

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

TITANIUM METALS CORP  
Form 10-Q  
May 14, 2002

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 March 31, 2002

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

13-5630895

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(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 May 10, 2002: 31,866,338

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 "Results of Operations" and "Liquidity and Capital Resources" (both contained in Management's Discussion and Analysis of Financial Condition and Results of Operations), 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 cyclical nature of the commercial aerospace industry, the performance of aerospace manufacturers and the Company under their long-term agreements, 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 disruption of business or 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.

TITANIUM METALS CORPORATION

INDEX

Page

# Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Number

## PART I. FINANCIAL INFORMATION

### Item 1. Consolidated Financial Statements

Consolidated Balance Sheets - March 31, 2002 (unaudited) and December 31, 2001	2
Consolidated Statements of Operations - Three months ended March 31, 2002 and 2001 (unaudited)	4
Consolidated Statements of Comprehensive Income (Loss) - Three months ended March 31, 2002 and 2001 (unaudited)	5
Consolidated Statements of Cash Flows - Three months ended March 31, 2002 and 2001 (unaudited)	6
Consolidated Statement of Changes in Stockholders' Equity - Three months ended March 31, 2002 (unaudited)	8
Notes to Consolidated Financial Statements (unaudited)	9

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
--	----

Item 3. Quantitative and Qualitative Disclosures about Market Risk	25
--	----

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings	26
Item 4. Submission of Matters to a Vote of Security Holders	26
Item 6. Exhibits and Reports on Form 8-K	26

### TITANIUM METALS CORPORATION

#### CONSOLIDATED BALANCE SHEETS (In thousands)

	March 31, 2002
	----- (unaudited)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,913
Accounts and other receivables, less allowance of \$2,676 and \$2,739	79,526
Receivables from related parties	5,630
Refundable income taxes	1,221
Inventories	192,766
Prepaid expenses and other	6,256
Deferred income taxes	368
	-----

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Total current assets	291,680
Investment in joint ventures	21,155
Preferred securities of Special Metals Corporation ("SMC")	-
Property and equipment, net	267,577
Goodwill, net	44,166
Other intangible assets, net	9,264
Deferred income taxes	57
Other	13,093
	-----
	\$ 646,992
	=====

- 2 -

TITANIUM METALS CORPORATION  
CONSOLIDATED BALANCE SHEETS (CONTINUED)  
(In thousands)

	March 31, 2002
	-----
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	(unaudited)
Current liabilities:	
Notes payable	\$ 1,654
Current maturities of long-term debt and capital lease obligations	648
Accounts payable	34,040
Accrued liabilities	39,831
Customer advance payments	29,363
Payable to related parties	311
Income taxes	1,372
Deferred income taxes	91
	-----
Total current liabilities	107,310
Long-term debt	12,762
Capital lease obligations	8,727
Payable to related parties	644
Accrued OPEB cost	14,852
Accrued pension cost	23,666
Accrued environmental cost	3,262
Deferred income taxes	4,415
Other	21
	-----
Total liabilities	175,659
	-----
Minority interest - Company-obligated mandatorily	

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

redeemable preferred securities of subsidiary trust holding solely subordinated debt securities ("Convertible Preferred Securities")	201,241
Other minority interest	9,245
Stockholders' equity:	
Preferred stock	-
Common stock	319
Additional paid-in capital	350,514
Accumulated deficit	(51,923)
Accumulated other comprehensive loss	(36,550)
Treasury stock, at cost (90 shares)	(1,208)
Deferred compensation	(305)
	-----
Total stockholders' equity	260,847
	-----
	\$ 646,992
	=====

See accompanying notes to consolidated financial statements.

- 3 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)  
(In thousands, except per share data)

	Three months
	----- 2002 -----
Revenues and other income:	
Net sales	\$ 104,440
Equity in earnings of joint ventures	505
Other	73
	----- 105,018 -----
Costs and expenses:	
Cost of sales	99,332
Selling, general, administrative and development	10,379
Restructuring income	-
Interest	738
Other	28,151
	----- 138,600 -----
Loss before income taxes and minority interest	(33,582)
Income tax benefit	(1,454)
Minority interest - Convertible Preferred Securities, net of tax in 2001	3,333

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Other minority interest, net of tax	621
	-----
Net loss	\$ (36,082)
	=====
Basic and diluted loss per share	\$ (1.14)
	=====
Basic and diluted weighted average shares outstanding	31,562
	=====

See accompanying notes to consolidated financial statements.

- 4 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)  
(In thousands)

	Three months
	-----
	2002
	-----
Net loss	\$ (36,082)
Other comprehensive loss - currency translation adjustment	(1,276)
	-----
Comprehensive loss	\$ (37,358)
	=====

See accompanying notes to consolidated financial statements.

- 5 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)  
(In thousands)

	Three months
	-----
	2002
	-----
Cash flows from operating activities:	
Net loss	\$ (36,082)
Depreciation and amortization	9,034
Noncash impairment of SMC securities	27,500
Equity in earnings of joint ventures, net of distributions	(385)
Deferred income taxes	(1,016)
Other minority interest	621

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Other, net	674
Change in assets and liabilities:	
Receivables	3,077
Inventories	(8,704)
Prepaid expenses and other	2,769
Accounts payable and accrued liabilities	(9,952)
Customer advance payments	(3,960)
Accrued restructuring charges	(8)
Income taxes	(1,129)
Accounts with related parties, net	(1,333)
Accrued OPEB and pension costs	(857)
Accrued dividends on SMC securities	-
Accrued dividends on Convertible Preferred Securities	-
Other, net	550
	-----
Net cash used by operating activities	(19,201)
	-----
Cash flows from investing activities:	
Capital expenditures	(1,282)
	-----
Net cash used by investing activities	(1,282)
	-----
Cash flows from financing activities:	
Indebtedness:	
Borrowings	102,704
Repayments	(100,512)
Other, net	(182)
	-----
Net cash provided by financing activities	2,010
	-----
Net cash used by operating, investing and financing activities	\$ (18,473)
	=====

See accompanying notes to consolidated financial statements.

- 6 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (CONTINUED)  
(In thousands)

	Three months ----- 2002 -----
Cash and cash equivalents	
Net increase (decrease) from:	
Operating, investing and financing activities	\$ (18,473)
Currency translation	(114)
	-----
Cash at beginning of period	(18,587)
	24,500

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Cash at end of period	\$	5,913
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	\$	413
Convertible Preferred Securities dividends	\$	3,333
Income taxes, net	\$	691

See accompanying notes to consolidated financial statements.

- 7 -

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)  
(In thousands)

	Common Shares	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss Currency Translation	Pension Liabilities	Treasur Stock
Balance at December 31, 2001	31,856	\$ 319	\$ 350,514	\$ (15,841)	\$ (14,395)	\$ (20,879)	\$ (1,208)
Components of comprehensive income (loss):							
Net loss	-	-	-	(36,082)	-	-	-
Change in cumulative currency translation adjustment	-	-	-	-	(1,276)	-	-
Amortization of deferred compensation	-	-	-	-	-	-	-
Balance at March 31, 2002	31,856	\$ 319	\$ 350,514	\$ (51,923)	\$ (15,671)	\$ (20,879)	\$ (1,208)

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 March 31, 2002, Tremont

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Corporation ("Tremont") held approximately 39% of TIMET's outstanding common stock. At March 31, 2002, the Combined Master Retirement Trust ("CMRT"), a trust formed by Valhi, Inc. ("Valhi") to permit the collective investment by trusts that maintain the assets of certain employee benefit plans adopted by Valhi and related companies, held approximately an additional 3% of TIMET's common stock. At March 31, 2002, subsidiaries of 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. In addition, Mr. Simmons is the sole trustee of the CMRT and a member of the trust investment committee for the CMRT. Mr. Simmons may be deemed to control each of Contran, Valhi, Tremont and TIMET.

The consolidated balance sheet at March 31, 2002 and the consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity and cash flows for the interim periods ended March 31, 2002 and 2001 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 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, 2001 (the "2001 Annual Report").

- 9 -

### 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. The following provides supplemental segment information to the consolidated statements of operations:

	Three months 2002
	(\$ in thousands ex
Net sales	\$ 104,440
Cost of sales	99,332
Gross margin	5,108
Selling, general, administrative and development expense	10,379
Equity in earnings of joint ventures	505
Restructuring income	-

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Other income		51
		-----
Operating loss		(4,715)
General corporate income (expense):		
Dividends and interest income		65
Currency translation and other, net		(694)
Impairment of investment in SMC		(27,500)
Interest expense		738
		-----
Loss before income taxes and minority interest	\$	(33,582)
		=====
Titanium melted and mill products:		
Mill product net sales	\$	79,745
Melted product net sales		9,965
Other		14,730
		-----
	\$	104,440
		=====
Mill product shipments:		
Volume (metric tons)		2,685
Average price (\$ per kilogram)	\$	29.70
Melted product shipments:		
Volume (metric tons)		645
Average price (\$ per kilogram)	\$	15.45

- 10 -

Note 3 - Preferred securities of SMC

On March 27, 2002, SMC and its U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As a result, the Company undertook an assessment of its investment in SMC with the assistance of an external valuation specialist and recorded a \$27.5 million impairment charge for an other than temporary decline in the estimated fair value of its investment in SMC. This charge reduced the Company's carrying amount of its investment in SMC to zero.

Note 4 - Inventories

		March 31, 2002
		-----
		(In
Raw materials	\$	52,507
Work-in-process		90,904
Finished products		58,495
Supplies		13,430

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	215,336
Less adjustment of certain inventories to LIFO basis	22,570
	\$ 192,766

Note 5 - Goodwill and intangible assets

The Company's goodwill, arising from business combinations accounted for under the purchase method, is stated net of accumulated amortization recorded through December 31, 2001. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill is no longer amortized on a periodic basis, but instead is subject to a two-step impairment test to be performed on at least an annual basis. The change in net goodwill during the first quarter of 2002 is due to currency translation effects.

SFAS No. 142 requires the Company to identify its reporting units and determine the carrying value of each reporting unit by assigning its assets and liabilities, including existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The first step of the impairment test requires the Company to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent that a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the impairment test. As required by SFAS No. 142, the Company will complete the first step of this test by June 30, 2002. The second step of the impairment test requires the Company to compare the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess. If any goodwill impairment is determined to exist, such impairment will be recognized as a cumulative effect of a change in accounting principle no later than December 31, 2002, as provided by the transition requirements of SFAS No. 142.

- 11 -

As shown in the following table, the Company would have reported a net loss of \$2.8 million or \$.09 per share in the first quarter of 2001 if the goodwill amortization included in the Company's reported net income had not been recognized.

	Three months 2002
	(\$ in thousands)
Net loss as reported	\$ (36,082)
Adjustments for:	
Goodwill amortization	-
Tax provision on amortization	-

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Adjusted net loss	\$ (36,082)
<hr/>	
Net loss per share as reported	\$ (1.14)
Adjustments for:	
Goodwill amortization	-
Tax provision on amortization	-
<hr/>	
Adjusted net loss per share	\$ (1.14)
<hr/>	

As required by SFAS No. 142, the Company has evaluated the remaining useful lives of its intangible assets with definite lives, comprised of patents and covenants not to compete. Based on this evaluation, the Company's patents and covenants not to compete will continue to be amortized over their weighted average remaining amortization periods of 4 and 1 years, respectively. The carrying amount and accumulated amortization of the Company's intangible assets are as follows:

	March 31, 2002		December 31,	
	Carrying Amount	Accumulated Amortization	Carrying Amount	A
	(In thousands)			
Intangible assets:				
Definite lives, subject to amortization:				
Patents	\$ 13,322	\$ 7,918	\$ 13,405	\$
Covenants not to compete	8,314	7,652	8,353	
Other intangible asset - pension asset(1)	3,198	-	3,198	
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 24,834	\$ 15,570	\$ 24,956	\$
	<hr/>	<hr/>	<hr/>	<hr/>

- 12 -

For the three months ended March 31, 2002, the Company's amortization expense relating to its intangible assets was \$.5 million. The estimated aggregate annual amortization expense for the Company's patents and covenants not to compete for the next five fiscal years are summarized in the table below.

	Estim amortiz
	<hr/>
	(In
Year ending December 31,	
2002	\$
2003	\$

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

2004	\$
2005	\$
2006	\$

Note 6 - Property and equipment

	March 31, 2002
	----- (In
Land	\$ 6,124
Buildings	36,406
Information technology systems	55,835
Manufacturing and other	303,435
Construction in progress	8,217
	-----
	410,017
Less accumulated depreciation	142,440
	-----
	\$ 267,577
	=====

Note 7 - Other noncurrent assets

	March 31, 2002
	----- (In
Deferred financing costs	\$ 7,237
Notes receivable from officers	163
Prepaid pension cost	3,826
Refundable income taxes	1,009
Other	858
	-----
	\$ 13,093
	=====

- 13 -

Note 8 - Accrued liabilities

March 31, 2002
----- (In

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

OPEB cost	\$ 4,484
Pension cost	751
Accrued profit sharing	2,904
Other employee benefits	14,259
Deferred income	408
Environmental costs	540
Restructuring costs	190
Accrued tungsten costs	2,728
Taxes, other than income	5,021
Accrued dividends on Convertible Preferred Securities	1,111
Other	7,435
	-----
	\$ 39,831
	=====

Accrued restructuring costs of \$.2 million at March 31, 2002 consist of unpaid personnel severance and benefits for terminated employees relating to the Company's restructuring plans implemented during 1999 and 2000. No material payments were applied against the accrued costs related to the restructuring plans during the three months ended March 31, 2002. During the first quarter of 2001, the Company applied payments of \$.3 million against the accrued costs related to the restructuring plans and recorded income of \$.2 million related to revisions to estimates of previously established restructuring accruals.

Note 9 - Notes payable, long-term debt and capital lease obligations

	March 31, 2002
	-----
	(In
Notes payable:	
U.S. credit agreement	\$ -
European credit agreements	1,654
	-----
	\$ 1,654
	=====
Long-term debt:	
Bank credit agreement - U.K.	\$ 12,762
Other	85
	-----
	12,847
Less current maturities	85
	-----
	\$ 12,762
	=====
Capital lease obligations	\$ 9,290
Less current maturities	563
	-----
	\$ 8,727
	=====

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

The weighted average interest rate on borrowings outstanding under the U.S., U.K. and other European credit agreements for the three months ended March 31, 2002 was 5.25%, 3.73% and 3.94%, respectively. As of March 31, 2002, the Company had approximately \$150 million of unused borrowing availability under its U.S. and European credit agreements.

### Note 10 - Other income and other expense

	Three months 2002
	(In
Other income:	
Dividends and interest income	\$ 65
Foreign exchange (loss) gain	(117)
Other	125
	\$ 73
Other expense:	
Impairment of investment in SMC (Note 3)	\$ 27,500
Other	651
	\$ 28,151

### Note 11 - Income taxes

	Three months 2002
	(In
Expected income tax benefit, at 35% Non-U.S. tax rates	\$ (11,754) 230
U.S. state income taxes, net	25
Dividends received deduction	-
Effect of change in tax law	(1,797)
Adjustment of deferred tax valuation allowance	11,877
Other, net	(35)
	\$ (1,454)

During the first quarter of 2002, the Job Creation and Worker Assistance Act of 2002 (the "Act") was signed into law. The Company benefits from certain provisions of the Act, which liberalized certain net operating loss ("NOL") and

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

alternative minimum tax ("AMT") restrictions. Prior to the law change, NOL's could be carried back two years and forward 20 years. The Act increases the carryback period for losses generated in 2001 and 2002 to five years with no change to the carryforward period. In addition, losses generated in 2001 and 2002 can be carried back and offset against 100% of a taxpayer's alternative minimum taxable income ("AMTI"). Prior to the law change, an NOL could offset no more than 90% of a taxpayer's AMTI. The suspension of the 90% limitation is also applicable to NOL's carried forward into 2001 and 2002. Based on these changes, the Company recognized \$1.8 million of refundable U.S. income taxes during the first quarter of 2002.

- 15 -

At March 31, 2002, the Company had, for U.S. federal income tax purposes, NOL carryforwards of approximately \$77.4 million that expire between 2020 and 2022. At March 31, 2002, the Company had AMT credit carryforwards of approximately \$3.8 million, which can be utilized to offset regular income taxes payable in future years. The AMT credit carryforward has an indefinite carryforward period. At March 31, 2002, the Company had the equivalent of an \$8.5 million NOL carryforward in the United Kingdom and a \$2.0 million NOL carryforward in Germany, both of which have indefinite carryforward periods.

### 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 and Results of Operations, (ii) Part II, Item 1 - Legal Proceedings, (iii) the 2001 Annual Report on Form 10K and (iv) Note 1 to the Consolidated Financial Statements.

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. Based upon the Company's assessment of possible losses, TIMET recorded an aggregate charge to cost of sales for this matter of \$3.3 million during 2001 (of which \$1.0 million was recorded in the first 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 March 31, 2002, \$2.7 million remains accrued for potential future claims.

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 business, results of operations, consolidated financial condition or liquidity.

### Note 13 - Earnings (loss) per share

Basic earnings (loss) per share is based on the weighted average number of unrestricted common shares outstanding during each period. Diluted earnings (loss) per share reflect the dilutive effect of common stock options, restricted stock and the assumed conversion of the Convertible Preferred Securities, if applicable. The assumed conversion of the Convertible Preferred Securities was omitted from the diluted earnings (loss) per share calculation for the three months ended March 31, 2002 and 2001 because the effect was antidilutive. Had

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

the Convertible Preferred Securities not been antidilutive, diluted losses would have been decreased by \$3.3 million and \$2.2 million for the three months ended March 31, 2002 and 2001, respectively, and diluted average shares outstanding would have been increased by 5.4 million shares. Stock options and restricted shares omitted from the calculation because they were antidilutive approximated 1.8 million and 1.9 million for the three months ended March 31, 2002 and 2001, respectively.

- 16 -

### Note 14 - Accounting principle not yet adopted

In 2001, the Financial Accounting Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations. 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 standard to determine, among other things, whether it has any asset retirement obligations that 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 implement SFAS No. 143 no later than January 1, 2003.

- 17 -

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

Sales and operations.

		Three months ----- 2002 ----- (\$ in
Net sales	\$	104,440
Gross margin		5,108
Gross margin, excluding special items		5,108
Operating loss		(4,715)
Operating loss, excluding restructuring and special items		(4,715)
Percent of net sales:		
Gross margin		5%
Gross margin, excluding special items		5%
Percent change in:		

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Mill product sales volume	-16
Mill product selling prices (1)	+6
Melted product sales volume	-37
Melted product selling prices (1)	+8

First quarter of 2002 compared to first quarter of 2001. Sales of \$104.4 million in the first quarter of 2002 were 16% lower than the year-ago period due principally to the net effects of a 16% decrease in mill product sales volume, a 37% decrease in melted product sales volume and changes in customer and product mix, partially offset by 6% and 8% increases in mill and melted product selling prices (expressed in U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods), respectively. In billing currencies (which exclude the effects of foreign currency translation), mill product selling prices increased 7% from the year-ago period while currency fluctuations had no effect on melted product selling price changes.

Gross margin (net sales less cost of sales) was 5% of sales for the first quarter of 2002 compared to 6% in the year-ago period. The decrease reflects lower operating rates at certain facilities (estimated capacity utilization declined from 70% to 65%) and correspondingly higher unit costs, a lower proportion of aerospace sales and changes in mix during 2002. The 2001 period was also adversely impacted by a \$1.0 million charge for the tungsten matter discussed below and by goodwill amortization of \$1.2 million. As required by SFAS No. 142, and effective January 1, 2002, the Company no longer amortizes its goodwill on a periodic basis. See Note 5 to the Consolidated Financial Statements.

- 18 -

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. Based upon the Company's assessment of possible losses, TIMET recorded an aggregate charge to cost of sales for this matter of \$3.3 million during 2001 (of which \$1.0 million was recorded in the first 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 March 31, 2002, \$2.7 million remains accrued for potential future claims.

Selling, general, administrative and development expenses during the first quarter of 2002 decreased by approximately 3% from year-ago levels principally due to a decrease in personnel and related costs.

Equity in earnings of joint ventures during the first quarter of 2002 was approximately \$.4 million lower than the year-ago period principally due to a decrease in earnings of VALTIMET, the Company's minority-owned welded tube joint venture.

General corporate income (expense). General corporate income (expense) for the three months ended March 31, 2001 includes interest income and dividend income on \$80 million of nonvoting preferred securities of Special Metals Corporation ("SMC"), which accrued at an annual rate of 6.625%. No interest income or dividend income relating to these securities was recognized during the three months ended March 31, 2002. On March 27, 2002, SMC and its U.S.

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As a result, the Company undertook an assessment of its investment in SMC with the assistance of an external valuation specialist and recorded a \$27.5 million impairment charge for an other than temporary decline in the estimated fair value of its investment in SMC. This charge reduced the Company's carrying amount of its investment in SMC to zero. See Note 3 to the Consolidated Financial Statements.

Interest expense. Interest expense during the three months ended March 31, 2002 was lower than in the comparable period in 2001, primarily due to lower average debt levels and lower average interest rates during the 2002 period.

Income taxes. During the first quarter of 2002, the Job Creation and Worker Assistance Act of 2002 (the "Act") was signed into law. The Company benefits from certain provisions of the Act, which liberalized certain net operating loss ("NOL") and alternative minimum tax restrictions. Prior to the law change, NOL's could be carried back two years and forward 20 years. The Act increases the carryback period for losses generated in 2001 and 2002 to five years with no change to the carryforward period. In addition, losses generated in 2001 and 2002 can be carried back and offset against 100% of a taxpayer's alternative minimum taxable income ("AMTI"). Prior to the law change, an NOL could offset no more than 90% of a taxpayer's AMTI. The suspension of the 90% limitation is also applicable to NOL's carried forward into 2001 and 2002. Based on these changes, the Company recognized \$1.8 million of refundable U.S. income taxes during the first quarter of 2002.

The Company operates in several tax jurisdictions and is subject to varying income tax rates. As a result, the geographic mix of pretax income can impact the Company's overall effective tax rate. The Company's income tax rate approximated the U.S. statutory rate during the first quarter 2001. For the first quarter 2002, the Company's income tax rate varied from the U.S. statutory rate primarily due to an increase in the deferred tax valuation allowance related to the Company's tax attributes that did not meet the "more-likely-than-not" recognition criteria during that period. See Note 11 to the Consolidated Financial Statements.

- 19 -

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. For the three months ended March 31, 2001, this expense was recorded net of allocable income taxes; however, as a result of the Company's decision to increase its deferred tax valuation allowance as described above, this expense was reported pre-tax for the three months ended March 31, 2002. Other minority interest relates primarily to the 30% interest in TIMET Savoie, SA held by Compagnie Europeene du Zirconium-CEZUS, S.A.

Supplemental information. Approximately 40% of the Company's sales originated in Europe for the three months ended March 31, 2002, 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 exchange rate fluctuations that may impact reported earnings and may affect the comparability of period-to-period operating results. Borrowings of the Company's

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

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 are not subject to currency exchange rate fluctuations.

The Company does not use currency contracts to hedge its currency exposures. At March 31, 2002, consolidated assets and liabilities denominated in currencies other than functional currencies were approximately \$37.3 million and \$43.0 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, and exclude the potential effect of special and other charges related to restructurings, asset impairments, valuation allowances and similar items, unless otherwise noted. Undue reliance should not be placed on forward-looking statements. Actual results may differ materially. See Notes 1, 5, 12 and 14 to the Consolidated Financial Statements regarding commitments, contingencies, legal, environmental and other matters, which may materially affect the Company's future business, results of operations, financial position and liquidity.

The economic slowdown that began during 2001 in the economies of the U.S. and other regions of the world combined with the events of September 11, 2001 have resulted in the major commercial airframe and jet engine manufacturers substantially reducing their forecast of engine and aircraft deliveries over the next few years and their production levels in 2002. The Company continues to expect that aggregate industry mill product shipments will decrease in 2002 by approximately 16% to about 43,000 metric tons and that demand for mill products for the commercial aerospace sector could decline by up to 40% in 2002, primarily due to a combination of reduced aircraft production rates and excess inventory accumulated throughout the aerospace supply chain. Excess inventory accumulation typically leads to order demand for titanium products falling below actual consumption.

- 20 -

The demand for titanium generally precedes aircraft deliveries by approximately one year, although this varies considerably by titanium product. According to The Airline Monitor, a leading aerospace publication, large commercial aircraft deliveries totaled 834 in 2001, and the most recent forecast of aircraft deliveries by The Airline Monitor calls for 660 deliveries in 2002, 505 deliveries in 2003 and 515 deliveries in 2004. After 2004, The Airline Monitor calls for a continued increase each year in large commercial aircraft deliveries, with forecasted deliveries of 920 aircraft in 2008 exceeding 2001 levels. Compared to 2001, these forecasted delivery rates represent anticipated declines of about 20% in 2002 and just under 40% in 2003 and 2004. Although certain recently reported data indicates a modest level of recovery in the aerospace industry, adverse world events, including terrorist activities and conflicts in the Middle East, could negatively affect the timing of the commercial aerospace recovery and have broader economic consequences.

Although the current business environment makes it particularly difficult to predict the Company's future performance, the Company expects sales revenue for the full year 2002 to decline to about \$375 million, reflecting the combined effects of decreases in sales volume, softening of market selling prices, and changes in customer and product mix. Compared to 2001, mill product sales volume is expected to decline about 20% to just under 10,000 metric tons. Melted product sales volume is expected to decline 35% to just under 3,000 metric tons. The Company expects about 60% of its sales volume to be generated from the commercial aerospace sector this year compared to about two-thirds in 2001. The

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

reduced sales volume in 2002 is principally driven by an anticipated decline in commercial aerospace sales volume of about 30% compared to 2001, partly offset by sales volume growth to other markets. The Company expects market selling prices on new orders to soften throughout 2002. However, about one-half of the Company's commercial aerospace volume is under long-term agreements ("LTAs") that provide the Company with price stability on that portion of its business. The Company's forecast continues to anticipate that Boeing will purchase about 3 million pounds of product in 2002. At that level, the Company would expect to recognize about \$17 million of income under the take or pay provisions of the Company's agreement with Boeing in 2002. Any such earnings will be reported as operating income, but will not be included in sales revenue, sales volume or gross margin.

The Company currently anticipates gross margin as a percent of sales will decrease over the year and that gross margin for the full year will be near break even or less. This reflects the combined effects of lower volumes, higher unit costs, softening of market selling prices, and changes in raw material and other costs. Selling, general, administrative and development expense should be approximately \$42 million. Interest expense should approximate \$4 million. The Company's consolidated effective book tax rate is expected to be about 5%, but could vary significantly with the geographic mix of income. Minority interest on the Company's Convertible Preferred Securities should approximate \$13 million. The Company presently expects an operating loss in 2002 of about \$25 million and a net loss before special items for 2002 of about \$40 million.

The Company expects cash flow from operations to be negative in 2002. This is influenced by, among other things, the effect in 2002 of the \$28.5 million cash advance payment that the Company received from Boeing in December 2001. That advance created a liability on the Company's books for the same amount at year-end 2001. The liability is being reduced during 2002 as product shipments are made, and will be further reduced as the take or pay benefits are earned. The advance for calendar year 2003 will not be received until early in 2003. Excluding the effect of the Boeing advance, the Company expects cash flow from operations to be slightly positive. Capital expenditures are expected to be approximately \$12 million. Depreciation and amortization should approximate \$37 million.

- 21 -

For the second quarter of 2002, the Company expects sales revenue to range between \$85 million and \$95 million. Mill product sales volume is expected to be about 2,300 metric tons with melted product shipments of about 600 metric tons. Gross margin as a percent of sales in the second quarter is expected to range between breakeven and a positive 2%. SGA&D costs in the second quarter of 2002 should be about \$11 million. Interest expense should be less than \$1 million while minority interest on the Company's Convertible Preferred Securities should approximate \$3.3 million. With these estimates, the Company expects an operating loss in the second quarter of 2002 of between \$10 million and \$12 million, and a net loss before special items of between \$15 million and \$17 million.

In terms of quarterly trends during the year, the Company continues to expect its results in the last half of 2002 to be improved compared to the first half. This anticipated improvement reflects the fact that the estimated \$17 million expected to be earned under the take or pay provision of the Boeing contract should be reflected in the last half of the year. However, depending on Boeing's quarterly purchases, it is possible that some amount of income under the take or pay provisions of the Boeing contract could be earned and recognized in the second quarter of 2002.

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

The Company's agreement with its labor union at its Toronto, Ohio plant expires at the end of June 2002. The Company does not presently anticipate any work stoppage or other labor disruption at any facility, and its outlook for 2002 does not contemplate any such event. However, should the Company's efforts to negotiate a mutually satisfactory agreement be unsuccessful, any work stoppage or other labor disruption at any facility could materially and adversely affect the Company's business, results of operations, financial position and liquidity. The Company may undertake certain actions as part of its contingency planning for the possibility of a labor disruption. These actions could include the production of certain inventory earlier than normally scheduled and the incurrence of certain costs, which could have an impact on operating results and working capital. The Company's anticipated results included herein do not incorporate the effects of any such actions.

The Company adopted Statement of Financial Accounting Standards No. 142 effective as of January 1, 2002. Under SFAS No. 142, goodwill is no longer amortized on a periodic basis, but is subject to an impairment test at least annually. The Company will complete the first step of its goodwill impairment analysis under the new standard by June 30, 2002. If an impairment is determined to exist, such impairment would be recognized as a cumulative effect of a change in accounting principle no later than December 31, 2002. The Company cannot, at this time, reasonably estimate the impact of SFAS No. 142 on its financial statements other than with respect to amortization expense. Goodwill amortization was approximately \$4.5 million in 2001.

- 22 -

Future results of operations and other forward-looking statements contained in this Outlook involve a number of substantial risks and uncertainties that could significantly affect expected results. Actual 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. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Annual Report 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 and the Company under their LTAs, 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 disruption of business or 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.

### LIQUIDITY AND CAPITAL RESOURCES

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

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	Three months ----- 2002 ----- (In
Cash provided (used) by:	
Operating activities:	
Excluding changes in assets and liabilities	\$ 346
Changes in assets and liabilities	(19,547)
	----- (19,201)
Investing activities	(1,282)
Financing activities	2,010
	-----
Net cash used by operating, investing and financing activities	\$ (18,473) =====

Operating activities. Cash used by operating activities, excluding changes in assets and liabilities, generally followed the trend in gross margin. Changes in assets and liabilities reflect primarily the timing of purchases, production and sales and can vary significantly from period to period. Accounts receivable decreased in the first quarter of 2002 primarily as a result of decreased sales, partially offset by a slight increase in days sales outstanding. Inventories increased in the first quarter of 2002 principally as a result of production begun by the Company prior to certain customer cancellations and push-outs related to the recent downturn in the commercial aerospace market combined with the timing of certain raw material purchases. Changes in accounts payable and accrued liabilities reflect, among other things, the timing of payments to suppliers of titanium sponge, titanium scrap and other raw materials purchases. Changes in customer advance payments reflect the application of customer advances to customer purchases during the first quarter of 2002. During the first quarter of 2002, the Boeing customer advance was reduced by \$1.8 million to \$26.7 million.

- 23 -

On March 27, 2002, SMC and its U.S. subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As a result, the Company, with the assistance of an external valuation specialist, undertook a further assessment of its investment in SMC and recorded an additional \$27.5 million impairment charge to general corporate expense for an other than temporary decline in the fair value of its investment in SMC, reducing the Company's carrying amount of its investment in SMC to zero.

Investing activities. The Company's capital expenditures were \$1.3 million for the three months ended March 31, 2002 compared to \$2.6 million for the same period in 2001, principally for capacity enhancements, capital maintenance, and safety and environmental projects.

Financing activities. At March 31, 2002, the Company's net debt was approximately \$8.6 million, consisting of \$5.9 million of cash and \$14.5 million of debt (principally borrowings under the Company's U.S. and U.K. credit agreements). This compares to a net cash position of \$12.1 million as of December 31, 2001. Net cash in the 2001 period was primarily attributable to receipt of the Boeing advance payment. Net borrowings of \$2.2 million in the 2002 period and \$10.7 million in the 2001 period were primarily attributable to

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

increases in working capital (exclusive of cash).

As of March 31, 2002, the Company had approximately \$150 million of borrowing availability under its various worldwide credit agreements. The Company's U.S. credit facility, a \$125 million asset-based revolving credit agreement, expires in February 2003. The Company is currently negotiating with its lender to extend the maturity date of this agreement on substantially similar terms. The U.S. credit agreement allows the lender to modify the borrowing base formulas at its discretion, subject to certain conditions.

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 has in the past, and in light of its current outlook, may in the future seek to raise additional capital, modify its common and preferred dividend policies, 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.

- 24 -

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General. The Company is exposed to market risk from changes in foreign currency exchange rates, interest rates and commodity prices. 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 the Company's 2001 Annual Report and should be read in conjunction with this interim financial information. Since December 31, 2001, 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 and Results of Operations."

Commodity prices. The Company is exposed to market risk arising from changes in commodity prices as a result of its long-term purchase and supply agreements with certain suppliers and customers. These agreements, which offer various fixed pricing arrangements, effectively obligate the Company to bear (i) the risk of increased raw material and other costs to the Company which cannot

## Edgar Filing: TITANIUM METALS CORP - Form 10-Q

be passed on to the Company's customers through increased titanium product prices (in whole or in part) or (ii) the risk of decreasing raw material costs to the Company's suppliers which are not passed on to the Company in the form of lower raw material prices.

- 25 -

### 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 2001 Annual Report for descriptions of certain previously reported legal proceedings.

#### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its Annual Meeting of Stockholders on May 7, 2002, for the purpose of electing six directors to serve until the 2003 Annual Meeting of Shareholders and until their successors are duly elected and qualified. All nominees for director were elected with the following vote:

Director	Votes For	Vot
Norman N. Green	29,723,558	
J. Landis Martin	29,725,244	
Albert W. Niemi, Jr.	29,726,747	
Glenn R. Simmons	29,665,002	
Gen. Thomas P. Stafford (retired)	29,676,556	
Steven L. Watson	29,681,002	

#### Item 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits:

- 10.1\* Titanium Metals Corporation Amended and Restated 1996 Non-Employee Director Compensation Plan, as amended and restated effective May 7, 2002.
- 10.2 Intercorporate Services Agreement between Titanium Metals Corporation and Tremont Corporation, effective as of January 1, 2002.
- 10.3 Intercorporate Services Agreement between Titanium Metals Corporation and NL Industries, Inc., effective as of January 1, 2002, incorporated by reference to Exhibit 10.3 to NL Industries, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

\* Management contract, compensatory plan or arrangement.

##### (b) Reports on Form 8-K:

Reports on Form 8-K filed by the Registrant for the quarter

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

ended March 31, 2002 and the month of April 2002:

Date of Report	Items Reported
January 4, 2002	5 and 7
February 8, 2002	5 and 7
April 1, 2002	5 and 7
April 26, 2002	5 and 7

- 26 -

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: May 14, 2002

By /s/ Mark A. Wallace

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

Date: May 14, 2002

By /s/ JoAnne A. Nadalin

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

- 27 -