TRONOX INC
Form 10-Q
May 07, 2008

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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 quarterly period ended March 31, 2008

Commission file number 1-32669

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

Delaware	**20-2868245**
(State or Other Jurisdiction of Incorporation or Organization)	*(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 þ No o

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 o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
(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 o No þ

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.

Tronox Incorporated

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

TRONOX INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Net sales	$ 349.1	$ 339.1
Cost of goods sold	323.6	301.9
Gross margin	25.5	37.2
Selling, general and administrative expenses	27.6	35.0
Gain on land sales	5.3	
Provision for environmental remediation and restoration, net of reimbursements		0.2
	3.2	2.0
Interest and debt expense	(12.3)	(12.3)
Other income, net	6.1	1.7
Loss from continuing operations before income taxes	(3.0)	(8.6)
Income tax benefit (provision)	1.6	(0.4)
Loss from continuing operations	(1.4)	(9.0)
Income (loss) from discontinued operations, net of income tax benefit of nil and $0.2, respectively	1.2	(0.4)
Net loss	$ (0.2)	$ (9.4)
Income (loss) per common share:		
Basic		
Continuing operations	$ (0.03)	$ (0.22)
Discontinued operations	0.03	(0.01)
Net income (loss)	$	$ (0.23)
Diluted		
Continuing operations	$ (0.03)	$ (0.22)
Discontinued operations	0.03	(0.01)

Net income (loss)	$	$ (0.23)
Dividends declared per common share	$	$ 0.05
Weighted average shares outstanding:		
Basic	40.9	40.6
Diluted	40.9	40.6

The accompanying notes are an integral part of these financial statements.

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TRONOX INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	March 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9.2	$ 21.0
Accounts receivable, net	272.2	290.5
Inventories, net	391.6	350.0
Prepaid and other assets	26.0	23.6
Income tax receivable	2.9	4.3
Deferred income taxes	2.7	3.7
Total current assets	704.6	693.1
Property, plant and equipment, net	853.7	848.9
Goodwill	13.7	12.7
Other long-term assets	174.5	168.7
Total assets	$ 1,746.5	$ 1,723.4
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 204.4	$ 234.9
Accrued liabilities	188.0	197.7
Long-term debt due within one year	1.3	9.2
Income taxes payable	3.7	6.4
Total current liabilities	397.4	448.2
Long-term liabilities:		
Deferred income taxes	58.0	57.2
Environmental remediation and/or restoration	99.6	93.9
Long-term debt	516.3	475.6
Other	223.3	218.9
Total noncurrent liabilities	897.2	845.6
Commitments and contingencies (Notes 12 and 13)		
Stockholders equity		
Class A common stock, par value $0.01 100,000,000 shares authorized, 19,036,117 and 18,746,329 shares, respectively, issued and outstanding	0.2	0.2
	0.2	0.2

Class B common stock, par value $0.01 100,000,000 shares authorized, 22,889,431 shares issued and outstanding		
Capital in excess of par value	492.3	490.8
Accumulated deficit	(137.0)	(136.8)
Accumulated other comprehensive income	100.1	78.2
Treasury stock, at cost 292,198 shares and 210,638 shares, respectively	(3.9)	(3.0)
Total stockholders equity	451.9	429.6
Total liabilities and stockholders equity	$ 1,746.5	$ 1,723.4

The accompanying notes are an integral part of these financial statements.

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TRONOX INCORPORATED

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Cash flows from operating activities		
Net loss	$ (0.2)	$ (9.4)
Adjustments to reconcile net cash flows from operating activities		
Depreciation and amortization	28.5	27.9
Deferred income taxes	(0.2)	(3.8)
Gain on sale of assets	(5.4)	
Provision for environmental remediation and restoration, net of reimbursements	(2.2)	1.7
Other noncash items affecting net loss	2.8	8.6
Changes in assets and liabilities	(50.5)	(39.9)
Net cash flows from operating activities	(27.2)	(14.9)
Cash flows from investing activities		
Capital expenditures	(8.3)	(14.3)
Proceeds from sale of assets	5.5	
Net cash flows from investing activities	(2.8)	(14.3)
Cash flows from financing activities		
Stock option exercises		1.2
Proceeds from issuance of debt	43.0	
Repayment of debt	(10.3)	(0.5)
Debt issuance costs	(2.1)	(0.3)
Dividends paid	(2.1)	(2.1)
Net cash flows from financing activities	28.5	(1.7)
Effects of exchange rate changes on cash and cash equivalents	(10.3)	(1.2)
Net change in cash and cash equivalents	(11.8)	(32.1)
Cash and cash equivalents at beginning of period	21.0	76.6
Cash and cash equivalents at end of period	$ 9.2	$ 44.5

The accompanying notes are an integral part of these financial statements.

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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 (TiO_2) 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. 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 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. 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 condensed consolidated financial information furnished herein is unaudited. The information reflects all adjustments (which include only 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.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. Railcar expenses previously accounted for as selling, general and administrative expenses have been reclassified as cost of goods sold. The increase in cost of goods sold and corresponding decrease in selling, general and administrative expenses for the three-month period ending March 31, 2007, was $0.6 million. The reclassification had no impact on income from continuing operations or net income.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109). The company adopted FIN No. 48 as of January 1, 2007. FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. FIN No. 48 also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The guidance required application through recognition of a cumulative effect adjustment to opening retained earnings in the period of adoption (2007), with no charge to current earnings for prior periods. As a result of the adoption of FIN No. 48, the company recognized a $9.3 million charge to the January 1, 2007, balance of retained earnings. The total amount of unrecognized tax positions at January 1, 2007,

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

was $46.5 million. Adoption of FIN 48 did not have a material impact on the company s loss from continuing operations or net loss for the three months ended March 31, 2007.

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 Staff Position (FSP) 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). The company has adopted the provisions of SFAS No. 157 for its financial assets and liabilities effective January 2008 with no material impact on its condensed consolidated 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 No. 159). The company did not elect to adopt the provisions of this statement.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), Business Combinations which will change the accounting for business combinations such that an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction, at the acquisition date fair value with limited exceptions. SFAS No. 141 also changes the accounting treatment for certain specific items such as expensing acquisition costs versus capitalizing them, recording in process research and development as an indefinite lived intangible asset and expensing restructuring costs after the acquisition date. SFAS No. 141 also includes additional disclosure requirements. The statement applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

3. Statement of Operations Data

The components of other income, net, consist of:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(In millions)	
Net foreign currency transaction gain (loss)	$ 7.0	$ (0.3)
Equity (loss) in net earnings of equity method investees	(0.3)	0.7
Loss on sale of accounts receivable (1)	(0.8)	
Interest income	0.2	0.8
Other income (expense)		0.5
Total	$ 6.1	$ 1.7

(1) Includes interest income accreted on collections of securitized receivables. See discussion of accounts receivable securitization program in Note 4.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the computation of basic and diluted earnings per share from continuing operations for the periods indicated. For the three months ended March 31, 2008, all potentially issuable shares were antidilutive.

	Three Months Ended March 31, 2008			Three Months Ended March 31, 2007		
	Loss from Continuing Operations	Shares	Per-Share Loss	Loss from Continuing Operations	Shares	Per-Share Loss
	(In millions, except per share amounts)					
Basic earnings per share	$ (1.4)	40.9	$ (0.03)	$ (9.0)	40.6	$ (0.22)
Effect of dilutive securities:						
Restricted stock and stock options						
Diluted earnings per share	$ (1.4)	40.9	$ (0.03)	$ (9.0)	40.6	$ (0.22)

Approximately 1,609,000 stock options outstanding with an average exercise price of $12.03 at March 31, 2008, were out of the money, thus, antidilutive. Since the company incurred a loss from continuing operations for the three months ended March 31, 2008, no dilution of the loss per share would result from an additional 2.3 million potentially dilutive stock options and restrictive shares outstanding at March 31, 2008. Approximately 457,000 stock options outstanding with an average exercise price of $15.19 at March 31, 2007, were out of the money, thus, antidilutive. Since the company incurred a loss from continuing operations for the three months ended March 31, 2007, no dilution of the loss per share would result from an additional 1.9 million potentially dilutive stock options and restrictive shares outstanding at March 31, 2007.

4. Balance Sheet Data

Accounts receivable, net of allowance for doubtful accounts, consist of the following:

	March 31, 2008	December 31, 2007
	(In millions)	
Accounts receivable trade (1)	$ 232.4	$ 238.7
Receivable from Kerr-McGee	17.6	17.9
Receivable from the U.S. Department of Energy	11.0	11.0
Receivable from insurers	5.9	7.3
Other	19.7	29.5

Accounts receivable, gross	286.6	304.4
Allowance for doubtful accounts	(14.4)	(13.9)
Accounts receivable, net	$ 272.2	$ 290.5

(1) Includes $39.3 million and $39.5 million in subordinated retained interest at March 31, 2008 and December 31, 2007, respectively, related to the accounts receivable securitization program discussed below.

The company executed an 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 with the consent of both parties 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, all receivables owned by the company s U.S. subsidiaries (transferor subsidiaries) are sold on a recurring basis by the company to Tronox Funding LLC (Funding), a wholly owned special purpose subsidiary of the company. Funding, in turn, sells to either Amsterdam Funding Corporation (AFC), an asset-backed multi-seller commercial paper conduit sponsored by ABN AMRO Bank N.V. (ABN), or to ABN directly (both AFC and ABN collectively referred to as

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amsterdam) an undivided percentage ownership interest in the pool of receivables Funding acquires from the transferor subsidiaries. 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 of $39.3 million.

For the three-month period ended March 31, 2008, the company incurred losses in connection with the sale of receivables under the Program of $1.7 million along with interest income accreted on the collections of receivables of $0.9 million. The net of both items was $0.8 million representing the net expense associated with the company s securitization program for the period which is included in other income (expense) in the Consolidated Statement of Operations. There were no corresponding charges in the prior year as the program had not been implemented during that period.

Inventories, net of allowance for obsolete inventories and supplies, consist of the following:

	March 31, 2008	December 31, 2007
	(In millions)	
Raw materials	$ 74.7	$ 69.6
Work-in-progress	15.5	12.8
Finished goods (1)	228.7	200.6
Materials and supplies	84.4	78.3
Inventories, gross	403.3	361.3
Allowance for obsolete materials and supplies	(11.7)	(11.3)
Inventories, net	$ 391.6	$ 350.0

(1) Includes $23.3 million and $20.8 million in inventory on consignment to others at March 31, 2008, and December 31, 2007, respectively.

Property, plant and equipment, net, consists of the following:

	March 31, 2008	December 31, 2007
	(In millions)	
Land	$ 83.7	$ 83.8
Buildings	171.5	167.3
Machinery and equipment	1,851.9	1,798.6

Construction-in-progress	34.4	38.3
Other	91.1	88.0
Property, plant and equipment, gross	2,232.6	2,176.0
Less accumulated depreciation	(1,378.9)	(1,327.1)
Property, plant and equipment, net	$ 853.7	$ 848.9

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other long-term assets consist of the following:

	March 31, 2008	December 31, 2007
	(In millions)	
Receivable from the U.S. Department of Energy	$ 18.2	$ 16.1
Investments in equity method investees	21.1	21.3
Receivables from insurers	14.8	15.3
Debt issuance costs, net	10.2	8.4
Prepaid pension cost	47.2	46.5
Intangible asset proprietary technology (1)	57.3	55.2
Other	5.7	5.9
Total other long-term assets	$ 174.5	$ 168.7

(1) Associated with the company s reportable pigment segment.

Accrued liabilities consist of the following:

	March 31, 2008	December 31, 2007
	(In millions)	
Employee-related costs and benefits	$ 47.5	$ 37.6
Reserves for environmental remediation and restoration current portion	82.2	94.9
Sales rebates	16.3	23.3
Other	42.0	41.9
Total accrued liabilities	$ 188.0	$ 197.7

Other long-term liabilities consist of the following:

	March 31, 2008	December 31, 2007
	(In millions)	
Reserve for uncertain tax positions	$ 75.3	$ 69.7

Pension and postretirement obligations	79.9	77.6
Asset retirement obligations (1)	34.0	32.9
Reserve for workers compensation and general liability claims	15.8	16.6
Other (1)	18.3	22.1
Total other long-term liabilities	$ 223.3	$ 218.9

(1) Includes reclassification of the company s long term obligation to rehabilitate the mine used in its Australian operations from Other to Asset retirement obligations.

Fair value measurement

As stated in Note 2. Basis of Presentation and Accounting Policies, the company adopted the methods of fair value as described in SFAS No. 157 to value its financial assets and liabilities effective January 2008. As defined in SFAS No. 157, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

comparability in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In measuring fair value on a recurring basis, the company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value as of March 31, 2008 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3
		(In millions)	
Foreign currency derivatives	$	$ 0.5	$
Natural gas forward contracts		3.0	
Subordinated retained interest in accounts receivable (1)			$ 39.3
Total assets at fair value	$	$ 3.5	$ 39.3
Foreign currency derivatives	$	$ 0.5	$
Natural gas forward contracts			
Interest rate swap derivatives		1.8	
Total liabilities at fair value	$	$ 2.3	$

(1) Level 3 inputs were used to calculate an unrealized fair value loss of $0.7 million subsequently subtracted from the face value of receivables to obtain the fair value of the subordinated retained interest related to the company s account receivable securitization program.

The fair value estimate of the subordinated retained interest includes a present value discount that incorporates commercial paper borrowing rates and a risk premium based on the subordinated position of the retained interest. Servicing costs and anticipated credit losses based on the performance history of transferred receivables are also incorporated into the fair value calculation. Collectively, the present value discount, anticipated servicing cost and anticipated credit loss comprise an unrealized loss on the retained interest that is subtracted from the face value to arrive at its fair value. Other than commercial paper rates, most of the fair value losses above are calculated from unobservable inputs which conform to a Level 3 measurement.

5. Summarized Combined Financial Information of Affiliates

The company has investments in Basic Management, Inc. and Subsidiaries (a corporation in which the company has a 31% interest, whose combined financial statements include The LandWell Company, L.P., a limited partnership in which the company has a 29% direct interest). The company recognized a loss of $0.3 million and a

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

gain of $0.7 million in net earnings of equity method investees for the three months ended March 31, 2008 and 2007, respectively. Summarized unaudited income statement information of the significant investees is as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(In millions)	
Departmental revenues	$ 1.7	$ 7.9
Departmental income	(1.2)	4.2
Income (loss) before taxes	(1.2)	4.2
Net income (loss)	(0.9)	3.7

6. Long-Term Debt

Long-term debt at March 31, 2008, and December 31, 2007, consisted of the following:

	March 31, 2008	December 31, 2007
	(In millions)	
9.5% Senior Unsecured Notes due December 2012	$ 350.0	$ 350.0
Variable-rate term loan due in installments through November 2011	124.6	126.9
Revolving credit facility available through November 2010	43.0	
Variable-rate note payable due in installments through July 2014		7.9
Total debt	517.6	484.8
Less: Current portion of long-term debt	(1.3)	(9.2)
Total long-term debt	$ 516.3	$ 475.6

The company is required, under the terms of the credit agreement, to remit a certain percentage of excess cash flow (ECF Percentage, as defined in the credit agreement) as a prepayment of term loan principal. This is in addition to the normal quarterly installments. As a result, the first such annual mandatory payment, in the amount of $11.1 million, was paid in April 2007 based on the ECF Percentage for the fiscal year 2006. No such mandatory payment is required for the fiscal year 2007.

The terms of the credit agreement provide for customary representations and warranties, affirmative and negative covenants, and events of default. In February 2008, the company 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 for the February 2008 amendment which the company will amortize over the remaining life of the debt. The margin applicable to LIBOR borrowings is now 300 basis points.

TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the Total Leverage Ratio and the Interest Coverage Ratio as specified by the financial covenants under the company s credit agreement.

	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 company was in compliance with its financial covenants at March 31, 2008. The achievement of the company s forecasted results is critical to remaining in compliance with the financial covenants. 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.

In January 2008, the company elected to redeem its Australian dollar denominated variable-rate note payable by paying the outstanding principal balance and applicable interest. During the first quarter of 2008, the company obtained borrowings from its revolving credit facility resulting in a balance of $43.0 million on March 31, 2008. The company intends and has the ability to refinance this balance for a duration in excess of one year and thus has reflected the outstanding balance in long-term debt in the Condensed Consolidating Balance Sheets.

7. Comprehensive Income (Loss)

Comprehensive income (loss), net of taxes, consists of the following:

	Three Months Ended March 31, 2008 (In millions)	2007
Net loss	$ (0.2)	$ (9.4)
After tax changes in:		

Foreign currency translation adjustments		20.7		3.3
Cash flow hedge activity:				
Unrealized gain, net of taxes of nil and $(0.6)		2.8		1.0
Reclassification adjustments, net of taxes of nil and $(0.4)		(0.3)		0.8
Benefit plan activity:				
Amortization of net actuarial loss, net of taxes of nil and $(0.4)		0.6		0.9
Amortization of net prior service cost, net of taxes of nil and $(0.2)		(1.9)		0.2
Total comprehensive income (loss)	$	21.7	$	(3.2)

TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Income Taxes

The reconciliation of the federal statutory rate to the effective income tax rate applicable to loss from continuing operations is as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
U.S. statutory tax rate	35.0%	35.0%
Increases (decreases) resulting from		
Taxation of foreign operations	20.8	(23.5)
State income taxes	(1.1)	1.6
FIN 48 adjustment	(22.8)	(5.7)
Valuation allowances	(34.3)	(14.1)
Tax and interest on agreed audit adjustments	(6.6)	(0.7)
Prior year accrual adjustments	68.9	
Other net	(6.6)	2.8
Effective income tax rate	53.3%	(4.6)%

The company recorded changes to the valuation allowances of certain U.S. and foreign deferred tax assets during the quarter ended March 31, 2008.

The company adopted the provisions of FIN 48 as of January 1, 2007. The gross amount of unrecognized tax positions at March 31, 2008, was $57.9 million, compared to $54.6 million at December 31, 2007. The change during the quarter was primarily related to interest accruals and foreign currency translation. Excluded from the balances are valuation allowances and indirect tax benefits which net to $2.8 million and $2.6 million at March 31, 2008, and December 31, 2007, respectively. At March 31, 2008, the net benefit associated with approximately $59.1 million of the reserve for unrecognized tax benefits, if recognized, would affect the effective income tax rate. The equivalent amount at December 31, 2007, is $55.6 million.

As a result of ongoing negotiations with the German tax authorities, it is reasonably possible that the company s gross unrecognized tax benefits balance may decrease within the next twelve months by a range of zero to $10.9 million.

The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the three months ended March 31, 2008, the company recognized approximately $1.6 million in gross interest and penalties in the Condensed Consolidated Statement of Operations. As of December 31, 2007, the company had approximately $12.6 million accrued for the gross payment of interest and penalties. The equivalent amount at March 31, 2008, was $14.7 million, including the effects of foreign currency translation.

The company was included in the U.S. federal income tax returns of Kerr-McGee Corporation and Subsidiaries for tax periods ending in 2005 and prior. The Internal Revenue Service has completed its examination of the Kerr-McGee Corporation and Subsidiaries federal income tax returns for all years through 2002 and is currently conducting an examination of the years 2003 through 2005. The years through 2002 have been closed with the exception of issues for which a refund claim has been filed and is being pursued in United States Court of Federal Claims. The company believes it has made adequate provisions for any amounts that may become payable to Kerr-McGee under the tax sharing agreement with respect to these closed years.

A German audit is being conducted for the years 1998 through 2001. A Dutch audit is being conducted for the years 2001 through 2005. Only the year 2002 has closed with respect to Australia, and no periods have closed with respect to Germany, Switzerland or for the Netherlands (periods subsequent to the acquisition in 2000). The

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

company believes that it has made adequate provision for income taxes that may be payable with respect to years open for examination; however, the ultimate outcome is not presently known and, accordingly, additional provisions may be necessary and/or reclassifications of noncurrent tax liabilities to current may occur in the future.

Tax Sharing Agreement and Tax Allocations The company entered into a tax sharing agreement with Kerr-McGee that governs Kerr-McGee s and the company s respective rights, responsibilities and obligations subsequent to the IPO with respect to taxes for tax periods ending in 2005 and prior. Generally, taxes incurred or accrued prior to the IPO that are attributable to the business of one party will be borne solely by that party. Payables or receivables may result under the tax sharing agreement as the IRS completes its examination of the Kerr-McGee Corporation and Subsidiaries U.S. federal income tax returns for tax periods ending in 2005 and prior.

The company may incur certain restructuring taxes as a result of the separation from Kerr-McGee. A restructuring tax is any tax incurred as a result of any restructuring transaction undertaken to effectuate the separation other than the IPO, the Distribution and entering into the senior secured credit facility, which in the judgment of the parties is currently required to be taken into account in determining the tax liability of Kerr-McGee or Tronox (or their respective subsidiaries) for any pre-deconsolidation period as defined in the tax sharing agreement. The tax sharing agreement provides that Kerr-McGee will be responsible for 100% of the restructuring taxes up to, but not to exceed, $17.0 million. To date, Kerr-McGee has reimbursed the company approximately $0.7 million under this provision all of which was received during 2008. The company is responsible for any restructuring taxes in excess of $17.0 million. However, the company does not expect the restructuring taxes to exceed $17.0 million. In addition, the company is required to indemnify Kerr-McGee for any tax liability incurred by reason of the Distribution being considered a taxable transaction to Kerr-McGee as a result of a breach of any representation, warranty or covenant made by the company in the tax sharing agreement.

Under U.S. federal income tax laws, the company and Kerr-McGee are jointly and severally liable for Kerr-McGee s U.S. federal income taxes attributable to the periods prior to and including the 2005 taxable year of Kerr-McGee. If Kerr-McGee fails to pay the taxes attributable to it under the tax sharing agreement for periods prior to and including the 2005 taxable year of Kerr-McGee, the company may be liable for any part, including the whole amount, of these tax liabilities. The company has not provided for taxes relating to Kerr-McGee that it would not otherwise be liable for under the terms of the tax sharing agreement.

9. Discontinued Operations

The following table presents pretax income (loss) from discontinued operations by type of cost and total after-tax income (loss) from discontinued operations for the three-month periods ended March 31, 2008 and 2007.

	Environmental Provisions (1)	Litigation Provisions, Legal and Other Costs (1)	Total
		(In millions)	
Three months ended March 31, 2008:			

Total pretax income	$	2.2	$	(1.0)	$	1.2
Tax provision (2)						
Total after tax income					$	1.2
Three months ended March 31, 2007:						
Total pretax loss	$	(1.5)	$	0.9	$	(0.6)
Tax benefit						0.2
Total after tax loss					$	(0.4)

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(1) Litigation and environmental provisions along with legal and other costs are attributed to discontinued operations on a specific identification basis. Environmental provisions are net of reimbursements. Other costs are primarily comprised of insurance and ad valorem taxes.

(2) The tax provision on 2008 income from discontinued operations was offset by an adjustment to a previously established valuation allowance. As a result, no income tax provision has been recognized on 2008 income from discontinued operations.

10. Retirement Plans

The components of net periodic pension and postretirement cost and total retirement expense for the three-month periods ended March 31, 2008 and 2007 were:

	Retirement Plans		Postretirement Plans	
	Three Months Ended March 31,			
	2008	2007	2008	2007
	(In millions)			
Service cost	$ 2.2	$ 2.9	$ 0.2	$ 0.4
Interest cost	7.5	7.0	0.8	2.1
Expected return on plan assets	(9.2)	(9.8)		
Net amortization				
Prior service cost (credit)	0.7	0.7	(2.6)	(0.3)
Net actuarial loss	0.5	0.9	0.1	0.4
Total retirement expense	$ 1.7	$ 1.7	$ (1.5)	$ 2.6

The company is obligated under the MSA to maintain the Material Features (as defined in the employee benefits agreement of the MSA) of the U.S. postretirement plan without change for a period of three years following the Distribution date. During the third quarter of 2007, the company announced that effective April 1, 2009, certain features will change, including the cost-sharing provisions between the company and plan participants, life insurance benefits and certain retirement eligibility criteria. This announcement resulted in a plan remeasurement, which was performed by the company s actuary in August 2007. A new discount rate of 6.25% was selected by management for this remeasurement due to changes in certain economic indicators since the previous measurement as of December 31, 2006. The remeasurement reduced the company s postretirement benefit obligation by $93.1 million, impacted the unrecognized prior service cost component of other comprehensive income by $47.7 million, net of taxes, and impacted the unrecognized actuarial loss component of other comprehensive income by $10.3 million, net of taxes.

Effective January 1, 2008, the company s U.S. pension plan was amended to reflect certain changes, including prospective changes to retirement eligibility criteria, early retirement factors and the final average pay calculation.

These changes are reflected in the company s financial statements as a reduction in the service cost component of net periodic cost for 2008 and future periods. The company estimates that the changes will result in lower expense of approximately $1.9 million for 2008.

11. Employee Stock-Based Compensation

The company s Long Term Incentive Plan (LTIP) authorizes the issuance of certain stock-based awards including fixed-price stock options, restricted stock awards and performance awards, among others. In January 2008, the compensation committee of the Board of Directors authorized the issuance of approximately 260,000 stock options, 273,000 restricted stock-based awards and 4,174,000 performance units. Performance units are awards that management intends to settle in cash at the end of a three-year performance cycle (as defined in the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

LTIP). The contractual life and vesting period for performance units directly relate to the performance cycle and are generally three years. Performance units are liability awards (as defined by applicable accounting guidance) and are based on achievement of specified shareholder return targets, including a comparison to the returns of peer group companies for the same performance period. Liability awards are required to be remeasured on a quarterly basis until the settlement date at the end of the vesting period. Employees terminating their employment due to retirement, death or disability, retain the right to receive a pro-rata payout under the performance units awards.

The company estimates valuation assumptions for stock option and performance unit awards. For stock options the company uses the Black-Scholes option-pricing model and significant inputs and assumptions are summarized in the table below.

	January 2008 Assumptions
Grant-date share price	$ 7.48
Exercise price	$ 7.48
Risk-free interest rate	3.47%
Expected dividend yield	2.67%
Expected volatility	36%
Expected life (years)	6.2
Per-unit fair value of options granted	$ 2.31

For performance units, the company uses a Monte Carlo simulation model to estimate fair value at the end of each reporting period. This model uses multiple input variables to determine the probability of satisfying the award s market conditions. Inputs into the model include the following for Tronox and peer group companies: total shareholder return from the beginning of the performance cycle through the measurement date, volatility, risk-free rates and correlation of Tronox s and peer group companies total shareholder return. The inputs are based on historical capital market data. The total fair-value-based obligation associated with awards expected to vest is further adjusted to reflect the extent to which employee services necessary to earn the awards have been rendered. Compensation cost for any given period equals the increase or decrease in the liability for awards outstanding and expected to vest.

For the three months ended March 31, 2008, compensation expense related to all stock-based awards, including those granted in the first quarter, totaled $1.1 million. For the three months ended March 31, 2007, compensation expense related to all stock-based awards totaled $3.1 million.

12. Contingencies

The following table summarizes the contingency reserve balances, provisions, payments and settlements for the three months ended March 31, 2008, as well as balances, accruals and receipts of reimbursements of environmental costs from other parties.

Reserves for

	Reserves for Litigation		Environmental Remediation (In millions)		Reimbursements Receivable (1)	
Balance at December 31, 2007	$	9.6	$	188.8	$	67.6
Provisions/Accruals						2.2
Payments/Settlements				(7.0)		(2.3)
Balance at March 31, 2008	$	9.6	$	181.8	$	67.5

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(1) Reimbursements for environmental remediation and restoration include $2.2 million related to the company s former thorium compounds manufacturing, uranium and nuclear and refining operations, which are reflected in the Condensed Consolidated Statements of Operations as a component of loss from discontinued operations (net of taxes).

Management believes, after consultation with its internal legal counsel, that currently the company is reserved adequately for the probable and reasonably estimable costs of known environmental matters and other contingencies. However, additions to the reserves may be required as additional information is obtained that enables the company to better estimate its liabilities, including liabilities at sites now under review. At this time, however, the company cannot reliably estimate a range of future additions to the reserves for any individual site or for all sites collectively. Reserves for environmental sites are based, among other factors, on assumptions regarding the volumes of contaminated soils and groundwater involved, as well as associated excavation, transportation and disposal costs.

The company provides for costs related to contingencies when a loss is probable and the amount is reasonably estimable. It is not possible for the company to reliably estimate the amount and timing of all future expenditures related to environmental and legal matters and other contingencies because, among other reasons:

Some sites are in the early stages of investigation, and other sites may be identified in the future.

Remediation activities vary significantly in duration, scope and cost from site to site depending on the mix of unique site characteristics, applicable technologies and regulatory agencies involved.

Remediation requirements are difficult to predict at sites where remedial investigations have not been completed or final decisions have not been made regarding remediation requirements, technologies or other factors that bear on remediation costs.

Environmental laws frequently impose joint and several liability on all potentially responsible parties (PRPs), and it can be difficult to determine the number and financial condition and possible defenses of PRPs and their respective shares of responsibility for clean-up costs.

Environmental laws and regulations, as well as enforcement policies and clean-up levels, are continually changing, and the outcome of court proceedings, alternative dispute resolution proceedings (including mediation) and discussions with regulatory agencies are inherently uncertain.

Unanticipated construction problems and weather conditions can hinder the completion of environmental remediation.

Some legal matters are in the early stages of investigation or proceeding or their outcomes otherwise may be difficult to predict, and other legal matters may be identified in the future.

The inability to implement a planned engineering design or use planned technologies and excavation or extraction methods may require revisions to the design of remediation measures, which can delay remediation and increase costs.

The identification of additional areas or volumes of contamination and changes in costs of labor, equipment and technology generate corresponding changes in environmental remediation costs.

Current and former operations of the company require the management of regulated materials and are subject to various environmental laws and regulations. These laws and regulations will obligate the company to clean up various sites at which petroleum, chemicals, low-level radioactive substances and/or other materials have been contained, disposed of or released. Some of these sites have been designated Superfund sites by the U.S. Environmental Protection Agency (the EPA), pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) or state equivalents. Similar environmental laws and regulations and other requirements exist in foreign countries in which the company operates.

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The table below presents environmental reserve provisions during the three-month period ending March 31, 2008 and reserve balances as of that date, for major sites, followed by discussion of those major sites. Although actual costs may differ from current estimates reflected in the reserve balances, the amount of any further revisions in remediation costs cannot be reasonably estimated at this time.

Location of Site	Provisions/ Accruals	Reserve Balance at March 31, 2008	Reimbursement Receivable at March 31, 2008
	(Millions of dollars)		
Henderson, Nevada	$	$ 22.9	$ 20.8
West Chicago, Illinois		51.4	29.2
Ambrosia Lake, New Mexico		8.0	
Crescent, Oklahoma		9.4	
Manville, New Jersey		35.0	17.5
Sauget, Illinois		5.7	
Cleveland, Oklahoma		3.4	
Cushing, Oklahoma		9.4	
Jacksonville, Florida		5.0	
Riley Pass, South Dakota		1.8	
Other sites		29.8	
Total of all sites with reserves	$	$ 181.8	$ 67.5

Following are discussions regarding certain environmental sites and litigation of the company.

Environmental

Henderson, Nevada

In 1998, Tronox LLC decided to exit the ammonium perchlorate business. At that time, Tronox LLC curtailed operations and began preparation for the shutdown of the associated production facilities in Henderson, Nevada, that produced ammonium perchlorate and other related products. Manufacture of perchlorate compounds began at Henderson in 1945 in facilities owned by the U.S. government. The U.S. Navy expanded production significantly in 1953 when it completed construction of a plant for the manufacture of ammonium perchlorate. The U.S. Navy continued to own the ammonium perchlorate plant, as well as other associated production equipment at Henderson, until 1962, when the plant was purchased by a predecessor of the company. The ammonium perchlorate produced at the Henderson facility was used primarily in federal government defense and space programs. Perchlorate that may have originated, at least in part, from the Henderson facility has been detected in nearby Lake Mead and the Colorado River, which contribute to municipal water supplies in Arizona, Southern California and Southern Nevada.

Tronox LLC began decommissioning the facility and remediating associated perchlorate contamination, including surface impoundments and groundwater, when it decided to exit the business in 1998. In 1999 and 2001, Tronox LLC entered into consent orders with the Nevada Division of Environmental Protection (the NDEP) that require it to implement both interim and long-term remedial measures to capture and remove perchlorate from groundwater. In April 2005, Tronox LLC entered into an amended consent order with the NDEP that requires, in addition to the capture and treatment of groundwater, the closure of a certain impoundment related to the past production of ammonium perchlorate, including treatment and disposal of solution and sediment contained in the impoundment. A separate agreement reached in 1996 with the NDEP also requires Tronox LLC to test for various potential contaminants at the site, which is ongoing. The second phase of the site investigation including preparation of a risk assessment is expected to be completed by late-2008. Results of testing may lead to further

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site characterization and remediation, the costs of which, if any, are not currently included in the financial reserves discussed below.

In 1999, Tronox LLC initiated the interim measures required by the consent orders. A long-term remediation system is operating in compliance with the consent orders. Initially, the remediation system was projected to operate through 2007. However, studies of the decline of perchlorate levels in the groundwater indicate that Tronox LLC may need to operate the system through 2011. The scope, duration and cost of groundwater remediation likely will be driven in the long term by drinking water standards regarding perchlorate, which to date have not been formally established by applicable state or federal regulatory authorities. The EPA and other federal and state agencies continue to evaluate the health and environmental risks associated with perchlorate as part of the process for ultimately setting drinking water standards. Two state agencies, the Massachusetts Department of Environmental Protection and the California Environmental Protection Agency have established maximum contaminant levels (MCLs) for perchlorate of 2 parts per billion and 6 parts per billion, respectively. Also, the EPA has established a reference dose for perchlorate, which is a preliminary step to setting drinking water standards. The establishment of applicable drinking water standards could materially affect the scope, duration and cost of the long-term groundwater remediation that Tronox LLC is required to perform. The long-term scope, duration and cost of groundwater remediation and impoundment closure are uncertain and, therefore, additional costs beyond those accrued may be incurred in the future. However, the amount of additional costs, if any, cannot be reasonably estimated at this time.

Litigation In 2000, Tronox LLC initiated litigation against the United States seeking contribution for its Henderson response costs. The suit was based on the fact that the government owned the plant in the early years of its operation, exercised significant control over production at the plant and the sale of products produced at the plant, even while not the owner, and was the largest consumer of products produced at the plant. Before trial, the parties agreed to a settlement of the claims against the United States. The settlement was memorialized in a consent decree approved by the court on January 13, 2006. In February 2006, under the consent decree, the United States paid Tronox LLC $20.5 million in contribution for past costs. Commencing January 1, 2011, the United States will be obligated to pay 21% of Tronox LLC s remaining response costs at Henderson, if any, related to perchlorate.

Insurance Reimbursement In 2001, Tronox LLC purchased a 10-year, $100 million environmental cost cap insurance policy for groundwater and other remediation at Henderson. The insurance policy provides coverage after Tronox LLC exhausts a self-insured retention of approximately $62.3 million ($61.3 million self-insured retention, plus an additional $1.0 million retention for certain additional coverage under the policy) and covers only those costs incurred to achieve a cleanup level specified in the policy. As noted above, federal and applicable state agencies have not established a drinking water standard and, therefore, it is possible that Tronox LLC may be required to achieve a cleanup level more stringent than that covered by the policy. If so, the amount recoverable under the policy may be less than the ultimate cleanup cost.

At March 31, 2008, the company had received $18.3 million of cost reimbursement under the insurance policy, and expects that an estimated aggregate cleanup cost of $83.1 million less the $62.3 million self-insured retention to be covered by the policy (for a net amount of $20.8 million in potential reimbursement). The company believes that additional reimbursement of approximately $20.8 million is probable, and, accordingly, has recorded a receivable in the financial statements for that amount.

West Chicago, Illinois

In 1973, Tronox LLC closed a facility in West Chicago, Illinois, that processed thorium ores for the federal government and for certain commercial purposes. Historical operations had resulted in low-level radioactive contamination at the facility and in surrounding areas. The original processing facility is regulated by the State of Illinois (the State), and four vicinity areas are designated as Superfund sites on the National Priorities List (the NPL).

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Closed Facility Pursuant to agreements reached in 1994 and 1997 among Tronox LLC, the City of West Chicago and the State regarding the decommissioning of the closed West Chicago facility, Tronox LLC has substantially completed the excavation of contaminated soils and has shipped those soils to a licensed disposal facility. Surface restoration was completed in 2004, except for areas designated for use in connection with the Kress Creek and Sewage Treatment Plant remediation discussed below. Groundwater remediation is expected to continue for approximately seven years. Groundwater monitoring is expected to continue for approximately eleven years.

Vicinity Areas The EPA has listed four areas in the vicinity of the closed West Chicago facility on the NPL and has designated Tronox LLC as a PRP in these four areas. Tronox LLC has substantially completed remedial work for three of the areas (known as the Residential Areas, Reed-Keppler Park and the Sewage Treatment Plant). In June 2007, a Chicago-area newspaper published articles suggesting that certain Residential Area properties were not cleaned up adequately in the 1980s or the 1990s. The company believes the cleanup of a significant portion of the Residential Area properties to be adequate, as the EPA was involved indirectly in the cleanup. One property has been found to require additional assessment. The company is currently assessing the property in order to prepare a work plan for this cleanup. The EPA is in the process of verifying the work done on the remaining residential properties and the cleanup requirements for the one property. The company has established a reserve for the work that has been identified. Future requirements that may result from the planned EPA work cannot be estimated at this time.

Work continues at the other NPL site known as Kress Creek. The work involves removal of low level insoluble thorium residues principally in streambanks and streambed sediments. Tronox LLC has reached an agreement with the appropriate federal and state agencies and local communities regarding the characterization and cleanup of the sites, past and future government response costs, and the waiver of natural resource damages claims. The agreement is incorporated in consent decrees, which were approved and entered by the federal court in August 2005. The cleanup work, which began in the third quarter of 2005, is expected to be completed in 2010 and will require excavation of contaminated soils and stream sediments and shipment of excavated materials to a licensed disposal facility. Restoration of affected areas will continue into 2011. Monitoring of the restored areas will continue for three years after restoration is complete.

Government Reimbursement Pursuant to Title X, the U.S. Department of Energy (the DOE) is obligated to reimburse the company for certain decommissioning and cleanup costs incurred in connection with the West Chicago sites in recognition of the fact that about 55% of the facility s production was dedicated to U.S. government contracts. The amount authorized for reimbursement under Title X is $365 million plus inflation adjustments. That amount is expected to cover the government s full share of West Chicago cleanup costs. Through March 31, 2008, the company had been reimbursed approximately $304.2 million under Title X.

Reimbursements under Title X are provided by congressional appropriations. Historically, congressional appropriations have lagged the company s clean-up expenditures. As of March 31, 2008, the government s share of costs incurred by the company but not yet reimbursed by the DOE totaled approximately $29.2 million, which includes $2.1 million accrued in the first quarter of 2008. The company received $11.3 million from the government in April 2008 and believes that receipt of the remaining $17.9 in due course is probable and has reflected that amount as a receivable in the financial statements. The company will recognize recovery of the government s share of future remediation costs for the West Chicago sites as it incurs the cash expenditures.

Although actual costs may differ from current estimates, the amount of any revisions in remediation costs, if any, cannot be reasonably estimated at this time. The amount of the reserve is not reduced by reimbursements expected from the federal government under Title X of the Energy Policy Act of 1992 (Title X).

Ambrosia Lake, New Mexico

From the late 1950s until 1988, the company operated a uranium mining and milling operation at Ambrosia Lake near Grants, New Mexico, pursuant to a license issued by the Atomic Energy Commission (the AEC), now

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the Nuclear Regulatory Commission (the NRC). When the operation was sold, the company retained responsibility for certain environmental conditions existing at the site, including mill tailings, selected ponds and groundwater contamination related to the mill tailings and unlined ponds. Since 1989, the unaffiliated current owner of the site, Rio Algom Mining LLC (Rio Algom), has been decommissioning the site pursuant to the license issued by the NRC. Mill tailings, certain impacted surface soils and selected pond sediments have been consolidated in an onsite containment unit. Under terms of the sales agreement, which included provisions capping the liability of Rio Algom, the company became obligated to solely fund the remediation for the items described above when total expenditures exceeded $30 million, which occurred in late 2000. A decommissioning plan for the remaining impacted soil was submitted by Rio Algom to the NRC in January 2005 and was approved in July 2006. The soil decommissioning plan will take about one to two years to complete. The NRC has recently mandated additional erosion controls to protect the main tailings pile. This additional work will lengthen the time to complete NRC requirements to the end of 2008 or early 2009. Groundwater treatment was discontinued after approval by the NRC in February 2006; however, closure of an associated permit issued by the state of New Mexico is still pending. The state of New Mexico has recently raised issues about certain non-radiological constituents in the groundwater at the site. Discussions regarding these issues are ongoing, and resolution could affect remediation costs and/or delay ultimate site closure.

In addition to those remediation activities described above for which reserves have been established, as described below, Rio Algom is investigating soil contamination potentially caused by past discharge of mine water from the site, for which no reserve has been established.

Litigation On January 18, 2006, Rio Algom filed suit against Tronox Worldwide LLC in the U.S. District Court for the District of New Mexico. The suit seeks a determination regarding responsibility for certain labor-related and environmental remediation costs. Though Rio Algom seeks no specific amount in its complaint, it has asserted that future groundwater remediation costs for which it believes Tronox Worldwide LLC has responsibility could be as much as $128 million. Tronox Worldwide LLC believes these costs are hypothetical and unsupportable. Discovery is ongoing. Past efforts to reach a settlement have not been successful. No trial date has been set. The company has not provided a reserve for this lawsuit beyond the above-mentioned remediation reserve because at this time, the probability of a loss and the amount of loss, if any, cannot be reasonably estimated.

Crescent, Oklahoma

Beginning in 1965, Cimarron Corporation (Cimarron) operated a facility near Crescent, Oklahoma, at which it produced uranium and mixed oxide nuclear fuels pursuant to licenses issued by the AEC (now the NRC). Operations at the facility ceased in 1975. Since that time, buildings and soils were decommissioned in accordance with the NRC licenses. In limited areas of the site, groundwater is contaminated with radionuclides, and, in 2003, Cimarron submitted to the NRC and the Oklahoma Department of Environmental Quality (the ODEQ) a draft remediation work plan addressing the groundwater contamination. In 2005, the company began evaluating available technologies to address remaining groundwater issues. A remediation technology has been selected, and the company submitted for approval an amended plan to the NRC and the ODEQ in December 2006. The plan describes the remediation of the remaining groundwater issues. While there can be no guarantee that the plan will be approved, the company believes the plan represents an appropriate remediation technology. Negotiations with the NRC on the plan approval are ongoing.

New Jersey Wood-Treatment Site

Tronox LLC was named in 1999 as a potential responsible party (PRP) under CERCLA at a former wood-treatment site in New Jersey at which the EPA is conducting a cleanup. On April 15, 2005, Tronox LLC received a letter from the EPA asserting it is liable under CERCLA as a former owner or operator of the site and demanding reimbursement of costs expended by the EPA at the site. The letter made demand for payment of past costs in the amount of approximately $179 million, plus interest. The EPA informed Tronox LLC that as of December 5, 2006,

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project costs are approximately $244 million, and that it would consider resolving the matter for $239 million. Tronox LLC did not operate the site, which had been sold to a third party before Tronox LLC succeeded to the interests of a predecessor in the 1960s. The predecessor also did not operate the site, which had been closed down before it was acquired by the predecessor. Based on historical records, there are substantial uncertainties about whether or under what terms the predecessor assumed any liabilities for the site. In addition, although it appears there may be other PRPs to whom notice has been given, the company does not know whether the other PRPs have any valid defenses to liability for the site or whether the other PRPs have the financial resources necessary to meet their obligations, if proven. Tronox LLC, Tronox Worldwide LLC, Tronox Incorporated, Kerr-McGee Worldwide Corporation and the EPA entered into an agreement to toll the statute of limitations (tolling agreement) on March 28, 2006, and Tronox LLC and the EPA have submitted the matter to nonbinding mediation that could lead to a settlement or resolution of the EPA s demand.

On June 25, 2007, the New Jersey Department of Environmental Protection (NJ DEP) and the Administrator of the New Jersey Spill Compensation Fund sued Tronox LLC and unnamed others in Superior Court, Law Division, Somerset County, New Jersey. The plaintiffs allege defendants are responsible for releases from the Federal Creosote Superfund Site that damaged the state s groundwater and seek natural resource damages and reimbursement of costs that the state expended at the site and other similar relief. Tronox LLC has filed an answer in the matter. The state court has ordered that the case be stayed and referred the matter to the ongoing mediation with the EPA regarding the site.

As a follow-up to a July 2007 mediation session, another meeting was held on November 28, 2007, with the mediator, the EPA, the DOJ, the New Jersey Attorney General s office and the NJ DEP to discuss the remedy utilized by the government to clean up the site. Following this meeting, the DOJ and the EPA discussed the next steps with the mediator and it was agreed that the EPA and DOJ would continue to focus on their evaluation of other PRPs and would submit a response (either in writing or in another meeting) to the issues we raised in the November mediation session. On January 16, 2008, the EPA issued a second 104(e) request to Tronox seeking information and documents related to Kerr-McGee s restructuring of its chemical, legacy and oil and gas entities in 2001 and 2002, Kerr-McGee attempted sale and eventual spin-off of its legacy and chemical business, and the Master Separation Agreement between the two companies. The EPA issued an identical request for information to Anadarko Petroleum Corporation for Kerr-McGee. The company is responding to the EPA s request for information.

On November 14, 2007, two members of the U.S. Senate requested the U.S. Government Accountability Office (GAO) investigate EPA s cleanup of the site. On November 28, 2007, the GAO accepted the request and indicated it would begin its investigation around February 1, 2008.

The tolling agreement has been extended until the end of July 2008, in order to work through the various issues. If the mediation is unsuccessful, we intend to vigorously defend against the EPA s claim.

MSA Reimbursement As of March 31, 2008, the company had a receivable of $17.5 million representing 50% of the settlement amount that Anadarko Petroleum Corporation, on behalf of Kerr-McGee, has consented to contribute at or before the time the settlement, if accepted, becomes payable. The receivable has been reflected in accounts receivable in the accompanying Consolidated Balance Sheets.

Sauget, Illinois

From 1927 to 1969, Tronox LLC operated a wood-treatment plant on a 60-acre site in the Village of Sauget (formerly known as Monsanto) in St. Clair County, Illinois. Operations on the property resulted in the contamination of soil sediment, surface water and groundwater at the site with creosote and other substances used in wood treating. In 1988, Tronox LLC entered into a court-approved consent order with the Illinois Attorney General and Illinois Environmental Protection Agency. The investigation and feasibility study for sediments required by the order are complete. Pond sediment removal was completed in 2007, with final pond closure and groundwater investigation expected to be completed in 2008.

TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cleveland, Oklahoma

Triple S Refining Corporation (Triple S), formerly known as Kerr-McGee Refining Corporation, owned and operated a petroleum refinery near Cleveland, Oklahoma, until the facility was closed in 1972. In 1992, Triple S entered into a Consent Order with the Oklahoma Department of Health (later, the ODEQ), which addresses the remediation of air, soil, surface water and groundwater contaminated by hydrocarbons and other refinery related materials. Facility dismantling and several interim remedial measures have been completed. In 2006, the ODEQ approved the remedial design for soil and waste remediation, which includes construction of an on-site disposal cell. Triple S is currently conducting a reevaluation of the expected soil volumes that will require placement in the previously approved disposal cell. This reevaluation is required due to additional findings of asbestos impacted material. This evaluation and other associated project requirements may increase costs but cannot be estimated at this time. A feasibility study of groundwater remedial measures is under review by the ODEQ. Duration of remedial activities currently cannot be estimated.

Additional groundwater characterization will occur upon completion of the soils and sediments removal. Although actual costs may differ from current estimates, the amount of any revisions in remediation costs, if any, cannot be reasonably estimated at this time.

Cushing, Oklahoma

In 1972, Triple S closed a petroleum refinery it had operated near Cushing, Oklahoma. Prior to closing the refinery, Triple S also had produced uranium and thorium fuel and metal at the site pursuant to licenses issued by the AEC.

In 1990, Triple S entered into a consent agreement with the State of Oklahoma to investigate the site and take appropriate remedial actions related to petroleum refining and uranium and thorium residuals. Investigation and remediation of hydrocarbon contamination is being performed under the oversight of the ODEQ. Remediation activities to address known hydrocarbon contamination in soils is expected to take about four more years. The long-term scope, duration and cost of groundwater remediation are uncertain and, therefore, additional costs beyond those accrued may be incurred in the future.

In 1993, Triple S received a decommissioning license from the NRC, the successor to the AEC s licensing authority, to perform certain cleanup of uranium and thorium residuals. All known radiological contamination has been removed from the site and shipped to a licensed disposal facility, completing the license requirements.

At the company s request, the NRC terminated the site license in 2006, thereby allowing the company to avoid costs that would otherwise be incurred in association with continued license maintenance.

Jacksonville, Florida

In 1970, Tronox LLC purchased a facility in Jacksonville, Florida, that manufactured and processed fertilizers, pesticides and herbicides. Tronox LLC closed the facility in 1978. In 1988, all structures were removed, and Tronox LLC began site characterization studies. In 2000, Tronox LLC entered into a consent order with the EPA to conduct a remedial investigation and a feasibility study. The remedial investigation was completed and submitted to the EPA in August 2005. A feasibility study was submitted to the EPA in October 2006. The study recommended site soil remediation and excavation, site capping and limited groundwater remediation. The EPA has requested additional sediment data be collected to support the site recommendation. A sediment analysis plan has been prepared and was submitted in August 2007 to respond to the EPA s request. The analysis work plan was approved by the EPA in January 2008. Samples required by the plan have been collected and information resulting from the study is currently under review. Negotiations with the agency are ongoing.

TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Riley Pass, South Dakota

The site consists of a series of natural bluffs where the company conducted mining for uranium in the early to mid 1960s. The uranium was located in a lignite coal bed which was extracted after the overburden materials were removed. The bluff locations are mostly contained on properties owned by the federal government and managed by the U.S. Forest Service. In February 2007, the company entered into a Settlement Agreement and Consent Order with the Forest Service that requires the company to conduct an assessment of the site and to evaluate any required remedial actions needed to address contaminated soils or to prevent soil erosion. The company prepared a work plan to assess the site soils, conduct vegetation studies, evaluate archeological sites and to generate a preliminary pre-design report. This work plan and subsequent submittals have been approved by the Forest Service. Data collected as part of the approved work plans have identified areas where soils exceed a cleanup threshold that requires the material to be excavated and placed into engineered disposal cells. Based on the estimated volumes of impacted material and an estimated cost for the construction of two disposal cells the company added $1.5 million to the reserve during 2007. Final design plans for the cells and the procedures for excavating and transporting the material to the cells will be submitted to the Forest Service for approval in 2008. Additional plans and design details will continue to be evaluated in 2008 to identify any other work required at the site.

Other Sites

In addition to the sites described above, the company is responsible for environmental costs related to certain other sites. These sites relate primarily to wood treating, chemical production, landfills, mining, and oil and gas refining, distribution and marketing. Although actual costs may differ from current estimates, the amount of any revisions in remediation costs cannot be reasonably estimated at this time. One such site is a site in Hanover, Massachusetts, which has a reserve balance of $0.2 million at March 31, 2008. Evaluations are ongoing concerning the possible extent of any future remediation and the company s share of costs, if any, cannot be reasonably estimated at this time. In addition, the company and the other PRPs assert that most, if not all, of the impacts to the site were a result of the activities done under Department of Defense (DOD) control which would reduce the company s percentage of responsibility. Negotiations with the DOD are ongoing.

Master Separation Agreement

Pursuant to the MSA (which recites that it binds successors), Kerr-McGee will reimburse the company for a portion of the environmental remediation costs it incurs and pays (net of any cost reimbursements it recovers or expects to recover from insurers, governmental authorities or other parties). The reimbursement obligation extends to costs incurred at any site associated with any of the company s former businesses or operations.

With respect to any site for which the company has established a reserve as of the effective date of the MSA, 50% of the remediation costs the company incurs in excess of the reserve amount (after meeting a $200,000 minimum threshold amount) will be reimbursable by Kerr-McGee, net of any amounts recovered or, in the company s reasonable and good faith estimate, that will be recovered from third parties. With respect to any site for which the company has not established a reserve as of the effective date of the MSA, 50% of the amount of the remediation costs the company incurs and pays (after meeting a $200,000 minimum threshold amount) will be reimbursable by Kerr-McGee, net of any amounts recovered or, in the company s reasonable and good faith estimate, that will be recovered from third parties. At March 31, 2008, the company had a receivable of $17.6 million, primarily representing 50% of the settlement offer the company made related to the New Jersey wood-treatment site as described above that Anadarko Petroleum Corporation, on behalf of Kerr-McGee, has consented to contribute at or before the time the settlement, if accepted, becomes payable.

Kerr-McGee s aggregate reimbursement obligation to the company cannot exceed $100 million and is subject to various other limitations and restrictions. For example, Kerr-McGee is not obligated to reimburse the company for amounts it pays to third parties in connection with tort claims or personal injury lawsuits, or for administrative fines or civil penalties that the company is required to pay. Kerr-McGee s reimbursement obligation also is limited

TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to costs that the company actually incurs and pays within seven years following the completion of the IPO. As of March 31, 2008, Kerr-McGee has reimbursed the company $3.0 million under this arrangement.

Litigation and Claims

Birmingham, Alabama

Until 1995, Triple S operated a petroleum terminal in Birmingham, Alabama. In late 2005, a local church, which is located on property adjacent to the site, demanded payment for damages of approximately $25 million in connection with a release of petroleum alleged to have occurred at the terminal and threatened litigation. In March 2006, the company filed a lawsuit in federal court seeking a declaration of the parties rights and injunctive relief. The defendant has moved to dismiss the company s suit and has also filed a countersuit in the circuit court for Jefferson County, Alabama, against the company and third parties seeking property damages, injunctive relief and costs. In January 2007, the judge in the federal lawsuit issued an order abstaining from exercising jurisdiction over the matter, and Triple S s appeal was denied. The case will remain in state court. Discovery is ongoing. The company has not provided a reserve for the litigation because at this time it cannot reasonably determine the probability of a loss, and the amount of loss, if any, cannot be reasonably estimated. The company currently believes that the ultimate resolution of the litigation is not likely to have a material adverse effect on the company.

Forest Products Litigation

The company is defending a number of lawsuits related to three former wood-treatment plants in Columbus, Mississippi; Avoca, Pennsylvania; and Texarkana, Texas. All of these lawsuits seek recoveries under a variety of common law and statutory legal theories for personal injuries and/or property damages allegedly caused by exposure to and/or release of chemicals used in the wood-treatment process, primarily creosote. The company currently believes that claims asserted in these lawsuits are without substantial merit and is vigorously defending them except where reasonable resolutions can be achieved.

At Columbus, Mississippi, the consolidated federal case, which had been set for the initial trial of two plaintiffs in November 2007, was stricken from the court s docket so that the parties could pursue mediation. On October 3, 2007, the judge entered an order dismissing the consolidated litigation without prejudice, limiting future litigation to individual cases that are not settled through mediation. In December 2007, negotiations on the terms of a mediation agreement concluded with the execution of a mediation agreement. The first mediation hearing in this matter is expected to begin in the first half of 2008. Also, the venue of the Maranatha Faith Center property damage lawsuit was transferred in February 2008 from Columbus to Starkville, Mississippi, and trial is set for October 27, 2008.

At Avoca, Pennsylvania, 35 state court lawsuits were filed in 2005 by over 4,000 plaintiffs. The plaintiffs have classified their claims into various alleged disease categories. In September 2005, the judge ordered that discovery and the first trial will focus on plaintiffs who allege pre-cancerous skin lesions. The first trial was scheduled for August 2007, but in May 2007 the parties agreed on arbitration as an alternative to this litigation. The judge approved arbitration and placed the lawsuits on an inactive docket. The first arbitration hearing, to address plaintiffs who claim pre-cancerous skin lesions, was conducted from October 1 10, 2007, with a single arbitrator to decide whether plaintiffs claims should be compensated. In November 2007, both sides submitted post-arbitration briefs, findings of fact, and conclusions of law for the arbitrator s consideration. On January 4, 2008, counsel for the parties made closing arguments to the arbitrator. On April 18, 2008, the arbitrator entered 9 individual awards which together total $0.2 million. The second arbitration hearing for plaintiffs claiming skin cancer is set for June 16, 2008.

At Texarkana, Texas, the six plaintiffs and the insurer in Jeans v. Tronox reached an agreement in principle to settle in January 2008. The agreement was confirmed in writing by plaintiff s counsel on March 4, 2008. When

TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agreement is finalized, this case will be dismissed. It is expected that the settlement will be fully funded by the insurer.

Financial Reserves As of March 31, 2008, the company had reserves of $8.9 million related to certain forest products litigation. Although actual costs may differ from the current reserves, the amount of any revisions in litigation costs cannot be reasonably estimated at this time. The company currently believes that the ultimate resolution of this forest products litigation is not likely to have a material adverse effect on the company.

Savannah Plant

On September 8, 2003, the Environmental Protection Division of the Georgia Department of Natural Resources (the EPD) issued a unilateral Administrative Order to our subsidiary, Tronox Pigments (Savannah) Inc., claiming that the Savannah plant exceeded emission allowances provided for in the facility s Title V air permit. On October 8, 2003, Tronox filed an Administrative Appeal of the Administrative Order. On September 19, 2005, the EPD rescinded the Administrative Order and filed a Withdrawal of Petition for Hearing on Civil Penalties. Accordingly, the proceeding on the merits of the Administrative Order and the administrative penalties was dismissed, without prejudice. After dismissal of the Administrative Order, representatives of the EPD, the EPA and Tronox continued with their discussions regarding a resolution of the alleged violations, with the EPA taking the lead role in these discussions. On December 6, 2006, the EPA informed Tronox Pigments (Savannah) Inc. that it had submitted a civil referral to the U.S. Department of Justice (the DOJ) with respect to the air quality issues and for matters stemming from an EPA led Resource Conservation and Recovery Act (RCRA) Compliance Evaluation Inspection (CEI) that occurred in January 2006. Prior to the filing of any formal action, the DOJ has agreed to a series of settlement negotiations to determine if the matter can be resolved. In discussions with the EPA, EPD and the DOJ, Tronox Pigments (Savannah) Inc. tendered an offer of settlement and compromise to settle all outstanding issues in the amount of $0.6 million as a penalty to be paid over an eight-month period and approximately $2.4 million in Supplemental Environmental Projects. Discussions regarding the offer of settlement and compromise are ongoing.

Financial Reserves As of March 31, 2008, the company had reserves of $0.6 million related to Savannah plant emission litigation. Although actual costs may differ from the current reserves, the amount of any revisions in litigation costs cannot be reasonably estimated at this time.

Other Matters

The company is party to a number of legal and administrative proceedings involving environmental and/or other matters pending in various courts or agencies. These proceedings, individually and in the aggregate, are not expected to have a material adverse effect on the company. These proceedings are also associated with facilities currently or previously owned, operated or used by the company and/or its predecessors, some of which include claims for personal injuries, property damages, cleanup costs and other environmental matters. Current and former operations of the company also involve management of regulated materials and are subject to various environmental laws and regulations. These laws and regulations will obligate the company to clean up various sites at which petroleum and other hydrocarbons, chemicals, low-level radioactive substances and/or other materials have been contained, disposed of or released. Some of these sites have been designated Superfund sites by the EPA pursuant to CERCLA or state equivalents. Similar environmental laws and regulations and other requirements exist in foreign countries in which the company operates.

13. Commitments

At March 31, 2008, the company had outstanding letters of credit in the amount of approximately $69.9 million. These letters of credit have been granted by financial institutions to support our environmental clean-up costs and miscellaneous operational and severance requirements in international locations.

TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The company has entered into certain agreements that require it to indemnify third parties for losses related to environmental matters, litigation and other claims. No material obligations are presently known and, thus, no reserve has been recorded in connection with such indemnification agreements.

The company s Australian joint venture has entered into new long term contracts for the supply of process chemicals and utilities. The impact of these new contracts increased the company s commitments under purchase obligations beginning in 2009 and going forward by a total of $39.3 million and increased operating lease payments over the same duration by a total of $49.3 million compared to the amounts disclosed in the company s 2007 Annual Report on Form 10-K .

14. Reporting by Business Segment and Geographic Locations

The company has one reportable segment representing the company s pigment business. The pigment segment primarily produces and markets TiO_2 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. 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. Segment performance is evaluated based on segment operating profit (loss), which represents results of segment operations before considering general expenses and environmental provisions related to sites no longer in operation, interest and debt expense, other income (expense) and income taxes. The company considers total operating profit (loss) of its segment and other businesses to be an important supplemental measure of its operating performance by presenting trends in its core businesses and facilities currently in operation. This measure is used for planning and budgeting purposes and to facilitate period-to-period comparisons in operating performance.

	Three Months Ended March 31,	
	2008	**2007**
	(In millions)	
Net sales		
Pigment	$ 321.6	$ 315.4
Electrolytic and other chemical products	27.5	23.7
Total net sales	$ 349.1	$ 339.1
Operating profit (loss)		
Pigment	$ (3.0)	$ 7.3
Electrolytic and other chemical products	1.7	(0.6)
	(1.3)	6.7
Provision for environmental remediation and restoration		(0.2)

Gain on land sales	5.3	
Corporate and nonoperating sites	(0.8)	(4.5)
Total operating profit	3.2	2.0
Interest and debt expense	(12.3)	(12.3)
Other income, net	6.1	1.7
Income tax provision	1.6	(0.4)
Income (loss) from continuing operations	$ (1.4)	$ (9.0)

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TRONOX INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Related Party Transactions

Tronox conducted transactions with Exxaro Australia Sands Pty Ltd (Exxaro), who is the other 50% partner in the Tiwest Joint Venture. The company purchased raw materials used in its production of TiO_2 and also purchased Exxaro s share of TiO_2 produced by the Tiwest Joint Venture. The company also provided administrative services and product research and development activities which were reimbursed by Exxaro. The company made total net payments of $37.4 million and $27.3 million during the three months ended March 31, 2008 and 2007, respectively, for these activities and had a net payable to Exxaro totaling $35.0 million at March 31, 2008. Additionally, the outstanding note payable to Exxaro with a balance of $7.9 million at December 31, 2007 was paid off in January 2008 along with applicable interest of $0.8 million.

16. Subsequent Event

In the U.S., approximately 190 employees at the company s Savannah, Georgia, facility are members of a union and are subject to a collective bargaining arrangement. The collective bargaining agreement expired on April 30, 2008. The company and the union entered into negotiations for a new replacement agreement, but a new agreement has not yet been reached. The parties continue to observe the terms of the expired agreement. The company and the union plan to continue negotiations for a replacement for the expired agreement. The company is unable to determine what, if any, impact these labor matters could have on its financial condition, results of operations or liquidity. On a global basis, approximately half of the company s employees are covered by labor agreements.

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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 (TiO_2) 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 (TiO_2) 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 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 TiO_2 volume and increased by-product sales, partially offset by lower TiO_2 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.

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.

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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 March 31,		
	2008	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 TiO_2, 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.

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.

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

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ended March 31, 2007. The $12.3 million decrease in cash flows from operating activities for the 2008 period was 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).

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 2008 and 2009 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 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. 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 TiO_2 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.

Senior Unsecured Notes. Also concurrently with the IPO, Tronox Worldwide LLC and Tronox Finance Corp. issued $350 million in aggregate principal amount of 91/2% 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 Ti02, Asia Pacific continues to grow at impressive rates, with China and South Korea demand growing at double digit rates. While Europe Ti02 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 Ti02 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 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 Ti02 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.

Item 3. ***Quantitative and Qualitative Disclosure about Market Risk***

We are exposed to market risks, including credit risk, from fluctuations in foreign currency exchange rates, interest rate risk and natural gas prices. To reduce the impact of these risks on earnings and to increase the predictability of cash flows, from time to time, we enter into derivative contracts.

The U.S. dollar is the functional currency for our international operations, except for our European operations, for which the Euro is the functional currency. Periodically, we enter into forward contracts to buy and sell foreign currencies. These contracts generally have durations of less than two years. The following table presents the notional amounts at the contract exchange rates and the weighted-average contractual exchange rates for contracts to purchase (sell) foreign currencies at March 31, 2008. Changes in the fair value of these contracts are recorded in net income as a component of other income (expense).

	Notional Amount (In millions)	Weighted-Average Contract Rate
Maturing in 2008		
Euro	$ (50.5)	1.5612
Australian dollar	15.5	0.8858
Maturing in 2009		
Euro	(6.5)	1.5458

The fair value of foreign currency derivatives included in our Condensed Consolidated Balance Sheets was nil and a net liability of $0.2 million on March 31, 2008 and 2007, respectively.

To reduce the risk of fluctuations in natural gas prices and increase the predictability of cash flows, from time to time, we enter into financial derivative instruments that generally fix the commodity prices to be paid for a portion of our forecasted natural gas purchases. These contracts have been designated and qualified as cash flow hedges. As such, the resulting changes in fair value of these contracts, to the extent they are effective in achieving their risk management objective, are recorded in accumulated other comprehensive income. The fair value of natural gas contracts included in our Condensed Consolidated Balance Sheets was an asset of $3.0 million and an asset of $0.3 million on March 31, 2008 and 2007, respectively. These amounts will be recognized in earnings in the periods during which the hedged forecasted transactions affect earnings (i.e., reported as cost of goods sold when inventory is sold).

The following table presents the forecasted percentage hedged and the weighted average price per MMBtu for contracts outstanding at March 31, 2008, to purchase natural gas for our U.S. operations.

	% Hedged	Average Contract Price $/MMBtu
Q2, 2008	70%	$ 7.70
Q3, 2008	40%	$ 8.02
Q4, 2008	20%	$ 8.53

During 2007, we entered into interest-rate swap contracts to hedge interest payments on two $25.0 million traunches of our variable-rate term loan, both maturing in September 2009. The swap exchanges the variable LIBOR rate component for a fixed rate of 4.83% and 4.59%, respectively, on both traunches. We entered into similar contract in March 2008 on another $25.0 million traunche to swap our variable rate with a fixed rate of 2.46% with this contract expiring in March 2009. These contracts have been designated and qualify as cash flow hedges. As such, the resulting changes in fair value of these contracts are recorded in accumulated other comprehensive income. Settlement occurs concurrent with interest payments that are made on a quarterly basis where realized gains or losses are recognized as a component of interest expense. At March 31, 2008, the fair value of our interest rate swap contracts was included in our Condensed Consolidated Balance Sheets was a liability of $1.8 million.

Item 4. *Controls and Procedures*

a) Evaluation of Disclosure Controls and Procedures

The company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed by the company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission (SEC) rules and forms. In addition, the disclosure controls and procedures are designed to ensure that information required to be disclosed by the company is accumulated and communicated to the company s management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, an evaluation was carried out under the supervision and with the participation of the company s management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and

15d-15(e) under the Exchange Act). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the company s disclosure controls and procedures are effective.

b) Changes in Internal Control over Financial Reporting

There were no changes in the company s internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the company s internal control over financial reporting.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this report regarding Tronox Incorporated s or management s intentions, beliefs or expectations, or that otherwise speak to future events, are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements include those statements preceded by, followed by or that otherwise include the words believes, will, expects, anticipates, intends, estimates, projects, target goal, plans, objective, outlook, should, or similar words. Future results and developments discussed in these statements may be affected by numerous factors and risks, such as the accuracy of the assumptions that underlie the statements, the market value of Tronox Incorporated s products, demand for consumer products for which Tronox Incorporated s businesses supply raw materials, the financial resources of competitors, changes in laws and regulations, the ability to respond to challenges in international markets, including changes in currency exchange rates, political or economic conditions in areas where Tronox Incorporated operates, trade and regulatory matters, general economic conditions, and other factors and risks identified in Tronox Incorporated s U.S. Securities and Exchange Commission filings. Actual results and developments may differ materially from those expressed or implied in this Quarterly Report on Form 10-Q. Tronox Incorporated does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statement was made. Investors are urged to consider closely the disclosures in this Quarterly Report on Form 10-Q and the disclosures and risk factors in Tronox Incorporated s Annual Report on Form 10-K.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

Savannah Plant

On September 8, 2003, the Environmental Protection Division of the Georgia Department of Natural Resources (the EPD) issued a unilateral Administrative Order to our subsidiary, Tronox Pigments (Savannah) Inc., claiming that the Savannah plant exceeded emission allowances provided for in the facility s Title V air permit. On October 8, 2003, Tronox filed an Administrative Appeal of the Administrative Order. On September 19, 2005, the EPD rescinded the Administrative Order and filed a Withdrawal of Petition for Hearing on Civil Penalties. Accordingly, the proceeding on the merits of the Administrative Order and the administrative penalties was dismissed, without prejudice. After dismissal of the Administrative Order, representatives of the EPD, the EPA and Tronox continued with their discussions regarding a resolution of the alleged violations, with the EPA taking the lead role in these discussions. On December 6, 2006, the EPA informed Tronox Pigments (Savannah) Inc. that it had submitted a civil referral to the U.S. Department of Justice (the DOJ) with respect to the air quality issues and for matters stemming from an EPA led Resource Conservation and Recovery Act (RCRA) Compliance Evaluation Inspection (CEI) that occurred in January 2006. Prior to the filing of any formal action, the DOJ has agreed to a series of settlement negotiations to determine if the matter can be resolved. In discussions with the EPA, EPD and the DOJ, Tronox Pigments (Savannah) Inc. tendered an offer of settlement and compromise to settle all outstanding issues in the amount of $0.6 million as a penalty to be paid over an eight-month period and approximately $2.4 million in Supplemental Environmental Projects. Discussions regarding the offer of settlement and compromise are ongoing.

On March 10, 2008, the parties entered into an amended agreement to toll the statute of limitations, which will expire on July 31, 2008. The agreement will expire as of that date unless further extended by the parties. Discussions regarding the offer of settlement are ongoing.

Hamilton Plant

The EPA and the Mississippi Department of Environmental Quality (MDEQ) conducted a RCRA CEI at the Hamilton facility during April 2006. In November 2006, the EPA transmitted to the facility a copy of its RCRA CEI Report and Sampling Report, which identified a number of alleged violations of the Mississippi Hazardous Waste Management Regulations. In March 2007, the facility provided a written response to EPA concerning the alleged violations. In November 2007, the DOJ informed Tronox that the EPA, Region 4, had referred the alleged violations

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to the DOJ for civil enforcement. The Parties met in January 2008 to discuss the alleged violations and potential settlement of the matter. Settlement discussions with the DOJ and EPA are ongoing.

New Jersey Wood-Treatment Site

Tronox LLC was named in 1999 as a potential responsible party (PRP) under CERCLA at a former wood-treatment site in New Jersey at which the EPA is conducting a cleanup. On April 15, 2005, Tronox LLC received a letter from the EPA asserting it is liable under CERCLA as a former owner or operator of the site and demanding reimbursement of costs expended by the EPA at the site. The letter made demand for payment of past costs in the amount of approximately $179 million, plus interest. The EPA informed Tronox LLC that as of December 5, 2006, project costs are approximately $244 million, and that it would consider resolving the matter for $239 million. Tronox LLC did not operate the site, which had been sold to a third party before Tronox LLC succeeded to the interests of a predecessor in the 1960s. The predecessor also did not operate the site, which had been closed down before it was acquired by the predecessor. Based on historical records, there are substantial uncertainties about whether or under what terms the predecessor assumed any liabilities for the site. In addition, although it appears there may be other PRPs to whom notice has been given, the company does not know whether the other PRPs have any valid defenses to liability for the site or whether the other PRPs have the financial resources necessary to meet their obligations, if proven. Tronox LLC, Tronox Worldwide LLC, Tronox Incorporated, Kerr-McGee Worldwide Corporation and the EPA entered into an agreement to toll the statute of limitations (tolling agreement) on March 28, 2006, and Tronox LLC and the EPA have submitted the matter to nonbinding mediation that could lead to a settlement or resolution of the EPA s demand.

On June 25, 2007, the New Jersey Department of Environmental Protection (NJ DEP) and the Administrator of the New Jersey Spill Compensation Fund sued Tronox LLC and unnamed others in Superior Court, Law Division, Somerset County, New Jersey. The plaintiffs allege defendants are responsible for releases from the Federal Creosote Superfund Site that damaged the state s groundwater and seek natural resource damages and reimbursement of costs that the state expended at the site and other similar relief. Tronox LLC has filed an answer in the matter. The state court has ordered that the case be stayed and referred the matter to the ongoing mediation with the EPA regarding the site.

As a follow-up to a July 2007 mediation session, another meeting was held on November 28, 2007, with the mediator, the EPA, the DOJ, the New Jersey Attorney General s office and the NJ DEP to discuss the remedy utilized by the government to clean up the site. Following this meeting, the DOJ and the EPA discussed the next steps with the mediator and it was agreed that the EPA and DOJ would continue to focus on their evaluation of other PRPs and would submit a response (either in writing or in another meeting) to the issues we raised in the November mediation session. On January 16, 2008, the EPA issued a second 104(e) request to Tronox seeking information and documents related to Kerr-McGee s restructuring of its chemical, legacy and oil and gas entities in 2001 and 2002, Kerr-McGee attempted sale and eventual spin-off of its legacy and chemical business, and the Master Separation Agreement between the two companies. The EPA issued an identical request for information to Anadarko Petroleum Corporation for Kerr-McGee. The company is responding to the EPA s request for information

On November 14, 2007, two members of the U.S. Senate requested the U.S. Government Accountability Office (GAO) investigate EPA s cleanup of the site. On November 28, 2007, the GAO accepted the request and indicated it would begin its investigation around February 1, 2008.

The tolling agreement has been extended until the end of July 2008, in order to work through the various issues. If the mediation is unsuccessful, we intend to vigorously defend against the EPA s claim.

Forest Products

We are defending a number of lawsuits related to three former wood-treatment plants in Columbus, Mississippi; Avoca, Pennsylvania; and Texarkana, Texas. All these lawsuits seek recoveries under a variety of common law and statutory legal theories for personal injuries and/or property damages allegedly caused by exposure to and/or release of chemicals used in the wood-treatment process, primarily creosote. We currently believe that claims asserted in these lawsuits are without substantial merit and are vigorously defending them, except where reasonable resolutions can be achieved.

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At Columbus, Mississippi, the Maranatha Faith Center filed a state court property damage lawsuit in 2000. The church filed bankruptcy in 2003 but continues to prosecute its lawsuit. Tronox LLC moved for change of venue due to adverse publicity in the Columbus community stemming from prior litigation and settlements. In September 2006, the judge agreed with Tronox LLC and ordered the transfer of venue. On February 6, 2008, the judge reassigned the case to another judge and transferred the trial from Columbus to Starkville, Mississippi. Trial is set for October 27, 2008. Also pending in Mississippi state courts are two cases with two local businesses alleging property damage. Pending in Mississippi federal court are 238 cases filed from 2002 to 2005 that have been consolidated for pretrial and discovery purposes. While many plaintiffs have been dismissed on motions filed by Tronox LLC, over 2,000 plaintiffs remain in the consolidated action. In January 2007, the judge granted the Tronox LLC severance motion, requiring each individual plaintiff s case to be tried separately. However, the judge excepted from his severance order two plaintiffs (one with personal injuries and the other with property damage) who were set to be tried jointly later in 2007. These cases were subsequently stricken from the court s trial docket so that the parties could pursue mediation. On October 3, 2007, the judge entered an order dismissing the consolidated litigation without prejudice, limiting future litigation to individual cases that are not settled through mediation. In December 2007, negotiations on the terms of a mediation agreement concluded with the execution of a mediation agreement. The first mediation hearing in this matter is expected to begin in the first half of 2008.

At Avoca, Pennsylvania, 35 state court lawsuits were filed in 2005 by over 4,000 plaintiffs. The plaintiffs have classified their claims into various alleged disease categories. In September 2005, the judge ordered that discovery and the first trial will focus on plaintiffs who allege precancerous skin lesions. The first trial was scheduled for August 2007, but in May 2007 the parties agreed on arbitration as an alternative to this litigation. The trial judge approved arbitration and placed the lawsuits on an inactive docket. The first arbitration, to address plaintiffs who claim pre-cancerous skin lesions, was conducted from October 1-10, 2007, with a single arbitrator to decide whether plaintiffs claims should be compensated. In November 2007, both sides submitted post-arbitration briefs, findings of fact and conclusions of law for the arbitrator s consideration. On January 4, 2008, counsel for the parties made closing arguments to the arbitrator. On April 18, 2008, the arbitrator entered 9 individual awards which together total $0.2 million. The second arbitration hearing for plaintiffs claiming skin cancer is set for June 16, 2008.

At Texarkana, Texas, three federal lawsuits were filed from 2004 to 2006. The five plaintiffs in May v. Tronox concluded settlement negotiations with the insurer for Tronox in April 2007, and the case was dismissed in June 2007. Similarly, in Avance v. Tronox, 27 plaintiffs reached settlements with the insurer in July, and the case was dismissed on October 12, 2007. In Jeans v. Tronox, six plaintiffs and the insurer reached an agreement in principle to settle in January 2008. The agreement was confirmed in writing by plaintiff s counsel on March 4, 2008. When the agreement is finalized, this case will be dismissed. It is expected that the settlement will be fully funded by the insurer.

For a discussion of other legal proceedings and contingencies, including proceedings related to our environmental liabilities, see our Annual Report on Form 10-K for the year ended December 31, 2007, and Note 12 to the Condensed Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

Item 1A. ***Risk Factors***

The labor and employment laws in many jurisdictions in which we operate are more restrictive than in the U.S. Our relationship with our employees could deteriorate, which could adversely affect our operations

In the U.S., approximately 190 employees at our Savannah, Georgia, facility are members of a union and are subject to a collective bargaining arrangement. The collective bargaining agreement expired on April 30, 2008. The company and the union entered into negotiations for a new replacement agreement, but a new agreement has not yet been reached. The parties continue to observe the terms of the expired agreement. The company and the union plan to continue negotiations for a replacement for the expired agreement. Approximately 43% of our employees are employed outside the U.S. In certain of those countries, such as Australia and the member states of the European Union, labor and employment laws are more restrictive than in the U.S. and, in many cases, grant significant job protection to employees, including rights on termination of employment. For example, in Germany and the

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Netherlands, by law some of our employees are represented by a works council, which subjects us to employment arrangements very similar to collective bargaining agreements.

We are required to consult with and seek the consent or advice of the unions or works councils that represent our employees for certain of our activities. This requirement could have a significant impact on our flexibility in managing costs and responding to market changes. Furthermore, there can be no assurance that we will be able to negotiate labor agreements with our unionized employees in the future on satisfactory terms. If those employees were to engage in a strike, work stoppage or other slowdown, or if any of our other employees were to become unionized, we could experience a significant disruption of our operations or higher ongoing labor costs, which could adversely affect our financial condition and results of operations.

The company s Annual Report on Form 10-K for the year ended December 31, 2007, includes a listing of other risk factors to be considered by investors in the company s securities.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

None.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

3.1 Amended and restated Certificate of Incorporation of Tronox Incorporated (incorporated by reference to Exhibit 3.1 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on December 7, 2005).

3.2 Amended and Restated Bylaws of Tronox Incorporated (incorporated by reference to Exhibit 3.2 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on December 7, 2005).

10.1 First Amendment to the Tronox Incorporated 2005 Long Term Incentive Plan (incorporated by reference to Exhibit 10.1 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on January 14, 2008).

10.2 Second Amendment to Credit Agreement and First Amendment to Guarantee and Collateral Agreement, dated as of February 8, 2008, among Tronox Incorporated, a Delaware corporation, Tronox Worldwide LLC, a Delaware limited liability company, the several banks and other financial institutions or entities from time to time parties thereto, Lehman Brothers Inc. and Credit Suisse, as joint lead arrangers and joint bookrunners, ABN Amro Bank N.V., as syndication agent, JPMorgan Chase Bank, N.A. And Citicorp USA, Inc., as co-documentation agents, Lehman Commercial Paper Inc., as administrative agent, and the parties listed as grantors on the signature pages hereto (incorporated by reference to Exhibit 10.1 of

	Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on February 13, 2008).
10.3	First Amendment to Rights Agreement, by and between Tronox Incorporated and Computershare Trust Company, N.A., dated March 12, 2008 (incorporated by reference to Exhibit 10.1 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on March 18, 2008).
10.4	Master Supply Agreement by and between Tronox LLC and RTI Hamilton, Inc., dated March 25, 2008 (incorporated by reference to Exhibit 10.1 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on March 31, 2008).

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10.5	Executive Employment Agreement by and between Tronox Incorporated and Thomas W. Adams, dated April 1, 2008 (incorporated by reference to Exhibit 10.1 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2008).
10.6	Executive Employment Agreement by and between Tronox Incorporated and Mary Mikkelson, dated April 1, 2008 (incorporated by reference to Exhibit 10.2 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2008).
10.7	Executive Employment Agreement by and between Tronox Incorporated and Kelly A. Green, dated April 1, 2008 (incorporated by reference to Exhibit 10.3 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2008).
10.8	Executive Employment Agreement by and between Tronox Incorporated and Gregory E. Thomas, dated April 1, 2008 (incorporated by reference to Exhibit 10.4 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2008).
10.9	Executive Employment Agreement by and between Tronox Incorporated and Robert Y. Brown, III, dated April 1, 2008 (incorporated by reference to Exhibit 10.5 of the Registrant s current report on Form 8-K, filed with the Securities and Exchange Commission on April 4, 2008).
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.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Each document marked with an asterisk is filed herewith.

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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 7, 2008.

Tronox Incorporated

By: /s/ Thomas W. Adams

Name: Thomas W. Adams

Title: Chief Executive Officer

By: /s/ Mary Mikkelson

Name: Mary Mikkelson

Title: Senior Vice President and

Chief Financial Officer
(Principal Financial Officer)

By: /s/ David J. Klvac

Name: David J. Klvac

Title: Vice President and Controller

(Principal Accounting Officer)

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