Missouri Financial Assurance Review
Procedure Change for Financial Test/Corporate Guarantee
Bankruptcy

Lesson Learned #1

Review Financial Tests Quarterly
Current Tronox

World's Fifth-Largest Producer/Marketer of Titanium Dioxide Pigment
Tronox

Emerged from Chapter 11 Bankruptcy
on
February 14, 2011
March 31, 2006

After unsuccessful attempt to sell Chemical Division

Kerr-McGee spun off Tronox as a separate company
Including many years of Kerr-McGee’s environmental liabilities
Environmental Liabilities from

- Wood Treating Facilities
- Chemical Plants
- Fertilizer/Pesticide Facilities
Also Environmental Liabilities from

- Uranium Mines
- Other Mining Sites
- Thorium Processing Plants
- Nuclear Fuel Processing Facilities
- Former Service Stations Sites
August 10, 2006

Anadarko Petroleum acquired Kerr-McGee for $18 billion
January 2009

Tronox filed for bankruptcy protection

Had at least

$1 billion in environmental claims
May 12, 2009

Tronox Filed
Fraudulent Conveyance Lawsuit Against
Kerr-McGee Corporation
and
Anadarko Petroleum Corporation
Claimed Kerr-McGee Corp saddled it with environmental liabilities that doomed Tronox to failure
June 17, 2009

US government intervened in Anadarko litigation
Tronox in Missouri
2 Facilities in Missouri
March 28, 2008

CFO submitted Financial Test that satisfied Alternative 1
Dow Jones Closing Averages Jan 07 - Jul 10
Late October 2008

Missouri began financial assurance review of all Subtitle C Financial Tests/Corporate Guarantees
http://www.sec.gov/edgar/searchedgar/companysearch.html
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 quarterly period ended September 30, 2008
Commission file number 1-32669

TRONOX INCORPORATED
(Exact Name of Registrant as Specified in its Charter)
TRONOX INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

Tronox Incorporated (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”). The company has 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 its joint venture. The heavy minerals production is integrated with our Australian pigment plant, but also has third-party sales of minerals not utilized by the company’s 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. The company has in the past operated or held businesses or properties, or currently holds properties, that do not relate to the current chemical business.

The terms “Tronox” or “the company” are used interchangeably in these condensed consolidated financial statements to refer to the consolidated group or to one or more of the companies that are part of the consolidated group.

Formation

The Contribution was completed in November 2005, along with the recapitalization of the company, whereby common stock held by Kerr-McGee converted into approximately 229.9 million shares of Class A common stock. An initial public offering ("IPO") of Class A common stock was completed on November 28, 2005. 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.

2. Basis of Presentation and Accounting Policies

These statements 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. The interim consolidated financial information furnished herein is unaudited. The information reflects all adjustments (which include normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods included in the report. These adjustments also include those made to record an impairment of goodwill (see Note 4), to classify debt as current (see Note 7) and to adjust the estimated forfeiture rate for compensation expenses recognized for stock-based awards (see Note 12).

Our financial statements are prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. We have experienced significant losses in recent periods and continue to generate negative cash flows from operations. As we continue to generate losses and negative cash flows, this raises substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern will depend upon our ability to generate positive cash flows, restructure our capital structure including, among other alternatives, obtaining additional financing and mitigating the legacy environmental liabilities carried by the company. Failure to address these issues could result in, among other things, the depletion of available funds and our not being able to pay our obligations when they become due, as well as defaults under our debt obligations. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the reclassifiability and classification of assets.
“As we continue to generate losses and negative cash flows, this raises substantial doubt about our ability to continue as a going concern.”
...based on a reasonable belief, ...

...require reports of financial condition at any time from the owner or operator in addition to those specified in paragraph (f)(3) of this section.
Immediately issued demand letter for a demonstration that Tronox could pass the financial test or Provide alternate financial assurance
Gave 30 days to comply
3 Days Later

- Tronox Risk Manager contacted the Department

- Said he thought Tronox had until March 2009 to notify us
Most Importantly -

Risk Manager said that Tronox could no longer pass the Financial Test.
Tronox failed to provide alternate financial assurance instrument

Dept. issued NOVs on December 30, 2008
What happened next?

January 12, 2009
Tronox Filed
Chapter 11 Bankruptcy
In a 4 month period Tronox went from passing a financial test to Reporting to SEC doubt about continuing as a going concern
Another 3 months for the state to discover the concerns
And

Another 2 Months to Filing Bankruptcy
Although the economy caused our additional Financial Test reviews,

It was not the sole cause of the Tronox financial problems.
Lessons Learned

Missouri now reviews SEC 10Q Filings for all Financial Tests/Corporate Guarantees for 1st, 2nd, 3rd Quarters plus Annual Review of 10K Filing

Regardless of Current Economic Conditions
Bankruptcy

Lesson Learned #2

Use Cost Estimating Tools
Based on Facility Cost Estimate

$4.2 Million Total

$2.1 Million Kansas City
$2.1 Million Springfield
Racer Cost Estimate
(Worst Case Scenario Estimates)

$25.6 Million  Total Racer Estimate

$11.8 Million Kansas City
$13.8 Million Springfield
Facility Estimate vs Racer Estimate

$4.2 Million Facility Cost Estimate
$25.6 Million Total Racer Cost Estimate

($21.4 Million) Difference
Settlement Agreement Terms

What did Missouri get?
Settlement Agreement Outcome
5 Year Custodial Costs

$3.8 Million Total

$1,743,398 Kansas City  $2,025,323 Springfield
$3.8 Million - Settlement Agreement
Less
$25.6 Million - Total Racer Cost Est

$21.8 Million Potential Shortfall
5 Year Estimated Costs

$3.8 Million

Plus
Interest in Pending Anadarko Litigation

12% for Tort Claimants

88% for Environmental Claimants
0.5% for Kansas City Site

0.5% for Springfield Site
Review

Lesson #1

Review Financial Tests Quarterly

http://www.sec.gov/edgar/searchedgar/companysearch.html
Review

Lesson #2
Use Cost Estimating Tools

– Cost Pro

– RACER