TITANIUM METALS CORP
Form 10-Q
November 07, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2007

OR

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

Commission file number 1-14368

Titanium Metals Corporation
(Exact name of registrant as specified in its charter)

Delaware	**13-5630895**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240-2697
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(972) 233-1700**

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 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 and large accelerated" filer in Rule 12b-2 of the Exchange Act.

þLarge accelerated filer o Accelerated

filer o Non-accelerated filer

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

Number of shares of common stock outstanding on November 1, 2007: 162,190,755

TITANIUM METALS CORPORATION

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Items 2, 3, 4 and 5 of Part II are omitted because there is no information to report.

TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)

ASSETS	December 31, 2006	**September 30, 2007 (unaudited)**
Current assets:		
Cash and cash equivalents	$ 29.4	**$ 78.8**
Accounts and other receivables, less allowance of $1.4 and $2.0, respectively	213.0	**205.2**
Inventories	501.5	**570.2**
Refundable income taxes	-	**12.5**
Prepaid expenses and other	4.6	**6.9**
Deferred income taxes	9.1	**9.2**
Total current assets	757.6	**882.8**
Marketable securities	56.8	**55.4**
Property and equipment, net	329.8	**360.8**
Pension asset	17.9	**21.3**
Deferred income taxes	3.5	**2.3**
Prepaid expenses and other	51.3	**59.8**
Total assets	$ 1,216.9	**$ 1,382.4**

See accompanying Notes to Condensed Consolidated Financial Statements.

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TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In millions)

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	December 31, 2006	**September 30, 2007 (unaudited)**
Current liabilities:		
Accounts payable	$ 87.8	**$ 66.2**
Accrued liabilities	82.0	**71.9**
Customer advances	18.7	**17.4**
Income taxes payable	22.0	**2.1**
Deferred income taxes	0.6	**1.1**
Total current liabilities	211.1	**158.7**
Accrued OPEB cost	28.0	**29.1**
Accrued pension cost	52.2	**50.7**
Deferred income taxes	17.8	**17.4**
Other	7.6	**9.3**
Total liabilities	316.7	**265.2**
Minority interest	21.3	**22.1**
Stockholders' equity:		
Series A Preferred Stock	75.0	**73.4**
Common stock	1.6	**1.6**
Additional paid-in capital	484.4	**487.7**
Retained earnings	340.3	**543.7**
Accumulated other comprehensive loss	(22.4)	**(11.3)**
Total stockholders' equity	878.9	**1,095.1**
Total liabilities, minority interest and stockholders' equity	$ 1,216.9	**$ 1,382.4**
Commitments and contingencies (Note 9)		

See accompanying Notes to Condensed Consolidated Financial Statements.

TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)

	Three months ended September 30, 2006	Three months ended September 30, 2007	Nine months ended September 30, 2006	Nine months ended September 30, 2007
	(unaudited)			
Net sales	$ 271.8	**$ 297.3**	$ 859.6	**$ 980.3**
Cost of sales	174.0	**199.3**	547.2	**613.4**
Gross margin	97.8	**98.0**	312.4	**366.9**
Selling, general, administrative and development expense	17.2	**16.7**	49.8	**51.7**
Other income, net	4.0	**-**	10.7	**0.2**
Operating income	84.6	**81.3**	273.3	**315.4**
Other non-operating (expense) income, net	(0.2)	**0.9**	(3.2)	**1.2**
Income before income taxes and minority interest	84.4	**82.2**	270.1	**316.6**
Provision for income taxes	28.6	**27.2**	94.7	**101.5**
Minority interest in after-tax earnings	1.6	**1.3**	6.2	**7.3**
Net income	54.2	**53.7**	169.2	**207.8**
Dividends on Series A Preferred Stock	1.5	**1.4**	5.4	**4.2**
Net income attributable to common stockholders	$ 52.7	**$ 52.3**	$ 163.8	**$ 203.6**
Earnings per share attributable tocommonstockholders:				
Basic	$ 0.33	**$ 0.32**	$ 1.07	**$ 1.26**
Diluted	$ 0.29	**$ 0.29**	$ 0.92	**$ 1.13**
Weighted average shares outstanding:				
Basic	161.1	**162.2**	152.9	**162.0**
Diluted	184.2	**184.3**	183.8	**184.3**

See accompanying Notes to Condensed Consolidated Financial Statements.

TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Nine months ended September 30, 2006	**2007**
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 169.2	**$ 207.8**
Depreciation and amortization	25.5	**30.1**
Equity in earnings of joint ventures, net of distributions	(7.7)	**0.1**
Deferred income taxes	9.8	**1.7**
Excess tax benefit of stock option exercises	(10.0)	**(0.8)**
Minority interest	6.2	**7.3**
Other, net	0.3	**2.6**
Change in assets and liabilities:		
Receivables	(29.9)	**12.2**
Inventories	(114.8)	**(60.1)**
Accounts payable and accrued liabilities	2.7	**(32.8)**
Income taxes	9.4	**(31.7)**
Other, net	(3.2)	**(6.7)**
Net cash provided by operating activities	57.5	**129.7**
Cash flows from investing activities:		
Capital expenditures	(62.4)	**(60.6)**
Other, net	(0.7)	**(10.0)**
Net cash used in investing activities	(63.1)	**(70.6)**
Cash flows from financing activities:		
Indebtedness:		
Borrowings	505.2	**-**
Repayments	(502.6)	**-**
Dividends paid on Series A Preferred Stock	(5.7)	**(4.2)**
Dividends paid to minority shareholder	(3.0)	**(8.1)**
Issuance of common stock	10.7	**0.9**
Excess tax benefit of stock option exercises	10.0	**0.8**
Other, net	(0.8)	**(0.1)**
Net cash provided by (used in) financing activities	13.8	**(10.7)**
Net cash provided by operating, investing and financing activities	8.2	**48.4**
Effect of exchange rate changes on cash	0.9	**1.0**
	9.1	**49.4**
Cash and cash equivalents at beginning of period	17.6	**29.4**
Cash and cash equivalents at end of period	$ 26.7	**$ 78.8**
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 1.8	**$ 2.2**

Income taxes, net	$	75.0	**$**	**130.7**

See accompanying Notes to Condensed Consolidated Financial Statements.

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TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007
(In millions)

	Series A Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (unaudited)	Accumulated Other Comprehensive Loss	Total	Comprehensive Income
Balance at January 1, 2007	$ 75.0	$ 1.6	$ 484.4	$ 340.3	$ (22.4)	$ 878.9	
Net income	-	-	-	207.8	-	207.8	$ 207.8
Other comprehensive income	-	-	-	-	11.1	11.1	11.1
Issuance of common stock	-	-	0.9	-	-	0.9	-
Conversion of Series A Preferred Stock	(1.6)	-	1.6	-	-	-	-
Tax benefit of stock options exercised	-	-	0.8	-	-	0.8	-
Dividends declared on Series A Preferred Stock	-	-	-	(4.2)	-	(4.2)	-
Change in Accounting - FIN 48	-	-	-	(0.2)	-	(0.2)	-
Balance at September 30, 2007	**$ 73.4**	**$ 1.6**	**$ 487.7**	**$ 543.7**	**$ (11.3)**	**$ 1,095.1**	
Comprehensive income							**$ 218.9**

See accompanying Notes to Condensed Consolidated Financial Statements.

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TITANIUM METALS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007
(Unaudited)

Note 1 – Basis of presentation and organization

Basis of presentation. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2006 that we filed with the Securities and Exchange Commission ("SEC") on February 28, 2007 ("2006 Annual Report"), except as disclosed below. They include the accounts of Titanium Metals Corporation and its majority owned subsidiaries (collectively referred to as "TIMET"). Unless otherwise indicated, references in this report to "we", "us" or "our" refer to TIMET and its subsidiaries, taken as a whole. All material intercompany transactions and balances with consolidated subsidiaries have been eliminated. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2006 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have condensed or omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2006) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Our results of operations for the interim period ended September 30, 2007 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with the 2006 Consolidated Financial Statements contained in our 2006 Annual Report. Our first three fiscal quarters reported are the approximate 13-week periods ending on the Saturday generally nearest to March 31, June 30 and September 30. Our fourth fiscal quarter and fiscal year always end on December 31. For presentation purposes, our financial statements and the accompanying notes have been presented as ended on March 31, June 30, September 30 and December 31, as applicable.

Organization. At September 30, 2007, Contran Corporation and its subsidiaries held 32.5% of our outstanding common stock, and the Combined Master Retirement Trust ("CMRT"), a trust sponsored by Contran to permit the collective investment by trusts that maintain the assets of certain employee benefit plans adopted by Contran and certain related companies, held an additional 9.5% of our 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, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. In addition, Mr. Simmons is the sole trustee of the CMRT and a member of the trust investment committee for the CMRT. At September 30, 2007, Mr. Simmons directly owned 3.2% of our outstanding common stock and Mr. Simmons' spouse owned 94.5% of our outstanding Series A Preferred Stock and a nominal number of shares of our common stock. Consequently, Mr. Simmons may be deemed to control each of Contran and us.

Recent accounting pronouncements. On January 1, 2007, we adopted Financial Accounting Standards Board Interpretation ("FIN") No. 48, *Accounting for Uncertain Tax Positions*. FIN 48 clarifies when and how much of a benefit we can recognize in our consolidated financial statements for certain positions taken in our income tax returns under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, and enhances the disclosure requirements for our income tax policies and reserves. Among other things, FIN 48 prohibits us from recognizing the benefits of a tax position unless we believe it is more-likely-than-not our position will prevail with the applicable tax authorities and limits the amount of the benefit to the largest amount for which we believe the likelihood of realization is greater than 50%. FIN 48 also requires companies to accrue penalties and interest on the difference between tax positions taken on their tax returns and the amount of benefit recognized for financial reporting purposes under the new standard. We are required to classify any future reserves for uncertain tax positions in a separate current or noncurrent liability, depending on the nature of the tax position. Our adoption of FIN 48 did not have a material impact on our consolidated financial position or results of operations.

We accrue interest and penalties on our uncertain tax positions as a component of our provision for income taxes. The amount of interest and penalties we accrued at September 30, 2007 was not material, and at January 1, 2007, we had no accrued interest and penalties for our uncertain tax positions.

At September 30, 2007 we had approximately $2.4 million accrued for uncertain tax positions, which did not change significantly from the January 1, 2007 accrual. Of this amount, $1.5 million was reclassified from deferred income tax liabilities (where we classified such reserve before we adopted FIN 48), $0.7 million was provided for during the first nine months of 2007 which is included in our provision for income taxes and the remainder was accounted for as a reduction in our retained earnings in accordance with the transition provisions of the new standard. In addition, the benefit associated with approximately $0.7 million of our reserve for uncertain tax positions at September 30, 2007, if recognized, would affect our effective income tax rate. We currently estimate that our unrecognized tax benefits will decrease by approximately $0.7 million during the next twelve months due to the resolution of certain examination and filing procedures related to one or more of our subsidiaries.

We file income tax returns in various U.S. federal, state and local jurisdictions. We also file income tax returns in various foreign jurisdictions, principally in the United Kingdom, Italy, France and Germany. Our domestic income tax returns prior to 2004 are generally considered closed to examination by applicable tax authorities. Our foreign income tax returns are generally considered closed to examination for years prior to 2000 for the United Kingdom, 2002 for Italy, 2003 for France and 2002 for Germany.

Note 2 – Inventories

	December 31, 2006	**September 30, 2007**
	(In millions)	
Raw materials	$ 134.0	**$ 130.2**
Work-in-process	239.4	**265.7**
Finished products	93.5	**130.7**
Inventory consigned to customers	16.9	**21.6**
Supplies	17.7	**22.0**
Total inventories	$ 501.5	**$ 570.2**

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Note 3 – Marketable securities

Our marketable securities consist of investments in related parties. CompX International, Inc., NL Industries, Inc. and Kronos Worldwide, Inc. are each majority owned subsidiaries of Contran. The aggregate cost basis of our marketable securities was $36.9 million at December 31, 2006 and September 30, 2007. The following table summarizes the market value of our marketable securities:

	December 31, 2006	**September 30, 2007**
	(In millions)	
CompX	$ 54.3	**$ 52.8**
NL	2.3	**2.5**
Kronos	0.2	**0.1**
Total marketable securities	$ 56.8	**$ 55.4**

On October 26, 2007, after approval by the independent members of our board of directors, CompX acquired all of our minority common stock ownership position in CompX for $19.50 per share, a recent price at which CompX had been repurchasing its stock in open market transactions, or an aggregate of $52.6 million. As consideration for the shares, CompX issued $52.6 million in subordinated promissory notes to us. The notes bear interest at LIBOR plus 1%, require quarterly principal payments of $0.3 million beginning September 30, 2008 and are subordinate to any outstanding balance under CompX's U.S. revolving bank credit facility. CompX may make principal prepayments at any time, in any amount, without penalty. Any outstanding principal balance becomes due upon maturity in September 2014. As a result, we will realize an $18.3 million after-tax capital gain ($0.10 per diluted share) on the disposition of these CompX shares in the fourth quarter of 2007.

Note 4 – Property and equipment

	December 31, 2006	**September 30, 2007**
	(In millions)	
Land and improvements	$ 9.3	**$ 11.5**
Buildings and improvements	41.6	**54.3**
Information technology systems	66.0	**67.4**
Manufacturing equipment and other	376.2	**443.5**
Construction in progress	103.4	**77.3**
Total property and equipment	596.5	**654.0**
Less accumulated depreciation	266.7	**293.2**
Total property and equipment, net	$ 329.8	**$ 360.8**

Note 5 – Prepaid expenses and other noncurrent assets

	December 31, 2006	**September 30, 2007**
	(In millions)	
Prepaid conversion services	$ 49.7	**$ 47.8**
Other	1.6	**12.0**
Total prepaid expenses and other noncurrent assets	$ 51.3	**$ 59.8**

Note 6 – Accrued liabilities

	December 31, 2006	**September 30, 2007**
	(In millions)	
Employee related	$ 46.4	**$ 37.6**
Deferred revenue	6.9	**6.7**
Scrap purchases	8.9	**5.2**
Taxes, other than income	6.7	**6.2**
Other	13.1	**16.2**
Total accrued liabilities	$ 82.0	**$ 71.9**

Note 7 – Employee benefits

Defined benefit pension plans. The components of the net periodic pension expense are set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2007**	2006	**2007**
	(In millions)			
Service cost	$ 1.2	**$ 1.4**	$ 3.4	**$ 4.0**
Interest cost	3.5	**4.2**	10.3	**12.6**
Expected return on plan assets	(4.6)	**(5.5)**	(13.6)	**(16.3)**
Amortization of net losses	0.8	**0.9**	2.4	**2.6**
Amortization of prior service cost	0.1	**0.1**	0.4	**0.4**
Total pension expense	$ 1.0	**$ 1.1**	$ 2.9	**$ 3.3**

Postretirement benefits other than pensions ("OPEB"). The components of net OPEB expense are set forth below:

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2007**	2006	**2007**
	(In millions)			
Service cost	$ 0.2	**$ 0.2**	$ 0.6	**$ 0.7**
Interest cost	0.4	**0.5**	1.3	**1.3**
Amortization of net losses	0.4	**0.2**	1.1	**0.6**
Amortization of prior service cost	(0.1)	**(0.1)**	(0.3)	**(0.3)**
Total OPEB expense	$ 0.9	**$ 0.8**	$ 2.7	**$ 2.3**

Note 8 – Income taxes

	Nine months ended September 30,	
	2006	**2007**
	(In millions)	
Expected income tax expense, at 35%	$ 94.5	**$ 111.0**
Non-U.S. tax rates	(1.7)	**(2.0)**
U.S. state income taxes, net	4.6	**5.7**
Nontaxable income	(1.0)	**(9.0)**
Domestic manufacturing credit	(1.4)	**(4.7)**
Other, net	(0.3)	**0.5**
Provision for income taxes	$ 94.7	**$ 101.5**

Note 9 – Commitments and contingencies

Environmental matters. We are continuing assessment work with respect to our plant site in Henderson, Nevada. As of September 30, 2007, we have $2.0 million accrued which represents our current estimate of the probable costs of the remediation expected to be required at the site under the current order with the state department of environmental protection. We expect these accrued expenses to be paid over the remediation period of up to thirty years. We estimate the upper end of the range of reasonably possible costs related to this matter, including the current accrual, to be approximately $4.1 million.

We accrue liabilities related to environmental remediation obligations when estimated future costs are probable and estimable. We evaluate and adjust our estimates as additional information becomes available or as circumstances change. Estimated future costs are not discounted to their present value. In the future, if the standards or requirements under environmental laws or regulations become more stringent, if our testing and analysis at our operating facilities identify additional environmental remediation, or if we determine that we are responsible for the remediation of hazardous substance contamination at other sites, then we may incur additional costs in excess of our current estimates. We do not know if actual costs will exceed our current estimates, if additional sites or matters will be identified which require remediation or if the estimated costs associated with previously identified sites requiring environmental remediation will become estimable in the future.

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Legal proceedings. From time to time, we are involved in various employment, environmental, contractual, intellectual property, product liability, general liability and other claims, disputes and litigation relating to our business. In certain instances, we have insurance coverage for these items to eliminate or reduce our risk of loss (other than standard deductibles, which are generally $1 million or less). We currently believe that the outcome of these matters, individually or in the aggregate, will not have a material adverse effect on our financial position, results of operations or liquidity beyond any accruals for which we have already provided. However, all such matters are subject to inherent uncertainties, and were an unfavorable outcome to occur with respect to several of these matters in a given period, it is possible that it could have a material adverse impact on our results of operations or cash flows in that particular period.

Note 10 – Earnings per share

Basic earnings per share is based on the weighted average number of unrestricted common shares outstanding during each period. Diluted earnings per share attributable to common stockholders reflects the dilutive effect of common stock options and the assumed conversion of our Series A Preferred Stock, if applicable. A reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share is presented below:

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2007**	2006	**2007**
	(In millions)			
Numerator:				
Net income attributable to common stockholders	$ 52.7	**$ 52.3**	$ 163.8	**$ 203.6**
Dividends on Series A Preferred Stock	1.5	**1.4**	5.4	**4.2**
Diluted net income attributable to common stockholders	$ 54.2	**$ 53.7**	$ 169.2	**$ 207.8**
Denominator:				
Average common shares outstanding	161.1	**162.2**	152.9	**162.0**
Average dilutive stock options	0.2	**0.1**	0.4	**0.1**
Series A Preferred Stock	22.9	**22.0**	30.4	**22.2**
Other	-	**-**	0.1	**-**
Diluted shares	184.2	**184.3**	183.8	**184.3**

Note 11 – Business segment information

Our production facilities are located in the United States, United Kingdom, France and Italy, and our products are sold throughout the world. Our Chief Executive Officer functions as our chief operating decision maker ("CODM"), and the CODM receives consolidated financial information about us. He makes decisions concerning resource utilization and performance analysis on a consolidated and global basis. We have one reportable segment, our worldwide "Titanium melted and mill products" segment. The following table provides segment inform