

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

TITANIUM METALS CORP
Form 10-Q
November 02, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

OR

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

Commission file number 0-28538

Titanium Metals Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-5630895

(IRS Employer
Identification No.)

1999 Broadway, Suite 4300, Denver, Colorado 80202

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (303) 296-5600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Number of shares of common stock outstanding on October 29, 2001: 31,892,338

Forward-Looking Information

The statements contained in this Quarterly Report on Form 10-Q ("Quarterly Report") that are not historical facts, including, but not limited to, statements found in the Notes to Consolidated Financial Statements and under the captions "Financial Condition and Results of Operations" and "Liquidity and Capital Resources" (both contained in Management's Discussion and Analysis of Financial Condition, Results of Operations and Liquidity and Capital Resources), are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can be identified by the use of words such as "believes," "intends," "may," "will," "looks," "should," "could," "anticipates," "expects" or comparable terminology or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly affect expected results. Actual future results could differ materially from those described in such forward-looking statements, and the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Quarterly Report, including in those portions referenced above and those described from time to time in the Company's other filings with the Securities and Exchange Commission which include, but are not limited to, the cyclicity of the commercial aerospace industry, the performance of aerospace manufacturers under their long-term purchase agreements with the Company, the difficulty in forecasting demand for titanium products, global economic and political conditions, global productive capacity for titanium, changes in product pricing and costs, the impact of long-term contracts with vendors on the ability of the Company to reduce or increase supply or achieve lower costs, the possibility of labor disruptions, fluctuations in currency exchange rates, control by certain stockholders and possible conflicts of interest, uncertainties associated with new product development, the supply of raw materials and services, changes in raw material and other operating costs (including energy costs), possible increases in the cost of doing business resulting from war or terrorist activities, and other risks and uncertainties. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

TITANIUM METALS CORPORATION

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheets - September 30, 2001 (unaudited)
and December 31, 2000

Consolidated Statements of Operations - Three months and nine
months ended September 30, 2001 and 2000 (unaudited)

Consolidated Statements of Comprehensive Income
(Loss) - Three months and nine months ended
September 30, 2001
and 2000 (unaudited)

Consolidated Statements of Cash Flows - Nine months
ended September 30, 2001 and 2000 (unaudited)

Consolidated Statement of Changes in Stockholders' Equity -
Nine months ended September 30, 2001 (unaudited)

Notes to Consolidated Financial Statements (unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition, Results of Operations and Liquidity and Capital Resources

Item 3. Quantitative and Qualitative Disclosures about Market Risk

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

TITANIUM METALS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS

September 30,
2001
(unaudited)

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Current assets:	
Cash and cash equivalents	\$ 15,364
Accounts and other receivables, less allowance for doubtful accounts of \$2,961 and \$2,927	89,732
Receivable from related parties	5,249
Refundable income taxes	346
Inventories	165,954
Prepaid expenses and other	14,159
Deferred income taxes	1,296

Total current assets	292,100

Other assets:	
Investments in joint ventures	20,008
Preferred securities	80,000
Accrued dividends on preferred securities	8,849
Goodwill	45,745
Other intangible assets	10,907
Deferred income taxes	12,163
Other	12,770

Total other assets	190,442

Property and equipment:	
Land	6,150
Buildings	36,675
Information technology systems	55,130
Manufacturing and other	293,741
Construction in progress	9,029

	400,725
Less accumulated depreciation	126,740

Net property and equipment	273,985

	\$ 756,527
	=====

- 2 -

TITANIUM METALS CORPORATION
CONSOLIDATED BALANCE SHEETS (CONTINUED)

(In thousands)

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	September 30, 2001 (unaudited)
--	--------------------------------------

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Current liabilities:		
Notes payable	\$	1,879
Current maturities of long-term debt and capital lease obligations		277
Accounts payable		54,154
Accrued liabilities		46,657
Payable to related parties		1,452
Income taxes		1,539
Deferred income taxes		211

Total current liabilities		106,169

Noncurrent liabilities:		
Long-term debt		8,022
Capital lease obligations		8,646
Payable to related parties		953
Accrued OPEB cost		17,215
Accrued pension cost		3,816
Accrued environmental cost		3,262
Deferred income taxes		10,141
Accrued dividends on Convertible Preferred Securities		-
Other		116

Total noncurrent liabilities		52,171

Minority interest - Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debt securities ("Convertible Preferred Securities")		201,241
Other minority interest		8,751
Stockholders' equity:		
Preferred stock		-
Common stock		319
Additional paid-in capital		350,631
Retained earnings		56,201
Accumulated other comprehensive loss		(17,125)
Treasury stock, at cost (90 shares)		(1,208)
Deferred compensation		(623)

Total stockholders' equity		388,195

	\$	756,527
		=====

See accompanying notes to consolidated financial statements.

- 3 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

(In thousands, except per share data)

	Three months ended September 30,		Nine S
	2001	2000	2001
Revenues and other income:			
Net sales	\$ 126,437	\$ 106,730	\$ 370,4
Equity in earnings (losses) of joint ventures	749	(232)	1,8
Other, net	1,262	1,432	78,8
	128,448	107,930	451,2
Costs and expenses:			
Cost of sales	105,601	103,072	345,8
Selling, general, administrative and development	11,562	11,202	43,4
Restructuring charge (credit)	-	-	(2
Interest	722	1,898	3,3
	117,885	116,172	392,4
Income (loss) before income taxes, minority interest and extraordinary item	10,563	(8,242)	58,7
Income tax expense (benefit)	3,731	(2,834)	20,6
Minority interest - Convertible Preferred Securities, net of tax	2,166	2,166	6,8
Other minority interest, net of tax	326	335	9
	4,340	(7,909)	30,2
Income (loss) before extraordinary item			
Extraordinary item, net of tax	-	-	
	-	-	-
Net income (loss)	\$ 4,340	\$ (7,909)	\$ 30,2
Earnings (loss) per share:			
Basic:			
Before extraordinary item	\$.14	\$ (.25)	\$.
Extraordinary item	-	-	-
	\$.14	\$ (.25)	\$.
Diluted:			
Before extraordinary item	\$.14	\$ (.25)	\$.
Extraordinary item	-	-	-
	\$.14	\$ (.25)	\$.
Weighted average shares outstanding:			
Common shares	31,539	31,374	31,4

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Diluted shares 31,764 31,374 31,7

See accompanying notes to consolidated financial statements.

- 4 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

(In thousands)

	Three months ended September 30,		Nine Se
	2001	2000	2001
Net income (loss)	\$ 4,340	\$ (7,909)	\$ 30,27
Other comprehensive income (loss) - currency translation adjustment	6,996	(4,447)	(71
Comprehensive income (loss)	\$ 11,336	\$ (12,356)	\$ 29,55

See accompanying notes to consolidated financial statements.

- 5 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(In thousands)

	Nine Se
	2001
Cash flows from operating activities:	
Net income (loss)	\$ 30,276
Depreciation and amortization	30,145
Noncash restructuring (credit) charge	(220)
Noncash special charges	14,412
Gain on sale of castings joint venture	-
Extraordinary loss on early extinguishment of debt, net	-
Equity in (earnings) losses of joint ventures, net of distributions	(1,463)
Deferred income taxes	17,283
Other minority interest	975
Other, net	897
Change in assets and liabilities:	
Receivables	(13,265)

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Accrued dividends receivable on preferred securities	(714)
Inventories	(18,230)
Prepaid expenses and other	(5,383)
Accounts payable and accrued liabilities	9,506
Accrued restructuring charges	(470)
Income taxes	811
Accounts with related parties, net	(273)
Accrued OPEB and pension costs	(2,548)
Accrued dividends on Convertible Preferred Securities	(10,043)
Other, net	(4,103)

Net cash provided by operating activities	47,593

Cash flows from investing activities:	
Capital expenditures	(7,922)
Proceeds from sale of castings joint venture	-
Other, net	30

Net cash (used) provided by investing activities	(7,892)

Cash flows from financing activities:	
Indebtedness:	
Borrowings	389,029
Repayments	(423,210)
Issuance of common stock	513
Other, net	(125)

Net cash used by financing activities	(33,793)

Net cash provided (used) by operating, investing and financing activities	\$ 5,908
	=====

See accompanying notes to consolidated financial statements.

- 6 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (CONTINUED)

(In thousands)

	Nine Sep

	2001

Cash and cash equivalents:	
Net increase (decrease) from:	
Operating, investing and financing activities	\$ 5,908
Currency translation	(340)

Balance at beginning of period	5,568
	9,796

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Balance at end of period \$ 15,364
=====

Supplemental disclosures:

Cash paid for:

Interest, net of amounts capitalized	\$ 2,613
Convertible Preferred Securities dividends	\$ 20,560
Income taxes, net	\$ 2,598

Noncash investing and financing activities:

Capital lease obligations of \$481 were incurred during the nine months ended September 30, 2001 when the Company entered into certain leases for new equipment

See accompanying notes to consolidated financial statements.

- 7 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)

Nine months ended September 30, 2001

(In thousands)

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings
Balance at December 31, 2000	31,817	\$ 319	\$ 350,078	\$ 25,925
Components of comprehensive income (loss):				
Net income	-	-	-	30,276
Change in cumulative currency translation adjustment	-	-	-	-
Issuance of common stock	80	1	577	-
Stock award cancellations	(37)	(1)	(201)	-
Amortization of deferred compensation	-	-	-	-
Other, net	-	-	177	-
	31,860	\$ 319	\$ 350,631	\$ 56,201
Balance at September 30, 2001	31,860	\$ 319	\$ 350,631	\$ 56,201

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	Treasury Stock	Deferred Compensation	Total Stockholders' Equity
	-----	-----	-----
Balance at December 31, 2000	\$ (1,208)	\$ (1,191)	\$ 357,515
Components of comprehensive income (loss):			
Net income	-	-	30,276
Change in cumulative currency translation adjustment	-	-	(717)
Issuance of common stock	-	-	578
Stock award cancellations	-	202	-
Amortization of deferred compensation	-	366	366
Other, net	-	-	177
	-----	-----	-----
Balance at September 30, 2001	\$ (1,208)	\$ (623)	\$ 388,195
	=====	=====	=====

See accompanying notes to consolidated financial statements.

- 8 -

TITANIUM METALS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Note 1 - Organization and basis of presentation:

Titanium Metals Corporation ("TIMET") is a vertically integrated producer of titanium sponge, melted products and a variety of mill products for aerospace, industrial and other applications. At September 30, 2001, Tremont Corporation ("Tremont") held approximately 39% of TIMET's outstanding common stock. At September 30, 2001, subsidiaries of Valhi, Inc. ("Valhi") held an aggregate of approximately 80% of Tremont's outstanding common stock, and Contran Corporation ("Contran") held, directly or through subsidiaries, approximately 94% of Valhi's outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee. Mr. Simmons may be deemed to control each of Contran, Valhi, Tremont and TIMET.

The consolidated balance sheet of TIMET and subsidiaries (collectively, the "Company") at December 31, 2000 has been condensed from the Company's audited consolidated financial statements at that date. The consolidated balance sheet at September 30, 2001 and the consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for the interim periods ended September 30, 2001 and 2000 have been prepared by the Company without audit. In the opinion of management, all adjustments necessary to present fairly the consolidated financial position, results of operations and cash flows have been made. The results of operations for interim periods are not necessarily indicative of the operating results of a full year or of future

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

operations. Certain prior year amounts have been reclassified to conform to the current year presentation.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (the "2000 Annual Report").

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, effective January 1, 2001. SFAS No. 133 establishes accounting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS No. 133, all derivatives are recognized as either assets or liabilities and measured at fair value. The accounting for changes in fair value of derivatives is dependent upon the intended use of the derivative. As permitted by the transition requirements of SFAS No. 133, as amended, the Company has exempted from the scope of SFAS No. 133 all host contracts containing embedded derivatives that were issued or acquired prior to January 1, 1999. The Company is not a party to any significant derivative or hedging instrument covered by SFAS No. 133, and the adoption of SFAS No. 133 had no material effect on the Company's consolidated financial position, liquidity or results of operations.

On July 1, 2001, the Company adopted SFAS No. 141, Business Combinations. Under SFAS 141, all business combinations are accounted for by the purchase method, and the pooling-of-interests method is prohibited.

- 9 -

On September 11, 2001, the United States was the target of terrorist attacks that have had a significant adverse effect on the global economy and commercial aerospace industry. The Company estimates that approximately 80% of its sales in 2001 are derived from the commercial aerospace sector and, accordingly, the Company expects to see a substantial near-term decline in its business.

The Company has undertaken an assessment of the longer-term impact of these events and any potential charges that may be appropriate for asset impairments, increases in valuation allowances and other similar items. Such potential charges, if any, are not yet reasonably estimable due to the period of time necessary for external information to become available and then be analyzed and assessed. The Company expects these items to become estimable over the next few months and, accordingly, the Company's results for the three months ended December 31, 2001 and future periods could include material charges for these matters. These charges could relate to goodwill, the Company's investment in preferred securities of Special Metals Corporation ("SMC"), deferred tax assets and other long-lived assets.

- 10 -

Note 2 - Business segment information:

The Company's worldwide operations are conducted through one business segment - the production and sale of titanium melted and mill products.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	Three months ended September 30,		Nin S
	2001	2000	2001
	(In thousands)		
Net sales	\$ 126,437	\$ 106,730	\$ 370,
Cost of sales	105,601	103,072	345,
Gross margin	20,836	3,658	24,
Selling, general, administrative and development	11,562	11,202	43,
Equity in (earnings) losses of joint ventures	(749)	232	(1,
Restructuring (income) charge	-	-	(
Other expense (income)	59	(107)	(73,
Operating income (loss)	9,964	(7,669)	56,
General corporate income:			
Dividends and interest income	1,687	1,542	5,
Gain on sale of castings joint venture	-	-	
Currency transactions and other, net	(366)	(217)	
Interest expense	722	1,898	3,
Income (loss) before income taxes, minority interest, and extraordinary item	\$ 10,563	\$ (8,242)	\$ 58,
Titanium melted and mill products:			
Mill product net sales	\$ 91,053	\$ 80,088	\$ 274,
Melted product net sales	19,906	13,158	49,
Other	15,478	13,484	46,
	\$ 126,437	\$ 106,730	\$ 370,
Mill product shipments:			
Volume (metric tons)	3,015	2,840	9,
Average price (\$ per kilogram)	\$ 30.20	\$ 28.20	\$ 29
Melted product shipments:			
Volume (metric tons)	1,345	950	3,
Average price (\$ per kilogram)	\$ 14.80	\$ 13.85	\$ 14

- 11 -

Note 3 - Inventories:

September 30,
2001

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

(In thousands)

Raw materials	\$ 32,156
Work-in-process	94,178
Finished products	49,944
Supplies	13,425

	189,703
Less adjustment of certain inventories to LIFO basis	23,749

	\$ 165,954
	=====

Note 4 - Joint ventures:

VALTIMET is a manufacturer of stainless steel, copper, nickel and welded titanium tubing with operations in the United States, France and China. At December 31, 2000, VALTIMET was owned 46% by TIMET and 54% by Valinox Welded, a French manufacturer of welded tubing. During the second quarter of 2001, VALTIMET sold 50,220 newly-issued shares of VALTIMET common stock to Sumitomo Metal Industries, Ltd. ("Sumitomo") for \$58.73 per share (as translated from euros). The Company reported a \$.3 million gain on this transaction which was recorded as a component of equity. As a result, VALTIMET is presently owned 5% by Sumitomo, 43.7% by TIMET and 51.3% by Valinox Welded.

Note 5 - Preferred securities:

In October 1998, the Company purchased for cash \$80 million of non-voting preferred securities of SMC, a U.S. manufacturer of wrought nickel-based superalloys and special alloy long products. The preferred securities accrue dividends at the annual rate of 6.625%, are mandatorily redeemable in April 2006 and are convertible into SMC common stock at \$16.50 per share. SMC's common stock is traded on the NASDAQ under the symbol "SMCX" and had a quoted market price on September 30, 2001 of \$2.65 per share. From October 1998 through December 1999, dividends on the preferred securities had been deferred by SMC. In April 2000, SMC resumed current dividend payments of \$1.3 million each quarter; however, dividends and interest in arrears due the Company were not paid. At September 30, 2001, aggregate accrued dividends and interest approximate \$8.8 million.

The SMC preferred securities are not marketable and, accordingly, quoted market prices are unavailable. The Company understands that approximately 30% of SMC's sales are to the commercial aerospace industry and, therefore, SMC's business may be adversely impacted by the terrorist attacks of September 11, 2001. See Note 1 for further information. Additionally, on October 11, 2001, the Company was notified by SMC of their intention to again defer the payment of dividends effective with the dividend due on October 28, 2001. As a result of these and other factors, the Company has undertaken an assessment of its investment in SMC to determine if a writedown of this investment is appropriate. The Company anticipates that such assessment will be completed over the next few months and, accordingly, the Company's results for the three months ended December 31, 2001 could include a material charge for this matter.

- 12 -

Note 6 - Intangible and other noncurrent assets:

September 30,

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	2001

	(In thousands)
Intangible assets:	
Patents	\$ 13,476
Covenants not to compete	8,480

	21,956
Less accumulated amortization	14,738

	7,218
Intangible pension assets	3,689

	\$ 10,907
	=====
Other noncurrent assets:	
Deferred financing costs	\$ 8,479
Notes receivable from officers	163
Prepaid pension cost	3,386
Other	742

	\$ 12,770
	=====

Note 7 - Accrued liabilities:

	September 30, 2001

	(In thousands)
OPEB cost	\$ 3,345
Pension cost	353
Accrued profit sharing	7,615
Other employee benefits	17,632
Accrued dividends on Convertible Preferred Securities	1,111
Deferred income	901
Accrued tungsten costs	2,984
Environmental costs	654
Restructuring costs	320
Taxes, other than income	3,836
Other	7,906

	\$ 46,657
	=====

Note 8 - Notes payable, long-term debt and capital lease obligations:

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	September 30, 2001
	----- (In thousands)
Notes payable:	
U.S. credit agreement	\$ 6
European credit agreements	1,873

	\$ 1,879
	=====
Long-term debt:	
Bank credit agreement - U.K.	\$ 7,933
Other	178

	8,111
Less current maturities	89

	\$ 8,022
	=====
Capital lease obligations	\$ 8,834
Less current maturities	188

	\$ 8,646
	=====

Upon entering into its current U.S. and U.K. credit facilities in February 2000, the Company's previous U.S. credit facility was repaid and terminated. The deferred financing costs associated with the previous U.S. facility were written off and reflected as an extraordinary item in 2000 of \$.9 million, net of tax. In the third quarter of 2001, the Company amended its U.S. revolving credit agreement to permit, under specified conditions, payment of dividends on the Company's common stock and the making of up to \$20 million of intercompany loans to certain subsidiaries.

The weighted average interest rate on borrowings outstanding under the U.S. and U.K. credit agreements at September 30, 2001 was 7.0% and 4.4%, respectively. As of September 30, 2001, the Company had approximately \$152 million of unused borrowing availability under its U.S. and European credit agreements.

Note 9 - Restructuring and other special charges:

Accrued restructuring costs of \$.3 million at September 30, 2001 consist of unpaid personnel severance and benefits and other exit costs (primarily carrying costs on closed leased facilities) relating to the Company's restructuring plans implemented during 1999 and 2000. During the nine months ended September 30, 2001, payments of \$.5 million were applied against the accruals related to the 2000 plan, while payments related to the 1999 plan were insignificant. During the first quarter of 2001, the Company also recorded income of \$.2 million related to revisions to estimates of previously established restructuring accruals.

During the second quarter of 2001, the Company recorded \$10.8 million in special charges to cost of sales for the impairment of certain equipment located

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

in Millbury, Massachusetts. The Company completed studies of the potential uses of this equipment in the foreseeable future as well as the economic viability of those alternatives, resulting in the determination that the equipment's undiscounted future cash flows could no longer support its carrying value. The loss on impairment represents the difference between the equipment's

- 14 -

estimated fair value, as determined through a third-party appraisal, and its previous carrying amount.

The Company also recorded special charges to cost of sales aggregating \$3.8 million for the nine months ended September 30, 2001 (\$1.0 million in the first quarter of 2001 and \$2.8 million in the second quarter of 2001) for potential losses related to products that may contain tungsten inclusions. See Note 12 for additional information.

During the first quarter of 2000, the Company recorded special charges to cost of sales aggregating \$6.7 million, consisting of \$3.4 million in equipment-related impairment charges and \$3.3 million of environmental charges. Certain accrued environmental costs are reflected as noncurrent liabilities in the consolidated balance sheet at September 30, 2001 and December 31, 2000 as they are expected to be paid over a period of up to thirty years.

Note 10 - Income taxes:

The difference between the Company's income tax expense (benefit) attributable to pre-tax income (loss) and the amounts that would be expected using the U.S. federal statutory income tax rate of 35% is summarized below.

	Nine months ended
	----- 2001 -----
	(In thousands)
Expected income tax expense (benefit), at 35%	\$ 20,577
Non-U.S. tax rates	407
U.S. state income taxes, net	1,092
Extraterritorial income exclusion	(346)
Dividends received deduction	(974)
Adjustment of deferred tax valuation allowance	(103)
Other, net	40

	\$ 20,693
	=====

Note 11 - Other, net:

	Three months ended	September 30,	Nine
	-----	-----	-----
	2001	2000	2001
	-----	-----	-----
	(In thousands)		(I

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Dividends and interest income	\$ 1,687	\$ 1,542	\$ 5,1
Boeing settlement, net	-	-	73,0
Gain on sale of castings joint venture	-	-	
Other (expense) income	(425)	(110)	7
	-----	-----	-----
	\$ 1,262	\$ 1,432	\$ 78,8
	=====	=====	=====

- 15 -

Note 12 - Commitments and contingencies:

For additional information concerning certain legal proceedings and contingencies related to the Company, see (i) Part I, Item 2 - "Management's Discussion and Analysis of Financial Condition, Results of Operations and Liquidity and Capital Resources," (ii) Part II, Item 1 - "Legal Proceedings," (iii) the 2000 Annual Report on Form 10K and (iv) Note 1 to the Consolidated Financial Statements.

In April 2001, the Company reached a settlement of previously reported litigation between TIMET and The Boeing Company ("Boeing") relating to the parties' 1997 long-term titanium purchase and supply agreement. Pursuant to the settlement, TIMET received a cash payment of \$82.0 million and recorded \$73.0 million (cash settlement less legal fees of \$9.0 million) as other operating income and approximately \$10.3 million for profit sharing and other costs as selling, general, administrative and development expense during the second quarter of 2001. The parties also entered into an amended long-term agreement that, among other things, allows Boeing to purchase up to 7.5 million pounds of titanium product annually from TIMET through 2007, subject to certain maximum quarterly volume levels. Under a separate agreement, TIMET will establish and hold titanium buffer stock for Boeing at TIMET's facilities. See Part I, Item 2.A. - "Financial Condition and Results of Operations" for additional information regarding the settlement with Boeing.

In March 2001, the Company was notified by one of its customers that a product the customer manufactured from standard grade titanium produced by the Company contained what has been confirmed to be a tungsten inclusion. The Company believes that the source of this tungsten was contaminated silicon, which is used as an alloying addition to the titanium at the melting stage, purchased from an outside vendor in 1998. The Company continues to investigate the scope of this problem, including identification of customers who received material manufactured using this silicon and the applications into which such material has been placed by such customers.

At this time, the Company is aware of six standard grade ingots that have been demonstrated to contain tungsten inclusions; however, further investigation may identify other material that has been similarly affected. Until this investigation is completed, TIMET is unable to determine the ultimate liability the Company may incur with respect to this matter. The Company currently believes that it is unlikely that its insurance policies will provide coverage for any costs that may be associated with this matter. The Company is continuing to work with its affected customers to determine the appropriate remedial steps required to satisfy their claims. Based upon an assessment of possible losses completed by the Company, TIMET recorded an aggregate charge to cost of sales for this matter of \$3.8 million through September 30, 2001 (\$1.0 million in the first quarter of 2001 and \$2.8 million in the second quarter of 2001). This amount represents the Company's best estimate of the most likely amount of loss to be incurred. It does not represent the maximum possible loss, which is not

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

possible for the Company to estimate at this time, and may be periodically revised in the future as more facts become known. As of September 30, 2001, \$3.0 million remains accrued for potential future claims. The Company has filed suit seeking full recovery from the silicon supplier for any liability the Company might incur, although no assurances can be given that the Company will ultimately be able to recover all or any portion of such amounts. The Company has not recorded any recoveries related to this matter as of September 30, 2001. See also Part I, Item 2.A. - "Financial Condition and Results of Operations" for additional information.

- 16 -

The Company is involved in various other environmental, contractual, product liability and other claims, disputes and litigation incidental to its business.

The Company currently believes the disposition of all claims and disputes, individually or in the aggregate, should not have a material adverse effect on the Company's financial condition, results of operations or liquidity.

Note 13 - Earnings per share:

A reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share is presented below. Convertible Preferred Securities omitted from the diluted earnings per share calculation because they were antidilutive approximated 5.4 million shares for the three and nine month periods ended September 30, 2001 and 2000. Stock options and restricted shares omitted from the calculation because they were antidilutive approximated 2.2 million and 2.0 million for the three and nine month periods ended September 30, 2000, respectively.

	Three months ended September 30,		Nine Se
	2001	2000	2001
	(In thousands)		(I
Numerator:			
Diluted net income (loss)	\$ 4,340	\$ (7,909)	\$ 30,2
Denominator:			
Average common shares outstanding	31,539	31,374	31,4
Average dilutive stock options and restricted shares	225	-	2
Diluted shares	31,764	31,374	31,7

Note 14 - Accounting principles not yet adopted:

The Company will adopt SFAS No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Under SFAS 142, goodwill will not be amortized on a periodic basis, but instead will be subject to an impairment test to be performed at least on an annual basis. The Company anticipates adoption of this standard will reduce its amortization expense commencing on January 1, 2002;

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

however, impairment reviews may also result in future periodic write-downs. The Company will complete its initial goodwill impairment analysis under the new standard during 2002. If any goodwill impairment under the new standard is determined to exist, such impairment would be recognized as a cumulative effect of a change in accounting policy no later than December 31, 2002, as provided by the transition requirements of SFAS No. 142. For the nine months ended September 30, 2001, the Company recorded amortization expense of approximately \$3.5 million relating to its goodwill.

The Company will adopt SFAS No. 143, Accounting for Asset Retirement Obligations, no later than January 1, 2003. Under SFAS No. 143, the fair value of a liability for an asset retirement obligation covered under the scope of SFAS No. 143 would be recognized in the period in which the liability is incurred, with an offsetting increase in the carrying amount of the related long-lived asset. Over time, the liability would be accreted to its present value, and the capitalized cost would be depreciated over the useful life of the related asset. Upon settlement of the liability, an entity would either settle the obligation for its recorded amount or incur a gain or loss upon settlement. The Company is still studying this newly-issued standard to determine,

- 17 -

among other things, whether it has any asset retirement obligations which are covered under the scope of SFAS No. 143, and the effect, if any, to the Company of adopting this standard has not yet been determined.

The Company will adopt SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, no later than January 1, 2002. SFAS No. 144 retains the fundamental provisions of existing generally accepted accounting principles with respect to the recognition and measurement of long-lived asset impairment contained in SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. However, SFAS No. 144 provides new guidance intended to address certain significant implementation issues associated with SFAS No. 121, including expanded guidance with respect to appropriate cash flows to be used to determine whether recognition of any long-lived asset impairment is required, and if required how to measure the amount of the impairment. SFAS No. 144 also requires that any net assets to be disposed of by sale be reported at the lower of carrying value or fair value less cost to sell, and expands the reporting of discontinued operations to include any component of an entity with operations and cash flows that can be clearly distinguished from the rest of the entity. The Company is still studying this newly-issued standard, and the effect, if any, to the Company of adopting SFAS No. 144 has not yet been determined.

- 18 -

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION, RESULTS OF OPERATIONS AND LIQUIDITY AND CAPITAL RESOURCES

A. Financial Condition and Results of Operations

Sales and operations.

Three months ended September 30,		Nine Se
2001	2000	2001
-----	-----	-----

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	(\$ in thousands)			
Net sales	\$	126,437	\$	106,730
Gross margin		20,836		3,658
Gross margin, excluding special items		20,836		3,658
Operating income (loss)		9,964		(7,669)
Operating income (loss), excluding restructuring and special items		9,964		(7,669)
Percent change in:				
Mill product sales volume		+6.3		
Mill product selling prices (1)		+3.2		
Melted product sales volume		+42.0		
Melted product selling prices (1)		+13.1		

Third quarter of 2001 compared to third quarter of 2000. Sales of \$126.4 million in the third quarter of 2001 were 18% higher than the year-ago period due principally to the net effects of a 6% increase in mill product volume, a 3% increase in mill product selling prices (expressed in U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods) and changes in customer and product mix. In billing currencies (which exclude the effects of foreign currency translation), mill product selling prices increased 5%. Melted product (ingot and slab) sales volume increased 42% while melted product selling prices increased 13% from year-ago levels.

Gross margin (net sales less cost of sales) was 16.5% of sales for the third quarter of 2001 compared to 3.4% in the year-ago period, primarily reflecting the effect of increased selling prices, higher plant operating rates, lower energy costs, and changes in customer and product mix. See "Outlook" for a discussion of sales and gross margin expectations.

Selling, general, administrative and development expenses during the third quarter of 2001 increased by approximately 3% from year-ago levels principally due to an increase in personnel and related costs.

Equity in earnings of joint ventures during the third quarter of 2001 was approximately \$1 million higher than the year-ago period principally due to an increase in earnings of VALTIMET, the Company's minority-owned welded tube joint venture.

Nine months of 2001 compared to nine months of 2000. Sales of \$370.5 million for the nine months ended September 30, 2001 were 16% higher than the year-ago period due principally to the net effects of a 10% increase in mill product volume, a 1% decrease in mill product selling prices (expressed in U.S. dollars using actual foreign currency exchange rates

- 19 -

prevailing during the respective periods) and changes in customer and product mix. In billing currencies (which exclude the effects of foreign currency translation), mill product prices increased 1%. Melted product sales volume increased 40% from year-ago levels while selling prices increased 6%.

Gross margin was 6.6% of sales for the nine months ended September 30, 2001 compared to .5% in the year-ago period, principally reflecting the net effects of higher selling prices, lower energy costs, higher operating rates at certain plants, changes in customer and product mix and special items. As discussed below, gross margin for the nine months ended September 30, 2001 was adversely impacted by \$10.8 million of equipment impairment charges and \$3.8 million of

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

estimated costs related to the tungsten inclusion matter. Gross margin for the nine months ended September 30, 2000 was adversely impacted by \$3.4 million of equipment impairment charges and a \$3.3 million charge for anticipated environmental remediation costs. Gross margin excluding special items was 10.6% of sales for the nine months ended September 30, 2001 compared to 2.6% in the year-ago period. See "Outlook" for a discussion of sales and gross margin expectations.

The Company was notified by one of its customers in March 2001 that a product the customer manufactured from standard grade titanium produced by the Company contained what has been confirmed to be a tungsten inclusion. The Company believes that the source of this tungsten was contaminated silicon, which is used as an alloying addition to titanium at the melting stage, purchased from an outside vendor in 1998. The Company continues to investigate the scope of this problem, including identification of customers who received material manufactured using this silicon and the applications into which such material has been placed by such customers.

At this time, the Company is aware of six standard grade ingots that have been demonstrated to contain tungsten inclusions; however, further investigation may identify additional material that has been similarly affected. Until this investigation is completed, TIMET is unable to determine the ultimate liability the Company may incur with respect to this matter. The Company is continuing to work with its affected customers to determine the appropriate remedial steps required to satisfy their claims. Based upon an assessment of possible losses completed by the Company, TIMET recorded an aggregate charge to cost of sales of \$3.8 million through September 30, 2001 (\$1.0 million in the first quarter of 2001 and \$2.8 million in the second quarter of 2001). This amount represents the Company's best estimate of the most likely amount of loss to be incurred. It does not represent the maximum possible loss, which is not possible for the Company to estimate at this time, and may be periodically revised in the future as more facts become known. As of September 30, 2001, \$3.0 million remains accrued for potential future claims. The Company has filed suit seeking full recovery from the silicon supplier for any liability the Company might incur, although no assurances can be given that the Company will ultimately be able to recover all or any portion of such amounts. The Company has not recorded any recoveries related to this matter as of September 30, 2001.

During the second quarter of 2001, the Company determined that an impairment of the carrying amount of certain long-lived assets located at its Millbury, Massachusetts facility had occurred. This determination was made after the Company completed studies of the potential uses of these assets in the foreseeable future as well as the economic viability of those alternatives. Accordingly, the Company recorded a \$10.8 million pre-tax impairment charge to cost of sales in the second quarter of 2001, representing the difference between the assets' previous carrying amounts and their estimated fair values.

In April 2001, the Company reached a settlement of the litigation between TIMET and Boeing related to the parties' 1997 long term purchase and supply agreement ("LTA"). Pursuant to the settlement, the Company received a cash payment of \$82 million. In the

- 20 -

second quarter of 2001, the Company reported approximately \$73 million (cash settlement less legal fees) as other operating income, with partially offsetting operating expenses of approximately \$10.3 million for profit sharing and other costs reported as a component of selling, general, administrative and development expense (collectively the "Boeing Special Items"), resulting in a net pre-tax income effect of \$62.7 million in the second quarter of 2001.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

In connection with the settlement, TIMET and Boeing also entered into an amended LTA that, among other things, allows Boeing to purchase up to 7.5 million pounds of titanium product annually from TIMET through 2007, subject to certain maximum quarterly volume levels. Under the amended LTA, Boeing will advance TIMET \$28.5 million annually for 2002 through 2007. The annual advance will occur in December 2001 for 2002, with subsequent advances occurring early each calendar year beginning in 2003. The LTA is structured as a take-or-pay agreement such that Boeing will forfeit a proportionate part of the \$28.5 million annual advance in the event that its orders for delivery for such calendar year are less than 7.5 million pounds. Under a separate agreement TIMET will establish and hold buffer stock for Boeing at TIMET's facilities, for which Boeing will pay TIMET as such stock is produced.

Selling, general, administrative and development expenses for the nine months ended September 30, 2001 (excluding \$10.3 million of Boeing Special Items) decreased by approximately 2% from year-ago levels, principally as a result of reduced travel and other personnel costs.

Equity in earnings of joint ventures during the nine months ended September 30, 2001 was \$2.8 million higher than the year ago period principally due to an increase in earnings of VALTIMET.

General corporate income. General corporate income for all periods includes interest income and dividend income on \$80 million of nonvoting preferred securities of Special Metals Corporation, which accrues at an annual rate of 6.625%. See Note 5 to the Consolidated Financial Statements and "Outlook" for a discussion of issues related to these securities.

Interest expense. Interest expense during the three and nine months ended September 30, 2001 was lower than in the comparable periods in 2000, primarily due to the paydown of the Company's revolving U.S. debt during the second quarter of 2001.

Income taxes. The Company's consolidated effective income tax rate approximated the U.S. statutory rate in all periods. The Company operates in several tax jurisdictions and is subject to various income tax rates. As a result, the geographical mix of pre-tax income (loss) can impact the Company's effective tax rate. See Note 10 to the Consolidated Financial Statements.

Minority interest. Dividend expense related to the Company's 6.625% Convertible Preferred Securities approximates \$3.3 million per quarter and is reported as minority interest, net of allocable income taxes.

Supplemental information. Approximately 40% of the Company's sales originated in Europe for the nine months ended September 30, 2001, of which approximately 60% were denominated in currencies other than the U.S. dollar, principally the British pound and European currencies tied to the euro. Certain purchases of raw materials, principally titanium sponge and alloys, for the Company's European operations are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local currencies. The functional currencies of the Company's European subsidiaries are those of their respective countries; thus, the U.S. dollar value of these subsidiaries' sales and costs denominated in currencies other than their functional currency, including sales and costs denominated in U.S. dollars, are subject to

- 21 -

exchange rate fluctuations that may impact reported earnings and may affect the comparability of period-to-period operating results. Borrowings of the Company's European operations may be in U.S. dollars or in functional currencies. The Company's export sales from the U.S. are denominated in U.S. dollars and as such

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

are not subject to currency exchange rate fluctuations.

The Company does not use currency contracts to hedge its currency exposures. At September 30, 2001, consolidated assets and liabilities denominated in currencies other than functional currencies were approximately \$23.3 million and \$35.6 million, respectively, consisting primarily of U.S. dollar cash, accounts receivable, accounts payable and borrowings.

Outlook. The Outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. See Note 1 to the Consolidated Financial Statements - "Organization and basis of presentation," Note 12 to the Consolidated Financial Statements - "Commitments and contingencies," and Note 14 to the Consolidated Financial Statements - "Accounting principles not yet adopted," regarding commitments, contingencies, legal, environmental, and other matters, which information is incorporated herein by reference and may affect the Company's future results of operations and liquidity.

The commercial aerospace industry has significant influence on titanium companies, particularly mill product producers such as TIMET. Industry shipments of mill products to the commercial aerospace industry in 2001 are expected to account for approximately 40% of the estimated 54,000 metric tons of aggregate titanium mill product demand, and this market has been the principal driver of increased industry shipments over the last year. The Company's business is more dependent on commercial aerospace demand as shipments to this market are presently estimated to represent approximately 80% of the Company's sales revenues. The Company's recently improved financial performance has been driven principally by both increased sales volume and improved selling prices on both mill and melted products destined for commercial aerospace.

The economic slowdown in the U.S. and other regions of the world recently began to negatively affect the commercial aerospace industry as evidenced by, among other things, a decline in airline passenger traffic, reported operating losses by a number of airlines and a reduction in forecasted deliveries of large commercial aircraft from both Boeing and Airbus. On September 11, 2001, the United States was the target of terrorist attacks that exacerbated these trends and had a significant adverse impact on the global economy and the commercial aerospace industry. Since that time, airline passenger traffic has declined substantially and airlines are reporting significant losses. In response to the current business climate, airlines have announced a number of actions to reduce both costs and capacity, including the early retirement of airplanes, the deferral of scheduled deliveries of new aircraft, and allowing aircraft purchase options to expire. Both Boeing and Airbus have indicated that deliveries of large commercial aircraft over the next two years are now expected to be lower than previously anticipated.

The commercial aerospace supply chain is decentralized and fragmented. Aircraft and jet engine manufacturers, as well as other companies in the supply chain, are still assessing the impact these events will have on their businesses. Although they will clearly have a negative effect on suppliers throughout this sector, including TIMET, the magnitude and duration of that impact is still very uncertain. While the Company is regularly speaking to its customers, most of their views are only speculative at this time given the limited information currently available.

The Airline Monitor, a leading aerospace publication, recently published its revised forecast of large commercial aircraft deliveries which attempts to take into consideration the events of September 11, 2001. The Airline Monitor's current forecast of large commercial

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

aircraft deliveries is for 820 deliveries in 2001, 660 deliveries in 2002 and 505 deliveries in 2003. Compared to The Airline Monitor's previous forecast (pre-September 11) for the same periods, these delivery rates represent declines of 8%, 26% and 34%, respectively. As compared to the previous (pre-September 11) estimated 2001 deliveries of 890 aircraft, deliveries in 2002 and 2003 are forecasted by The Airline Monitor to decline by 26% and 43%, respectively.

The Company presently believes commercial aerospace demand for titanium products over the next year could decline by 30% to 40% from 2001 levels, resulting from a combination of reduced aircraft production rates and excess inventory being created throughout the supply chain. Although quantitative information is not readily available, the Company believes that no significant amount of excess titanium inventory existed prior to September 11, 2001. However, a sharp decline in demand could potentially create a significant amount of inventory accumulation. This would likely lead to order demand for titanium products falling below actual consumption. The demand for titanium generally precedes aircraft deliveries by about one year, although this varies considerably by titanium product. Since the Company will begin producing products in 2002 destined for aircraft to be delivered in 2003, it expects to see a decline in its 2002 business that is similar to aircraft delivery reductions relative to 2003.

The Company's order backlog at the end of September 2001 was approximately \$315 million. Comparable backlogs approximated \$300 million at June 30, 2001, \$290 million at March 31, 2001 and \$245 million at December 31, 2000. However, the Company's order backlog may not be a reliable indicator of future business activity. The Company has recently experienced a number of customer requests to defer or cancel scheduled orders. The Company believes such requests will continue and may accelerate in the near-term. As aircraft and jet engine manufacturers settle upon a production schedule for next year, information should be communicated through the supply chain, providing the Company a better understanding of its business outlook.

The Company is preparing for the anticipated downturn by taking a number of actions, including, but not limited to, (i) reducing plant operating rates and employment levels as business declines, (ii) negotiating improved pricing at lower volume commitments for certain raw materials, (iii) reducing discretionary spending and (iv) negotiating various other concessions from both suppliers and service providers. For the longer term, the Company is evaluating product line and facilities consolidations that may permit it to meaningfully reduce its cost structure while maintaining and even increasing its market share.

In October 2001, the Company announced that operating rates are being reduced at both its Henderson, Nevada and Morgantown, Pennsylvania facilities. In Nevada, the Company is reducing its vacuum arc melting rates by about 40%. In Pennsylvania, the Company intends to stop production on one of its three electron beam ("EB") cold hearth melting operations this year and is reducing the operating rate on another EB furnace. Production in Pennsylvania will decline by about 20% after these decisions are fully implemented. These actions will result in the Company's employment levels declining by approximately 50 people; however, the Company anticipates further reductions in operating rates and employment levels in the future as demand for titanium products declines.

Current business conditions make it particularly difficult to predict the Company's future financial results and, therefore, undue reliance should not be placed on the following comments as actual results may differ materially from expectations. For the fourth quarter of 2001, the Company believes sales revenue may range between \$90 million and \$120 million, reflecting the net effects of changes in sales volume, selling prices and mix. Excluding special items, gross margin as a percent of sales in the fourth quarter is expected to range between 6% and 12% of sales, but could vary significantly from this estimate. Selling,

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

general, and administrative and development costs in the fourth quarter of 2001 should approximate third quarter levels.

- 23 -

Interest expense in the fourth quarter is expected to increase modestly from third quarter levels while minority interest expense related to the Company's Convertible Preferred Securities is expected to approximate third quarter levels. Excluding the Boeing Special Items and other special charges, the Company expects to be near break-even on operating income and report a net loss for the full year of 2001.

For financial reporting purposes, the Company has recognized the tax benefit of its net operating loss carryforwards ("NOLs"), and expects that tax provisions and benefits to be recognized during the remainder of 2001 will principally be deferred income tax items with cash income tax payments expected in certain state and foreign jurisdictions. For U.S. federal income tax purposes, the Company had NOLs of approximately \$47 million and \$89 million as of September 30, 2001 and December 31, 2000, respectively. At September 30, 2001, the Company also had the equivalent of a \$7.1 million NOL in the United Kingdom and a \$2.3 million NOL in Germany, both of which have indefinite carryforward periods.

The Company expects to generate positive cash flow from operations in 2001 in the range of \$80 million to \$90 million principally due to the Boeing settlement and the related \$28.5 million advance that TIMET expects to receive in December 2001. Depreciation and amortization expense should approximate \$41 million in 2001. Capital spending for 2001 is currently expected to approximate \$15 million, covering principally capacity enhancements, capital maintenance, and safety and environmental projects. At September 30, 2001, the Company had approximately \$152 million of borrowing availability under its various worldwide credit agreements. The Company believes its cash, cash flow from operations and borrowing availability will satisfy its expected working capital, capital expenditures and other requirements over the next year.

For 2002, the Company believes it may experience a 30% to 40% decline in its commercial aerospace sales volume, which presently represents about 80% of the Company's sales revenue. A change in demand of this magnitude will likely result in heightened competitive pricing pressures resulting in decreased selling prices. The Company believes the net effects of changes in sales volume, selling prices, and customer and product mix could result in sales revenue ranging from \$350 million to \$400 million in fiscal 2002. The Company's cost of sales is affected by a number of factors including, among others, customer and product mix, material yields, plant operating rates, raw material costs, labor costs and energy costs. The Company believes that costs for titanium sponge and scrap will trend down over the next year while energy cost may remain volatile. However, as the Company reduces production volume in response to reduced order demand, certain manufacturing overhead costs are likely to decrease at a slower rate and to a lesser extent than production volume changes, resulting in higher costs relative to production levels. The Company's gross margin expectation for 2002 is uncertain at this time; however, the Company anticipates that the adverse effects of decreased selling prices and lower plant operating rates to only be partially offset by lower raw material costs and other cost control actions the Company is presently taking. The Company believes gross margins, excluding special items, in 2002 may decline substantially as compared to 2001.

The Company has undertaken an assessment of the longer-term impact of the commercial aerospace downturn on its business and any potential charges that may be appropriate for asset impairments, increases in valuation allowances and other similar items. Such potential charges, if any, are not yet reasonably estimable due to the period of time necessary for external information to become

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

available and then be analyzed and assessed. The Company expects these items to become estimable over the next few months and, accordingly, the Company's results for the three months ended December 31, 2001 and future periods could include material charges for these matters. The Company currently believes such charges could relate to goodwill, the Company's investment in preferred securities of SMC, deferred tax assets and other long-lived assets. Additionally, the Company may also incur

- 24 -

material charges in the fourth quarter of 2001 and future periods for restructuring charges related to workforce reductions, product line and facility consolidations and other items.

B. Liquidity and Capital Resources

The Company's consolidated cash flows provided by operating, investing and financing activities are presented below:

	Nine Sep
	2001
	(In t
Cash provided (used) by:	
Operating activities:	
Excluding changes in assets and liabilities	\$ 92,305
Changes in assets and liabilities	(44,712)

	47,593
Investing activities	(7,892)
Financing activities	(33,793)

Net cash provided (used) by operating, investing and financing activities	\$ 5,908
	=====

Operating activities. Cash provided by operating activities, excluding changes in assets and liabilities, generally followed the trend in operating results. Changes in assets and liabilities reflect primarily the timing of purchases, production and sales and can vary significantly from period to period. Accounts receivable increased in the third quarter of 2001 primarily as a result of a higher proportion of sales occurring near the end of the quarter, as well as variations in the timing of collections. Inventories increased in the third quarter of 2001 principally as a result of higher plant operating rates needed to meet fourth quarter shipments levels that were anticipated prior to the downturn in the commercial aerospace market. Additionally, higher inventories were influenced by longer than anticipated scheduled maintenance outages both in the U.S. and Europe that resulted in final processing and shipping of certain products being delayed. Accrued profit sharing cost increased as a result of the Boeing settlement and accrued tungsten costs increased related to the tungsten inclusion matter identified in March 2001. Changes in accounts payable and accrued liabilities also reflect, among other things, the timing of payments to suppliers of titanium sponge, titanium scrap and other raw materials purchases.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Dividends for the period October 1998 through December 1999 on the Company's \$80 million of Special Metals Corporation ("SMC") convertible preferred securities had been deferred by SMC. In April 2000, SMC resumed current dividend payments of \$1.3 million each quarter; however, dividends and interest in arrears were not paid. On October 11, 2001, the Company was notified by SMC of their intention to again defer the payment of dividends effective with the dividend due on October 28, 2001. At September 30, 2001, aggregate dividends and interest due the Company were approximately \$8.8 million. As a result of this and other factors, the Company has undertaken an assessment of the carrying amount of its investment in the SMC preferred securities. See Notes 1 and 5 to the Consolidated Financial Statements.

The Company's Convertible Preferred Securities do not require principal amortization, and the Company has the right to defer dividend payments for one or more periods of up to 20 consecutive quarters for each period. In April 2000, the Company exercised its right to defer future dividend payments on these securities for a period of 10 quarters, although interest continued to accrue at the coupon rate on the principal and unpaid dividends. During the

- 25 -

second quarter of 2001, the Company resumed payment of dividends on these securities and made the scheduled payments of \$3.3 million due on June 1, 2001 and September 1, 2001. The Company also paid the previously deferred aggregate dividends of \$13.9 million on June 1, 2001.

Restructuring and special items are described in Note 9 to the Consolidated Financial Statements.

Investing activities. The Company's capital expenditures were \$7.9 million for the nine months ended September 30, 2001 compared to \$6.7 million for the same period in 2000, principally for capacity enhancements, capital maintenance, and safety and environmental projects. In the first quarter of 2000, the Company sold its interest in the castings joint venture to Wyman-Gordon for \$7.0 million and recorded a pre-tax gain of \$1.2 million.

Financing activities. At September 30, 2001, the Company's net cash was approximately \$5.4 million, consisting of \$15.4 million of cash and \$10.0 million of debt. The Company also had approximately \$152 million of borrowing availability under its various worldwide credit agreements. Net cash in the 2001 period was primarily attributed to receipt of the Boeing settlement. Net repayments in the 2000 period reflect reductions of outstanding borrowings principally in the U.S.

Boeing Special Items. In April 2001, the Company received a cash payment of \$82.0 million in connection with the settlement of its litigation with Boeing. The proceeds were used partially to (i) repay \$33.3 million of the Company's outstanding revolving bank debt, (ii) pay the current and deferred dividends of \$17.2 million on the Company's Convertible Preferred Securities and (iii) pay legal and other costs of \$9.0 million associated with the Boeing settlement.

See Note 12 to the Consolidated Financial Statements for additional discussion of environmental and legal matters.

Other. The Company periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its alternative uses of capital, debt service requirements, the cost of debt and equity capital and estimated future operating cash flows. As a result of this process, the Company in the past has sought and in the future may seek, to raise additional capital, modify its common and preferred dividend policies,

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

restructure ownership interests, incur, refinance or restructure indebtedness, repurchase shares of capital stock, sell assets, or take a combination of such steps or other steps to increase or manage its liquidity and capital resources.

In the normal course of business, the Company investigates, evaluates, discusses and engages in acquisition, joint venture, strategic relationship and other business combination opportunities in the titanium, specialty metal and other industries. In the event of any future acquisition or joint venture opportunities, the Company may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

- 26 -

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. The Company is exposed to market risk from changes in foreign currency exchange rates and interest rates. The Company typically does not enter into interest rate swaps or other types of contracts in order to manage its interest rate market risk and typically does not enter into currency forward contracts to manage its foreign exchange market risk associated with receivables, payables and indebtedness denominated in a currency other than the functional currency of the particular entity.

Interest rates. Information regarding the Company's market risk relating to interest rate volatility was disclosed in its Form 10-K for the year ended December 31, 2000 and should be read in conjunction with this interim financial information. Since December 31, 2000, there has been no significant change in the nature of the Company's exposure to market risks.

Foreign currency exchange rates. The Company is exposed to market risk arising from changes in foreign currency exchange rates as a result of its international operations. See Item 2 - "Management's Discussion and Analysis of Financial Condition, Results of Operations and Liquidity and Capital Resources," which information is incorporated herein by reference.

- 27 -

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Reference is made to Note 12 of the Consolidated Financial Statements which information is incorporated herein by reference and to the Company's 2000 Annual Report on Form 10K for descriptions of certain previously reported legal proceedings.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

- 10.1 Trust Agreement, effective as of May 22, 2001, by and between the Registrant and Robert E. Musgraves.
- 10.2 Agreement to Defer Bonus Payment, effective as of May 22, 2001, by and between the Registrant and J. Landis Martin.
- 10.3 Amendment No. 1 to Loan and Security Agreement dated September 7, 2001, by and among the registrant and Titanium Hearth

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Technologies, Inc., TIMET Millbury Corporation, TIMET Castings Corporation, TIMET Finance Management Company, TMCA International, Inc., and Congress Financial Corporation (Southwest).

(b) Reports on Form 8-K:

Reports on Form 8-K filed by the Registrant for the quarter ended September 30, 2001 and the month of October 2001:

Date of Report	Items Reported
September 21, 2001	5 and 7
October 5, 2001	5 and 7
October 5, 2001	5 and 7
October 23, 2001	5 and 7
October 23, 2001	5 and 7
October 23, 2001	5 and 7

- 28 -

SIGNATURES

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

TITANIUM METALS CORPORATION

(Registrant)

Date: November 2, 2001

By /s/ Mark A. Wallace

Mark A. Wallace
(Executive Vice President and
Chief Financial Officer)

Date: November 2, 2001

By /s/ JoAnne A. Nadalin

JoAnne A. Nadalin
Vice President and Corporate Controller
(Principal Accounting Officer)

- 29 -