\$ 321.6	\$ 315.4	\$ 6.2
Electrolytic and other chemical products	27.5	23.7	3.8
Total	\$ 349.1	\$ 339.1	\$ 10.0

Pigment segment net sales increased \$6.2 million, or 2%, to \$321.6 million during the three months ended March 31, 2008, from \$311.6 million during the three months ended March 31, 2007. The increase was primarily due to the effect of foreign exchange of \$13.3 million, improved TiO₂ volume and increased by-product sales, partially offset by lower TiO₂ pricing and lower heavy mineral sales.

Electrolytic and other chemical products net sales increased \$3.8 million, or 16%, to \$27.5 million during the three months ended March 31, 2008, from \$23.7 million during the three months ended March 31, 2007. The increase in sales was due to higher prices on manganese dioxide and sodium chlorate as well as higher volumes on boron, lithium manganese oxide and sodium chlorate.

Gross margin decreased \$11.7 million, or 31%, to \$25.5 million during the three months ended March 31, 2008, from \$37.2 million during the three months ended March 31, 2007. Gross margin percentage decreased to 7.3% during the three months ended March 31, 2008, down from 11.0% during the three months ended March 31, 2007. Gross margin decreased primarily due to higher shipping and handling costs, the net effect of changes in foreign currency rates and the impact of lower sales volumes of heavy minerals from our mining operations in Australia. Lower volumes on heavy minerals was a result of tough mining conditions and plant uptime problems that have resulted in lower than expected heavy mineral concentrate production at the mine.

Edgar Filing: TRONOX INC - Form 10-Q/A

Selling, general and administrative expenses decreased \$7.4 million, or 21%, to \$27.7 million during the three months ended March 31, 2008, from \$35.1 million during the three months ended March 31, 2007. The decrease was mainly due to lower compensation and benefit costs, including costs related to salaries, stock-based awards, incentive compensation and postretirement medical benefits.

Table of Contents

Total operating loss for the three months ended March 31, 2008, was \$1.4 million, compared to total operating loss of \$9.0 million during the three months ended March 31, 2007. The following table presents operating profit (loss), with a reconciliation to consolidated income (loss) from continuing operations before income taxes, for the periods indicated:

	Three Months Ended		
	2008	March 31, 2007	\$ Change
	(In millions)		
Operating profit (loss)			
Pigment	\$ (3.0)	\$ 7.3	\$ (10.3)
Electrolytic and other chemical products	1.7	(0.6)	2.3
Subtotal	(1.3)	6.7	(8.0)
Provision for environmental remediation and restoration		(0.2)	0.2
Gain on land sales	5.3		5.3
Corporate and nonoperating sites	(0.8)	(4.5)	3.7
Total operating profit	3.2	2.0	1.2
Interest and debt expense	(12.3)	(12.3)	
Other income, net	6.1	1.7	4.4
Loss from continuing operations before income taxes	\$ (3.0)	\$ (8.6)	\$ 5.6

Pigment segment operating profit decreased \$10.3 million, or 141%, to a loss of \$3.0 million during the three months ended March 31, 2008, from a profit of \$7.3 million during the three months ended March 31, 2007. The decrease in pigment operating profit was primarily due to lower selling prices and increased production costs for TiO₂, an unfavorable impact of changes in foreign currency rates of \$4.5 million, increased shipping and handling costs and lower profit on heavy mineral and by-product sales. Higher costs and lower profit on heavy mineral sales were partially due to a three-day shut down at the Kwinana, Australia plant due to natural gas supply failures caused by unrelated outages at two of the main producers; unscheduled maintenance at the Kwinana plant; and scheduled maintenance at the Chandala, Australia, dry mill that was extended to allow inventory to build after heavy mineral mining conditions resulted in lower inventory. Offsetting these decreases were improved sales volumes and reduced selling, general and administrative costs.

Electrolytic and other chemical products businesses operating profit increased \$2.3 million, to income of \$1.7 million during the three months ended March 31, 2008, from a loss of \$0.6 million during the three months ended March 31, 2007. Increased profitability was driven by improved pricing and lower costs on manganese dioxide, as well as improved pricing on sodium chlorate. Pricing on both products improved due to the ability to pass through higher input costs to the customer.

Gain on land sales during the three months ended March 31, 2008, was \$5.3 million compared to nil during the three months ended March 31, 2007, as there were no such transactions during the prior period. Properties sold include a parcel of land in Henderson, Nevada, and a former terminal site in Mobile, Alabama along with several former gas service stations.

Edgar Filing: TRONOX INC - Form 10-Q/A

Corporate and non-operating sites operating loss decreased \$3.7 million, or 82%, to \$0.8 million during the three months ended March 31, 2008, from \$4.5 million during the three months ended March 31, 2007. The decreased loss was due to reduced selling, general and administrative costs. The lower costs were driven primarily by reduced compensation and benefit costs, including costs related to salaries, stock-based awards, incentive compensation and postretirement medical benefits.

Other income increased \$4.4 million to \$6.1 million during the three months ended March 31, 2008, from \$1.7 million during the three months ended March 31, 2007. The change was mainly due to foreign exchange gains in 2008, compared to losses in 2007, partially offset by lower income from equity affiliates and by losses on the accounts receivable securitization program.

Table of Contents

The effective income tax rate was 53.3% for the three months ended March 31, 2008, compared to (4.6)% for the three months ended March 31, 2007. The income tax benefit was higher in 2008 than the benefit calculated from applying the U.S. Federal statutory tax rate due to income in foreign jurisdictions which is taxed at a rate lower than the U.S. federal statutory tax rate.

Discontinued operations had income of \$1.2 million during the three months ended March 31, 2008, versus a loss of \$0.4 million during the three months ended March 31, 2007. Both periods include losses related to legal and environmental costs associated with our former forest products operations. The reversal of the loss was due to the recognition of reimbursements for environmental remediation at our former thorium processing facility in West Chicago, Illinois, in 2008, compared to provisions for remediation recorded at our former wood-treating facilities in Columbus, Mississippi and Texarkana, Texas, in 2007, resulting in a favorable change of \$3.7 million related to environmental remediation costs. This favorable increase was partially offset by higher legal expenses and taxes associated with these and other discontinued operations.

Liquidity and Capital Resources

General

Our primary cash needs are for working capital, capital expenditures, environmental cash expenditures, debt service under the senior secured credit facility (discussed below) and the unsecured notes. We believe that our cash flows from operations, together with available borrowings under our revolving credit facility, will be sufficient to meet these cash needs. However, our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If our cash flows from operations are less than we expect, we may need to raise additional capital. We may also require additional capital to finance our future growth and development, implement additional marketing and sales activities, and fund our ongoing research and development activities.

Additional debt or equity financing may not be available when needed on terms favorable to us or even available to us at all. We are restricted by the terms of the senior secured credit facility and the indenture governing the unsecured notes from incurring additional indebtedness. Under our tax sharing agreement with Kerr-McGee, if we enter into transactions during the two-year period following the Distribution which results in the issuance or acquisition of our shares, and the Internal Revenue Service subsequently determines that Section 355(e) of the Internal Revenue Code is applicable to the Distribution, we will be required to indemnify Kerr-McGee for any resulting tax liability.

We have an interest in The LandWell Company LP (LandWell), a limited partnership formed to market or develop land in the Henderson, Nevada, area. LandWell has commenced negotiations with a number of parties who have interest in the development of either part or all of approximately 2,200 contiguous acres of its land in Henderson for eventual use as a new, mixed-use master planned community. LandWell is also proceeding with remediation efforts on a portion of the 2,200 acres. LandWell's efforts to secure zoning for the site were successful with final approval of the development standards and development agreement being received from the City of Henderson on October 2, 2007. This large parcel, in addition to other parcels available for sale by LandWell is in the vicinity of our Henderson facility. Cash flows resulting from the sale of the 2,200 contiguous acres of land in the Henderson, Nevada, area must be used to pay down outstanding debt under our senior secured credit facility.

We are in negotiations with interested parties for the sale of parcels of land which are 100% Tronox owned. During the first quarter of 2008, we sold a parcel of land in the Henderson, Nevada, area along with other 100% owned properties that included a former terminal site in Mobile, Alabama and several former gas service stations. We recognized a gain of \$5.3 million on these transactions for the first quarter of 2008.

Of cash and cash equivalents at March 31, 2008, \$3.4 million was held in the U.S. and \$5.8 million was held in other countries.

Cash Flows from Operating Activities. Net cash flows from operating activities during the three months ended March 31, 2008, were a use of \$27.2 million compared to a use of \$14.9 million during the three months ended March 31, 2007. The \$12.3 million decrease in cash flows from operating activities for the 2008 period was

Table of Contents

primarily due to increased working capital as a result of the seasonal build in inventories and reduced accounts payable due to timing of payments for ore shipments.

Our working capital typically increases during the first half of the year as we increase inventory levels during the first several months in order to meet the peak demand of the paint season, and receivables balances increase during the next several months as we supply that demand. Our working capital typically decreases during the later half of the year as we receive payment for products sold earlier in the year and we reduce inventory build.

Cash Flows from Investing Activities. Net cash used in investing activities during the three months ended March 31, 2008, was \$2.8 million compared to \$14.3 million during the three months ended March 31, 2007. The decrease was due to lower capital expenditures coupled with proceeds from the sale of assets in the current period.

Capital expenditures in the first quarter of 2008 were \$8.3 million. Significant projects during the 2008 annual period include purchasing of capital anodes for the Hamilton, Mississippi, electrolytic facility, repairing the main oxidation floor at the Hamilton, Mississippi, pigment facility, replacing the main incoming electrical switchgear and purchasing a spare preheater at the Savannah, Georgia, pigment facility.

Capital expenditures in the first quarter of 2007 were \$14.3 million. Significant projects during the 2007 annual period included upgrading the oxidation line and waste treatment facility at the Botlek, Netherlands, facility and process improvement projects at the Hamilton, Mississippi; Henderson, Nevada; Savannah, Georgia; and Uerdingen, Germany facilities.

Capital expenditures in 2008 are expected to be in the range of \$48 million to \$51 million which includes capital for the completion of waste treatment upgrades at our Botlek, Netherlands facility.

Cash Flows from Financing Activities. Net cash from financing activities was an inflow of \$28.5 million during the three months ended March 31, 2008 compared to an outflow of \$1.7 million for the three months ended March 31, 2007. Cash used in 2008 consisted of \$2.1 million in dividend payments, proceeds from issuing debt of \$43.0 million, repayment of \$10.3 million of debt and costs of \$2.1 million to modify debt. The cash used in 2007 consisted of \$2.1 million in dividend payments, repayment of \$0.5 million of long-term debt and costs of \$0.3 million to modify debt. Proceeds from stock option exercises provided \$1.2 million of cash in 2007.

Credit Agreement. In November 2005, our wholly owned subsidiary, Tronox Worldwide LLC, entered into a senior secured credit facility. This facility consists of a \$200 million six-year term loan facility and a five-year multicurrency revolving credit facility of \$250 million. Interest on amounts borrowed under the senior secured credit facility is payable, at our election, at a base rate or a LIBOR rate, in each case as defined in the agreement. As of March 31, 2008, based on our credit ratings the margin applicable to LIBOR borrowings was 300 basis points.

The terms of the credit agreement provide for customary representations and warranties, affirmative and negative covenants, and events of default. Our primary financial covenants are a Total Leverage Ratio and an Interest Coverage ratio (both as defined in the credit agreement).

Table of Contents**2008 Credit Agreement Covenant Amendment**

In February 2008, we proactively requested and obtained approval for an amendment to the 2008 and 2009 financial covenants. The table below presents the approved requirements by quarter. The limitations on capital expenditures have not been modified and are \$130 million in 2008 and \$100 million in 2009 and thereafter. We incurred an amendment fee of approximately \$2.5 million in the first quarter of 2008 related to this and our margin applicable to LIBOR borrowings is now 300 basis points. Our margin remains subject to increases or decreases depending on our credit rating. We were in compliance with our financial covenants at March 31, 2008.

	Consolidated Total Leverage Ratio	Consolidated Interest Coverage Ratio
Fiscal Quarter Ended		
March 31, 2008	4.45:1	1.00:1
June 30, 2008	4.90:1	1.00:1
September 30, 2008	4.90:1	0.80:1
December 31, 2008	4.90:1	0.80:1
March 31, 2009	4.50:1	1.25:1
June 30, 2009	4.35:1	1.25:1
September 30, 2009	3.90:1	1.75:1
December 31, 2009	3.50:1	1.75:1

The prospective relief under these ratios was necessary in order for us to continue to comply with these covenants on a quarterly basis over the next two years. We assessed our ability to meet the amended ratios based on an analysis of our forecast and believe that we have adequate cushion under both ratios beginning with the first quarter of 2008 and ending with the fourth quarter of 2008.

The achievement of our forecasted results is subject to the risks discussed in Item 1A, *Risk Factors*, in our 2007 Annual Report on Form 10-K and is critical for us to be in compliance with the financial covenants. Assumptions key to achieving our forecasted results include meeting our Project Cornerstone cash cost reduction targets, the realization of some of the pricing increases announced for 2008, the effect that the outcome of the anti-dumping investigation will have on our electrolytic business and maintaining our market share during a period of expected 3% global TiO₂ demand growth. Further weakening of the U.S. economy and any resulting negative impact on the economic conditions in other regions, including weakening of the U.S. dollar, could have a negative effect on our ability to achieve our forecasted results and covenant compliance. In our analysis, we excluded land sales and the resultant debt repayment from land sales. As a result, the execution of land sales, and the resultant debt repayment, would increase the amount of cushion we are expecting. Management of our working capital, capital expenditures and legacy expenditures during this challenging period will also limit our cash requirements and create additional opportunities for cushion. Based on this, management anticipates that we will remain in compliance with these ratios during 2008.

There can be no assurance that we will be in compliance with such covenants in the future. Future compliance with the covenants may be adversely affected by various economic, financial and industry factors. In the event of any future noncompliance with any covenants, we would seek to negotiate amendments to the applicable covenants or to obtain waivers from our lenders. If we were unable to obtain amendments or waivers, noncompliance with the covenants would constitute an event of default under the credit agreement, allowing the lenders to accelerate repayment of any outstanding borrowings and/or to terminate their commitments to the credit facility.

As of March 31, 2008, we had total debt of \$517.6 million (including \$43.0 million of borrowings on our revolving credit facility), cash and cash equivalents of \$9.2 million and outstanding letters of credit issued under the credit facility in the amount of \$69.0 million resulting in unused capacity under the revolving credit facility of \$138.0 million. Although we had unused capacity, the amount available is subject to our financial covenants. Based on the total leverage ratio of 4:45:1, the total consolidated debt we were permitted to incur as of March 31, 2008, was \$610.5 million. As a result, of the unused capacity of \$138.0 million, \$92.9 million was available for borrowings. As of May 2, 2008, we had total debt of \$523.6 million which included \$49.0 million of borrowings on our revolving credit facility.

Table of Contents

Senior Unsecured Notes. Also concurrently with the IPO, Tronox Worldwide LLC and Tronox Finance Corp. issued \$350 million in aggregate principal amount of 9 1/2% senior unsecured notes due 2012 in a private offering. Interest on the notes is payable on June 1 and December 1 of each year. During the second quarter of 2006, we registered these notes with the Securities and Exchange Commission (the SEC) and subsequently completed an exchange of all notes and guarantees for publicly tradable notes and guarantees having substantially identical terms on July 14, 2006. These notes are guaranteed by our material direct and indirect wholly owned domestic subsidiaries.

Note Payable due July 2014. In July 2006, Tronox Western Australia Pty Ltd, our wholly owned subsidiary, completed the purchase of a 50% undivided interest in additional mining tenements and related mining assets. We acquired the mine tenements by entering into an eight-year note payable agreement. Under the provisions of the note, the earliest opportunity to prepay the note was as of December 31, 2007. The note, which had a balance of \$7.9 million as of December 31, 2007, was prepaid in full in January 2008.

Receivables Securitization. We executed a \$100.0 million accounts receivable securitization program (the Program) in September 2007 with an initial term of one year. Financing under the program can be extended for an additional two years in the form of a securitization or a secured borrowing as determined by the sponsoring institution, ABN AMRO Bank N.V. (ABN). Under the Program, receivables owned by our U.S. subsidiaries are sold on a recurring basis to Tronox Funding LLC (Funding), a wholly owned special purpose subsidiary owned by us. Funding, in turn, sells to either Amsterdam Funding Corporation (AFC), an asset-backed commercial paper conduit sponsored by ABN, or sells to ABN directly (both AFC and ABN collectively referred to as Amsterdam) an undivided percentage ownership interest in the pool of receivables Funding acquires from the company (subject to a program limit in the aggregate of \$100.0 million). We retain the servicing responsibility for the accounts receivable. At March 31, 2008, the balance in receivables sold by the transferor subsidiaries to Funding totaled \$97.2 million, of which \$57.2 million was sold to Amsterdam in the form of the purchased participation interest, resulting in a subordinated retained interest held by Funding with a fair value carrying amount of \$39.3 million. The subordinated retained interest serves as over-collateralization on the purchased interest by Amsterdam and, thus, provides credit enhancement to the Program.

Off-Balance Sheet Arrangements

We have entered into agreements that require us to indemnify third parties for losses related to environmental matters, litigation and other claims. We have recorded no material obligations in connection with such indemnification obligations as none are currently evaluated as probable of loss. In addition, pursuant to the MSA, we will be required to indemnify Kerr-McGee for all costs and expenses incurred by it arising out of or due to our environmental and other liabilities other than such costs and expenses reimbursable by Kerr-McGee pursuant to the MSA. At March 31, 2008, we had outstanding letters of credit in the amount of \$69.9 million, of which \$69.0 million was issued under our credit agreement. Along with \$43.0 million of outstanding borrowings, the unused capacity under the revolving credit facility, notwithstanding our financial covenants, was \$138.0 million. These letters of credit have been granted to us by financial institutions to support our environmental cleanup costs and miscellaneous operational and severance requirements in international locations.

Outlook

The remainder of 2008 will be a challenge due to the increasing costs associated with process chemicals, energy and freight. These input costs are not projected to decrease in the near future and will negatively impact our margins. As such, significant price increases are necessary to help offset these costs in order to support the margins required to meet the needs of our global customers. To date this year, we have announced additional price increases for all regions and have met with mixed results on implementing these increases on a global basis.

On the demand side for TiO₂, Asia Pacific continues to grow at impressive rates, with China and South Korea demand growing at double digit rates. While Europe TiO₂ demand is growing at approximately 3-4%, the strong Euro is attracting an unprecedented level of imports into this market which is creating additional competitive activity and pressuring TiO₂ pricing. In North America, although demand is down from last year and is not projected to rebound significantly before the end of 2008, inventories remain at or below seasonal averages due to the

Table of Contents

increased levels of exports into the European and Asian markets. Given the softness in the North American market, we continue to manage the logistics of moving TiO₂ into the higher demand regions. At this stage North American pricing remains stable, but at unacceptable levels and we are continuing to push for further price increases to offset the increasing input costs our business faces.

The global EMD market is challenged by excess supply that has resulted in antidumping investigations in Europe, Japan and the U.S. In the U.S., the antidumping investigation concerns EMD imports from China and Australia. As a result of the preliminary determination from the investigation, which concluded in March 2008, U.S. importers of Australian EMD are now required to post bonds or cash deposits equal to 120.59% of the entered value of EMD imports, and U.S. importers of Chinese EMD must now post bonds or cash deposits equal to 236.81% of the entered value of EMD imports. Final determinations from the Commerce Department and the International Trade Commission are expected by August 2008. If these determinations are favorable, the issuance of antidumping orders, expected in September 2008, should result in improved profitability for the U.S. EMD industry.

These challenges will make it even more important that we manage our working capital, capital expenditures and legacy expenditures in order to limit our cash requirements and continue to reduce our costs to maintain compliance with our financial covenants which become more restrictive in 2009. The achievement of our forecasted results is subject to the risks discussed in Item 1A, *Risk Factors*, in our 2007 Annual Report on Form 10-K and is critical for us to be in compliance with the financial covenants.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP FIN No. FAS 157-2 Effective Date of FASB Statement No. 157 which amends SFAS No. 157 to defer its effective date to fiscal years beginning after November 15, 2008, and for interim periods within such years. The delayed effective date applies to all assets and liabilities except financial assets or financial liabilities (as defined). We adopted the provisions of SFAS. No. 157 for such assets and liabilities with no material impact on our financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an Amendment of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 159). We did not elect to adopt the provisions of this statement.

PART II OTHER INFORMATION

Item 6. Exhibits

- 31.1* Certification Pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2* Certification Pursuant to 15 U.S.C. Section 7241, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

* Each document marked with an asterisk is filed herewith.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Tronox Incorporated has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 19, 2008.

Tronox Incorporated

Name: Thomas W. Adams	By: /s/ Thomas W. Adams
	Title: Chief Executive Officer
Name: Mary Mikkelson	By: /s/ Mary Mikkelson
Chief Financial Officer (Principal Financial Officer)	Title: Senior Vice President and
Name: David J. Klvac	By: /s/ David J. Klvac
(Principal Accounting Officer)	Title: Vice President and Controller