

TITANIUM METALS CORP

Form 10-Q

November 02, 2011

[Table of Contents](#)

**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, 2011

OR

· **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)

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined by Rule 12b-2 of the Exchange Act).

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Number of shares of common stock outstanding on October 27, 2011: 175,179,774

**Table of Contents**

**TITANIUM METALS CORPORATION**

**INDEX**

	Page Number
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. Condensed Consolidated Financial Statements	
<u>Condensed Consolidated Balance Sheets – December 31, 2010; September 30, 2011 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Income – Three and nine months ended September 30, 2010 and 2011 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income – Three and nine months ended September 30, 2010 and 2011 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows – Nine months ended September 30, 2010 and 2011 (unaudited)</u>	6
<u>Condensed Consolidated Statement of Changes in Equity – Nine months ended September 30, 2011 (unaudited)</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	23
Item 4. <u>Controls and Procedures</u>	23
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	24
Item 1A. <u>Risk Factors</u>	24
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 6. <u>Exhibits</u>	25
Items 3, 4 and 5 of Part II are omitted because there is no information to report.	

**Table of Contents**

**TITANIUM METALS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In millions)

	December 31, 2010	September 30, 2011 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 283.4	\$ 88.9
Marketable securities		7.1
Accounts and other receivables	123.0	167.5
Notes receivable from affiliates	24.7	37.1
Inventories	470.7	588.4
Refundable income taxes	3.0	0.9
Deferred income taxes	28.1	27.8
Other	7.8	10.3
<b>Total current assets</b>	<b>940.7</b>	<b>928.0</b>
Marketable securities	38.1	118.7
Notes receivable from affiliates	41.2	36.5
Property and equipment, net	381.6	375.9
Deferred income taxes	21.3	15.9
Other	75.1	88.9
<b>Total assets</b>	<b>\$ 1,498.0</b>	<b>\$ 1,563.9</b>

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**TITANIUM METALS CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (CONTINUED)**

(In millions)

	December 31, 2010	September 30, 2011 (unaudited)
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 52.3	\$ 72.8
Accrued and other current liabilities	67.3	88.5
Income taxes payable	2.6	4.3
Deferred income taxes	0.6	0.6
<b>Total current liabilities</b>	<b>122.8</b>	<b>166.2</b>
Accrued OPEB cost	19.1	10.2
Accrued pension cost	85.3	77.2
Deferred income taxes	34.0	57.1
Other	11.1	10.0
<b>Total liabilities</b>	<b>272.3</b>	<b>320.7</b>
Equity:		
TIMET stockholders' equity:		
Series A Preferred Stock	0.7	
Common stock	1.8	1.8
Additional paid-in capital	507.8	431.7
Retained earnings	811.6	870.2
Accumulated other comprehensive loss	(112.0)	(75.2)
<b>Total TIMET stockholders' equity</b>	<b>1,209.9</b>	<b>1,228.5</b>
Noncontrolling interest in subsidiary	15.8	14.7
<b>Total equity</b>	<b>1,225.7</b>	<b>1,243.2</b>
<b>Total liabilities and equity</b>	<b>\$ 1,498.0</b>	<b>\$ 1,563.9</b>
Commitments and contingencies		

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## TITANIUM METALS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

	Three months ended September 30, 2011		Nine months ended September 30, 2011	
	2010	2011	2010	2011
			(unaudited)	
Net sales	\$ 210.3	\$ 262.5	\$ 639.9	\$ 786.6
Cost of sales	160.7	207.4	511.7	620.4
Gross margin	49.6	55.1	128.2	166.2
Selling, general, administrative and development expense	13.6	17.1	41.5	48.6
Other income, net		0.5	0.1	12.5
Operating income	36.0	38.5	86.8	130.1
Other non-operating (expense) income, net	(2.9)	3.5	3.1	4.5
Income before income taxes	33.1	42.0	89.9	134.6
Provision for income taxes	11.4	16.1	31.0	47.1
Net income	21.7	25.9	58.9	87.5
Noncontrolling interest in net income of subsidiary	0.2	0.9	1.6	2.1
Net income attributable to TIMET stockholders	21.5	25.0	57.3	85.4
Dividends on Series A Preferred Stock			0.1	
Net income attributable to TIMET common stockholders	\$ 21.5	\$ 25.0	\$ 57.2	\$ 85.4
Basic and diluted earnings per share attributable to TIMET common stockholders	\$ 0.12	\$ 0.14	\$ 0.32	\$ 0.48
Weighted average shares outstanding:				
Basic	180.2	176.9	179.8	179.0
Diluted	180.4	176.9	180.5	179.1
Cash dividends per common share	\$	\$ 0.075	\$	\$ 0.15

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

## TITANIUM METALS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

	Three months ended September 30, 2010		Nine months ended September 30, 2011	
	2010	2011	2010	2011
	(unaudited)			
Net income	\$ 21.7	\$ 25.9	\$ 58.9	\$ 87.5
Other comprehensive income, net of tax:				
Currency translation adjustment	13.4	(13.4)	(7.8)	(1.7)
Unrealized gain (loss) on marketable securities	9.4	(0.1)	7.4	29.5
Pension plans	2.0	1.8	6.1	5.3
OPEB plan	(0.4)	(0.3)	(0.7)	3.9
Total other comprehensive income (loss)	24.4	(12.0)	5.0	37.0
Comprehensive income	46.1	13.9	63.9	124.5
Comprehensive income (loss) attributable to noncontrolling interest	1.6	(0.3)	0.6	2.3
Comprehensive income attributable to TIMET	\$ 44.5	\$ 14.2	\$ 63.3	\$ 122.2

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****TITANIUM METALS CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In millions)**

	Nine months ended September 30, 2010                      2011 (unaudited)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 58.9	\$ 87.5
Depreciation and amortization	39.3	37.4
Gain on settlement		(10.6)
Deferred income taxes	5.6	8.4
Other, net	2.6	1.5
<b>Change in assets and liabilities:</b>		
Receivables	(41.7)	(45.9)
Inventories	21.7	(119.1)
Accounts payable and accrued liabilities	12.9	42.5
Pensions and other postretirement benefit plans	(6.8)	(7.3)
Income taxes	5.0	4.4
Other, net	8.7	(13.0)
<b>Net cash provided (used) by operating activities</b>	<b>106.2</b>	<b>(14.2)</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(11.3)	(32.2)
<b>Marketable securities:</b>		
Purchases of affiliate securities	(3.0)	(35.1)
Purchases of mutual funds and other		(207.0)
Proceeds from sale of mutual funds and other		212.2
<b>Notes receivable from affiliates:</b>		
Loans	(208.8)	(84.5)
Collections of principal payments	176.8	76.0
Other, net	(0.4)	(2.0)
<b>Net cash used in investing activities</b>	<b>(46.7)</b>	<b>(72.6)</b>
<b>Cash flows from financing activities:</b>		
Treasury stock purchases	(3.9)	(76.8)
<b>Dividends paid:</b>		
Common stock		(26.8)
Noncontrolling interest in subsidiary	(2.2)	(3.4)
Other, net	(0.2)	(0.1)
<b>Net cash used in financing activities</b>	<b>(6.3)</b>	<b>(107.1)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(0.7)</b>	<b>(0.6)</b>
<b>Net cash provided (used) during period</b>	<b>52.5</b>	<b>(194.5)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>169.4</b>	<b>283.4</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 221.9</b>	<b>\$ 88.9</b>

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Supplemental disclosures of cash paid for income taxes	\$	20.4	\$	<b>34.3</b>
--	----	------	----	-------------

See accompanying Notes to Condensed Consolidated Financial Statements.

- 6 -

Table of Contents

**TITANIUM METALS CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011**

**(UNAUDITED)**

**(In millions)**

	Series A Preferred Stock	Common stock	TIMET stockholders Additional paid-in capital	equity Retained earnings	Accumulated other comprehensive loss	Treasury stock	Non-controlling interest	Total
Balance at December 31, 2010	\$ 0.7	\$ 1.8	\$ 507.8	\$ 811.6	\$ (112.0)		\$ 15.8	\$ 1,225.7
Net income				85.4			2.1	87.5
Other comprehensive income					36.8		0.2	37.0
Conversion of Series A Preferred Stock	(0.7)		0.7					
Treasury stock purchases						(76.8)		(76.8)
Treasury stock retirement			(76.8)			76.8		
Dividends declared:								
Common stock				(26.8)				(26.8)
Non-controlling interest							(3.4)	(3.4)
Balance at September 30, 2011	\$	\$ 1.8	\$ 431.7	\$ 870.2	\$ (75.2)	\$	\$ 14.7	\$ 1,243.2

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**TITANIUM METALS CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2011**

**(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, 2010 that we filed with the Securities and Exchange Commission ( SEC ) on February 28, 2011 ( 2010 Annual Report ). 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 or omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2010) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ). Our results of operations for the interim periods ended September 30, 2011 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 2010 Consolidated Financial Statements contained in our 2010 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, 2011, Contran Corporation and its subsidiaries held 29.6% of our 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, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. At September 30, 2011, Mr. Simmons and his spouse owned an aggregate of 15.7% of our 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 8.8% of our common stock. Mr. Simmons is the sole trustee of the CMRT and a member of the trust investment committee for the CMRT. Consequently, Mr. Simmons may be deemed to control each of Contran and us.

**Note 2 Recent accounting pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. ASU 2011-04 contains technical adjustments and clarifications to more closely align the U.S. GAAP and International Financials Reporting Standards ( IFRS ) for fair value and will be effective for the first quarter of 2012. We do not believe the adoption of this standard will have a material affect on our Condensed Consolidated Financial Statements.

**Note 3 Fair value of financial instruments**

Carrying amounts of certain of our financial instruments including, among others, cash and cash equivalents and accounts receivable, approximate fair value because of their short maturities. We carry our investments in marketable equity securities at fair value based upon quoted market prices, and the carrying values of our notes receivable from affiliates approximate fair value because the applicable interest rates are variable based upon stated market indices.

Table of Contents

## TITANIUM METALS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2011

(Unaudited)

**Note 4 Marketable securities**

Our marketable securities include investments in the publicly traded shares of related parties, including NL Industries, Inc., Kronos Worldwide, Inc. and Valhi, Inc., each a majority owned subsidiary of Contran, and mutual funds. All of our marketable securities are classified as available-for-sale, which are carried at fair value using quoted market prices in active markets for each marketable security, representing inputs from the highest level (level 1) within the fair value hierarchy. Because we have classified all of our marketable securities as available-for-sale, any unrealized gains or losses on the securities are recognized through other comprehensive income. The following table summarizes the market value of our marketable securities as of December 31, 2010 and September 30, 2011:

Marketable security	Fair value measurement level	Market value	Cost basis (In millions)	Unrealized gains
<b>As of December 31, 2010:</b>				
Noncurrent assets:				
Valhi	1	\$ 31.9	\$ 29.5	\$ 2.4
NL	1	2.5	2.5	
Kronos	1	3.7	1.0	2.7
Total noncurrent marketable securities		\$ 38.1	\$ 33.0	\$ 5.1
<b>As of September 30, 2011:</b>				
Current assets:				
Mutual funds	1	\$ 7.1	\$ 7.3	\$ (0.2)
Noncurrent assets:				
Valhi	1	\$ 109.9	\$ 59.1	\$ 50.8
NL	1	2.8	2.5	0.3
Kronos	1	6.0	6.4	(0.4)
Total noncurrent marketable securities		\$ 118.7	\$ 68.0	\$ 50.7

At September 30, 2011, we owned 2.0 million shares of Valhi common stock that we purchased in a series of market transactions, including 0.6 million shares purchased in the first nine months of 2011 for an aggregate of \$29.6 million. Such shares of Valhi common stock represent approximately 1.8% of Valhi's outstanding shares. Additionally, we held approximately 0.5% of NL's outstanding common stock and 0.3% of Kronos' outstanding common stock at September 30, 2011, including 0.2% of Kronos' outstanding shares that we purchased in the first nine months of 2011 for an aggregate of \$5.4 million.

At September 30, 2011, we also held investments in various mutual funds which have a primary investment objective of holding corporate and government debt securities from U.S. and other markets. These funds have daily liquidity and are held for the temporary investment of cash available for our current operations in order to generate a higher return than would be available if such funds were invested in an asset qualifying for classification as a cash equivalent, and accordingly, we have classified our investments in these mutual funds as a current asset.

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

Because we have classified all of our investments in marketable securities as available-for-sale, any unrealized gains or losses are recognized through other comprehensive income. With respect to our investments in mutual funds and in Kronos, our cost basis for each of these investments has exceeded its market value for less than two months, and we consider the decline in market price of these investments to be temporary at September 30, 2011. We considered all available evidence in reaching this conclusion, including our ability and intent to hold these investments for a reasonable period of time sufficient for the recovery of fair value.

- 9 -

**Table of Contents****TITANIUM METALS CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2011****(Unaudited)**

We will continue to monitor the quoted market prices for these securities. If we conclude in the future that the decline in value of one or more of these securities was other than temporary, we would recognize an impairment through an income statement charge at that time. Such income statement impairment charge would be offset in other comprehensive income by the reversal of the previously recognized unrealized losses to the extent they were previously recognized in accumulated other comprehensive income.

**Note 5 Notes receivable from affiliates**

From time to time, companies related to Contran will have loans and advances outstanding between them and various related parties pursuant to term and demand notes. These loans and advances are generally entered into for specific transactions or cash management purposes. The following table summarizes the aggregate outstanding principal balances on our notes receivable from affiliates as of December 31, 2010 and September 30, 2011:

	December 31, 2010	September 30, 2011
	(In millions)	
Notes receivable from affiliates:		
CompX	\$ 43.1	\$ 37.5
Contran promissory note from sale of certain securities	16.7	16.7
Contran unsecured revolving demand promissory note	6.1	19.4
Total notes receivable from affiliates	\$ 65.9	\$ 73.6
Less current portion of notes receivable from affiliates	24.7	37.1
Noncurrent notes receivable from affiliates	\$ 41.2	\$ 36.5

**Note 6 Inventories**

	December 31, 2010	September 30, 2011
	(In millions)	
Raw materials	\$ 100.9	\$ 127.2
Work-in-process	235.9	291.5
Finished products	88.7	111.8
Inventory consigned to customers	19.4	29.3
Supplies	25.8	28.6
Total inventories	\$ 470.7	\$ 588.4

**Table of Contents****TITANIUM METALS CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2011****(Unaudited)****Note 7 Property and equipment**

	December 31, 2010	September 30, 2011
	(In millions)	
Land and improvements	\$ 13.9	\$ 15.1
Buildings and improvements	70.5	70.6
Computer equipment and software	69.8	70.4
Manufacturing equipment and other	573.1	591.8
Construction in progress	32.0	34.0
Total property and equipment	759.3	781.9
Less accumulated depreciation	377.7	406.0
Total property and equipment, net	\$ 381.6	\$ 375.9

**Note 8 Other noncurrent assets**

	December 31, 2010	September 30, 2011
	(In millions)	
Prepaid conversion services	\$ 39.7	\$ 37.8
Other	35.4	51.1
Total other noncurrent assets	\$ 75.1	\$ 88.9

**Note 9 Accrued and other current liabilities**

	December 31, 2010	September 30, 2011
	(In millions)	
Employee related	\$ 29.9	\$ 36.8
Customer advances	11.3	15.7
Deferred revenue	12.9	17.3
Other	13.2	18.7
Total accrued and other current liabilities	\$ 67.3	\$ 88.5

**Note 10 Equity**

Prior to 2011, our board of directors authorized the repurchase of up to \$100 million of our common stock in open market transactions or in privately negotiated transactions. In July 2011, our board of directors authorized the repurchase of up to an additional \$100 million of our common stock in open market transactions or in privately negotiated transactions. During the first nine months of 2011, we purchased 4.9 million shares of our common stock under such authorizations in a series of open market transactions for an aggregate purchase price of \$76.8 million. At September 30, 2011, we could purchase an additional \$68.0 million of our common stock under such authorizations.

During the second quarter of 2011, all outstanding shares of our Series A Preferred Stock were converted into 0.2 million shares of our common stock, leaving no outstanding Series A Preferred Stock as of September 30, 2011.

Table of Contents

## TITANIUM METALS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2011

(Unaudited)

**Note 11 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,	
	2010	2011	2010	2011
	(In millions)			
Service cost	\$ 0.7	\$ 0.7	\$ 2.1	\$ 2.2
Interest cost	4.2	4.3	12.6	12.7
Expected return on plan assets	(3.8)	(4.6)	(11.4)	(13.6)
Amortization of net losses	2.9	2.5	8.6	7.5
Amortization of prior service costs	0.1	0.1	0.4	0.3
Total pension expense	\$ 4.1	\$ 3.0	\$ 12.3	\$ 9.1

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
	(In millions)			
Service cost	\$ 0.1	\$ 0.1	\$ 0.6	\$ 0.5
Interest cost	0.2	0.1	0.8	0.6
Amortization of net gains	(0.3)	(0.1)	(0.5)	(0.5)
Amortization of prior service credit	(0.2)	(0.3)	(0.7)	(0.7)
Recognition of prior service credit due to benefit curtailment				(2.1)
Total OPEB (income) expense	\$ (0.2)	\$ (0.3)	\$ 0.2	\$ (2.2)

In the second quarter of 2011, we amended the benefit formula and the service requirements for certain of our U.S. employees as part of the ratification of a new collective bargaining agreement. Such amendment resulted in a \$9.7 million decrease in the accumulated OPEB obligation, consisting of a \$7.6 million increase in prior service credit recognized in accumulated other comprehensive income (\$4.8 million, net of applicable deferred income taxes) and the immediate recognition of \$2.1 million of previously unrecognized prior service credit due to the benefit curtailment which resulted in a curtailment gain included as a reduction to cost of sales. As part of the accounting for such curtailment, we updated the actuarial determination of the accumulated OPEB obligation of the plan through June 30, 2011, the overall effect of which was not material.



**Table of Contents****TITANIUM METALS CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****SEPTEMBER 30, 2011****(Unaudited)****Note 12 Other income and expense**

In August 2009, we filed a claim in the bankruptcy proceedings of Tronox Incorporated, which operates a manufacturing site adjacent to our Henderson, Nevada plant site. In our claim, we asserted that Tronox's operations at its manufacturing site contribute to the groundwater contamination at our site discussed in Note 14, and that Tronox should therefore be responsible for reimbursing us for a portion of the cost of our remediation activities. In February 2011, Tronox emerged from bankruptcy upon the effectiveness of their plan of reorganization. As part of the Tronox plan of reorganization, in February 2011 we received (i) 49,963 shares of common stock of the reorganized Tronox and (ii) an additional 46,617 shares of such common stock that we purchased for an aggregate of \$1.3 million in cash pursuant to the exercise of our right to participate in a Tronox common stock rights offering, in both cases in partial satisfaction of our claim. The timing of receipt and the amount of additional consideration, if any, for the remaining portion of our claim is not determinable. The aggregate fair value of the consideration we received in February 2011 upon Tronox's emergence from bankruptcy, using the over-the-counter quoted market price of such common stock on the date Tronox's plan of reorganization became effective (a level 2 input in the fair value hierarchy), was \$10.6 million (\$0.04 per diluted share, net of income taxes) and is included in other operating income. Subsequently, in March 2011 we sold all of our shares of Tronox common stock in an over-the-counter market transaction and realized a gain of \$1.3 million which is included in other non-operating income.

**Note 13 Income taxes**

	<b>Nine months ended September 30, 2010      2011 (In millions)</b>	
Expected income tax expense, at 35%	\$ 31.5	\$ 47.1
Non-U.S. tax rates	(0.5)	(1.5)
U.S. state income taxes, net	1.3	1.7
Domestic manufacturing credit	(2.0)	(2.8)
U.K. tax rate change	1.0	1.5
Other, net	(0.3)	1.1
<b>Total income tax expense</b>	<b>\$ 31.0</b>	<b>\$ 47.1</b>

In each of the third quarters of 2010 and 2011, the United Kingdom enacted certain changes in their income tax laws, including a reduction of the U.K. corporate income tax rate. We have a net deferred income tax asset in the U.K., and we measure our net deferred taxes using the applicable enacted tax rates. The effect of any change in the applicable enacted tax rate is recognized in the period of enactment. Accordingly, we reported a decrease in our net deferred tax asset in the U.K. of \$1.0 million in the third quarter of 2010 and \$1.5 million in the third quarter of 2011, each recognized as a component of our provision for income taxes.

**Note 14 Environmental matters**

As a result of Environmental Protection Agency (EPA) inspections, in April 2009 the EPA issued a Notice of Violation (Notice) to us alleging that we violated certain provisions of the Resource Conservation and Recovery Act and the Toxic Substances Control Act (TSCA) at our Henderson plant. We responded to the EPA and are currently in discussions with them concerning the nature and extent of follow-up testing and remediation that may be required. In addition, we are currently performing work in accordance with an approved plan to address certain matters raised in the Notice.



Table of Contents

## TITANIUM METALS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2011

(Unaudited)

In May 2010, the EPA notified us alleging two unrelated violations of the recordkeeping and reporting requirements of TSCA at our Henderson plant and initiated an investigation of our Morgantown plant under these provisions of TSCA. In June 2010, with EPA approval, we conducted a voluntary self-audit of TSCA compliance at all of our U.S. facilities and disclosed the results of the self-audit to the EPA, including our findings with respect to areas of non-compliance. We do not expect the consequences of such non-compliance to have a material adverse effect on our results of operations, financial condition or liquidity.

As part of our continuing environmental assessment with respect to our plant site in Henderson, in 2008 we completed and submitted to the Nevada Department of Environmental Protection ( NDEP ) a Remedial Alternative Study ( RAS ) with respect to the groundwater located beneath the plant site. The RAS, which was submitted pursuant to an existing agreement between the NDEP and us, addressed the presence of certain contaminants in the plant site groundwater that require remediation. The NDEP completed its review of the RAS and our proposed remedial alternatives, and the NDEP issued its record of decision in February 2009, which selected our preferred groundwater remedial alternative action plan. We commenced implementation of the plan in the fourth quarter of 2009. In connection with our implementation of the plan, we are undertaking soil remediation to address source areas associated with conveyance ditches previously used by several companies in the BMI complex, the cost of which is covered by insurance.

We had \$2.4 million accrued at September 30, 2011 for remediation activities anticipated at our Henderson plant site, including amounts accrued at the lower end of the range of estimated costs for the groundwater remedial action plan selected by the NDEP in its record of decision and for additional soil remediation. We will continue evaluating alternative methods and timing for all of our remediation activities, and if necessary, we may revise our estimated costs in the future. We estimate the upper end of the range of reasonably possible costs related to all of our environmental matters, in excess of our existing accrual, to be approximately \$2.4 million. We expect these estimated costs to be incurred over a remediation period of at least five years.

**Note 15 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 the assumed conversion of our Series A Preferred Stock. A reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share is presented in the following table:

	Three months ended September 30, 2010		September 30, 2011	
			(In millions)	
<b>Numerator:</b>				
Net income attributable to TIMET common stockholders	\$ 21.5	\$ 25.0	\$ 57.2	\$ 85.4
Dividends on Series A Preferred Stock			0.1	
Diluted net income attributable to TIMET common stockholders	\$ 21.5	\$ 25.0	\$ 57.3	\$ 85.4
<b>Denominator:</b>				
Average common shares outstanding	180.2	176.9	179.8	179.0
Series A Preferred Stock	0.2		0.7	0.1

Diluted shares	180.4	<b>176.9</b>	180.5	<b>179.1</b>
----------------	-------	--------------	-------	--------------

Table of Contents

## TITANIUM METALS CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SEPTEMBER 30, 2011

(Unaudited)

**Note 16 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 President and 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 supplemental information to our Condensed Consolidated Financial Statements:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2011	2010	2011
	(In millions, except product shipment data)			
Titanium melted and mill products:				
Melted product net sales	\$ 27.7	\$ 34.4	\$ 77.1	\$ 105.5
Mill product net sales	168.5	206.3	512.7	625.4
Other titanium product sales	14.1	21.8	50.1	55.7
<b>Total net sales</b>	<b>\$ 210.3</b>	<b>\$ 262.5</b>	<b>\$ 639.9</b>	<b>\$ 786.6</b>
Melted product shipments:				
Volume (metric tons)	1,325	1,565	3,770	4,850
Average selling price (per kilogram)	\$ 20.90	\$ 22.00	\$ 20.45	\$ 21.75
Mill product shipments:				
Volume (metric tons)	3,050	3,955	9,610	12,085
Average selling price (per kilogram)	\$ 55.25	\$ 52.15	\$ 53.35	\$ 51.75

- 15 -

**Table of Contents**

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

*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 Condensed Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations ( "MD&A" ), are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can generally 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 we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if 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 we disclaim 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 risks and uncertainties in those portions referenced above and those described from time to time in our other filings with the SEC which include, but are not limited to:*

*the cyclical nature of the commercial aerospace industry;*

*the performance of our customers, our vendors and us under our long-term agreements;*

*the existence, amendment or renewal of certain long-term agreements;*

*the difficulty in forecasting demand for titanium products;*

*global economic, financial and political conditions;*

*global production capacity for titanium;*

*changes in product pricing and costs;*

*the impact of long-term contracts with vendors on our ability to reduce or increase supply;*

*the possibility of labor disruptions;*

*fluctuations in currency exchange rates;*

*fluctuations in the market price of marketable securities;*

*uncertainties associated with new product or new market development;*

*the availability of raw materials and services;*

*changes in raw material prices and other operating costs (including energy costs);*

*possible disruption of business or increases in the cost of doing business resulting from terrorist activities or global conflicts;*

*possible disruption of business or increases in the cost of doing business resulting from natural disasters or other accidents impacting us, our customers or our vendors;*

*competitive products and strategies; 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.*

*The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and related notes included elsewhere in this Quarterly Report and with our Consolidated Financial Statements and the information under the heading*

*Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in our 2010 Annual Report.*

## **SUMMARY**

**General overview.** We are a vertically integrated producer of titanium sponge, melted products and a variety of mill products for commercial aerospace, military, industrial and other applications. We are one of the world's leading producers of titanium melted products (ingot, electrode and slab) and mill products (billet, bar, plate, sheet and strip). We are the only producer with major titanium production facilities in both the United States and Europe, the world's principal markets for titanium.

**Table of Contents****RESULTS OF OPERATIONS****Quarter ended September 30, 2011 compared to quarter ended September 30, 2010**

**Summarized financial information.** The following table summarizes certain information regarding our results of operations for the three months ended September 30, 2010 and 2011. Our reported average selling prices reflect actual selling prices after the effects of currency exchange rates, customer and product mix and other related factors throughout the periods presented.

	Three months ended September 30,			
	2010	% of total net sales	2011	% of total net sales
(In millions, except product shipment data)				
Net sales:				
Melted products	\$ 27.7	13%	\$ 34.4	13%
Mill products	168.5	80%	206.3	79%
Other titanium products	14.1	7%	21.8	8%
Total net sales	210.3	100%	262.5	100%
Cost of sales	160.7	76%	207.4	79%
Gross margin	49.6	24%	55.1	21%
Selling, general, administrative and development expense	13.6	7%	17.1	6%
Other income, net			0.5	
Operating income	\$ 36.0	17%	\$ 38.5	15%
Melted product shipments:				
Volume (metric tons)	1,325		1,565	
Average selling price (per kilogram)	\$ 20.90		\$ 22.00	
Mill product shipments:				
Volume (metric tons)	3,050		3,955	
Average selling price (per kilogram)	\$ 55.25		\$ 52.15	

**Net sales.** Our net sales were \$262.5 million for the third quarter of 2011 compared to net sales of \$210.3 million for the third quarter of 2010. The 25% increase in net sales was primarily the result of an 18% increase in melted product volumes and a 30% increase in mill product volumes. Sales volumes during the third quarter of 2011 continue to reflect increasing demand for titanium products in the commercial aerospace sector, as manufacturing activity and inventory levels within the supply chain continue to improve, as well as improved demand for certain industrial products. The decrease in average selling prices for mill products is primarily due to relative changes in product mix, with increased sales of industrial products in 2011 which are generally project-oriented and sell at lower prices than more complex aerospace grade products with higher alloy content. Mill product shipments to the industrial market sector were 26% of total mill product sales volume in the third quarter of 2011 compared to 12% during the 2010 period.

**Gross margin.** For the third quarter of 2011, our gross margin was \$55.1 million compared to \$49.6 million for the third quarter of 2010, reflecting higher sales volume, partially offset by the impact of the increase in sales of industrial products, which typically contribute lower gross margins as a percentage of revenue than our other products.

**Operating income.** Operating income for the third quarter of 2011 was \$38.5 million compared to \$36.0 million for the same period of 2010, primarily reflecting the increase in gross margin.

**Table of Contents**

**Income taxes.** Our effective income tax rate was 38% for the third quarter of 2011 and 34% for the same period in 2010. We operate in multiple tax jurisdictions, and as a result, the geographic mix of our pre-tax income or loss can impact our overall effective tax rate. Our effective rate in the third quarter of 2011 was higher than the U.S. statutory rate primarily due to the net effects of (i) the positive impact of a higher percentage of our earnings being generated in lower tax rate jurisdictions, (ii) the positive impact of the domestic production activities deduction and (iii) the negative impact of a UK tax rate change which was enacted in the third quarter of 2011. Our effective rate in the third quarter of 2010 was lower than the U.S. statutory rate primarily due to the net effects of (i) the positive impact of the domestic production activities deduction and (ii) the negative impact of a UK tax rate change which was enacted in the third quarter of 2010.

**Nine months ended September 30, 2011 compared to nine months ended September 30, 2010**

**Summarized financial information.** The following table summarizes certain information regarding our results of operations for the nine months ended September 30, 2010 and 2011. Our reported average selling prices reflect actual selling prices after the effects of currency exchange rates, customer and product mix and other related factors throughout the periods presented.

	Nine months ended September 30,			
	2010	% of total net sales	2011	% of total net sales
(In millions, except product shipment data)				
<b>Net sales:</b>				
Melted products	\$ 77.1	12%	\$ 105.5	13%
Mill products	512.7	80%	625.4	80%
Other titanium products	50.1	8%	55.7	7%
<b>Total net sales</b>	<b>639.9</b>	<b>100%</b>	<b>786.6</b>	<b>100%</b>
Cost of sales	511.7	80%	620.4	79%
<b>Gross margin</b>	<b>128.2</b>	<b>20%</b>	<b>166.2</b>	<b>21%</b>
Selling, general, administrative and development expense	41.5	6%	48.6	6%
Other income, net	0.1		12.5	2%
<b>Operating income</b>	<b>\$ 86.8</b>	<b>14%</b>	<b>\$ 130.1</b>	<b>17%</b>
<b>Melted product shipments:</b>				
Volume (metric tons)	3,770		4,850	
Average selling price (per kilogram)	\$ 20.45		\$ 21.75	
<b>Mill product shipments:</b>				
Volume (metric tons)	9,610		12,085	
Average selling price (per kilogram)	\$ 53.35		\$ 51.75	

**Table of Contents**

**Net sales.** Our net sales were \$786.6 million for the first nine months of 2011 compared to net sales of \$639.9 million for the first nine months of 2010. The 23% increase in net sales was primarily the result of a 29% increase in melted product volumes and a 26% increase in mill product volumes. Sales volumes during the first nine months of 2011 continue to reflect increasing demand for titanium products in the commercial aerospace sector, as manufacturing activity and inventory levels within the supply chain continue to improve, as well as improved demand for certain industrial products. The decrease in average selling prices for mill products is primarily due to relative changes in product mix, with increased sales of industrial products in 2011 which are generally project-oriented and sell at lower prices than more complex aerospace grade products with higher alloy content. Mill product shipments to the industrial market sector were 23% of total mill product sales volume in the first nine months of 2011 compared to 13% during the 2010 period.

**Gross margin.** For the first nine months of 2011, our gross margin was \$166.2 million compared to \$128.2 million for the first nine months of 2010, reflecting higher sales volume and the related favorable impact on per-unit manufacturing cost of increased utilization of our manufacturing capacity. Increased production rates throughout our major manufacturing operations during the first nine months of 2011 resulted in \$0.6 million of unabsorbed fixed overhead costs for the first nine months of 2011 as compared to \$7.8 million in the same period of 2010.

**Operating income.** Operating income for the first nine months of 2011 was \$130.1 million compared to \$86.8 million for the same period of 2010, primarily reflecting the increase in gross margin and a first quarter 2011 \$10.6 million gain on partial settlement of a claim to recover certain groundwater remediation costs at our Henderson plant site from an unrelated third-party discussed in Note 12 to our Condensed Consolidated Financial Statements.

**Income taxes.** Our effective income tax rate was 35% for the first nine months of 2011 compared to 34% for the same period in 2010. We operate in multiple tax jurisdictions, and as a result, the geographic mix of our pre-tax income or loss can impact our overall effective tax rate. Our effective rate in the first nine months of 2011 was equal to the U.S. statutory rate primarily due to the offsetting effects of (i) the positive impact of a higher percentage of our earnings being generated in lower tax rate jurisdictions, (ii) the positive impact of the domestic production activities deduction and (iii) the negative impact of a UK tax rate change which was enacted in 2011. Our effective rate in the first nine months of 2010 was lower than the U.S. statutory rate primarily due to the net effects of (i) the positive impact of the domestic production activities deduction and (ii) the negative impact of a UK tax rate change which was enacted in 2010.

**European operations**

We have substantial operations located in the United Kingdom, France and Italy. Our sales originating in Europe were approximately 37% for the nine months ended September 30, 2010 and 39% for the same period of 2011, a portion of which were denominated in foreign currency, principally the British pound sterling or the euro. Certain raw material costs, principally purchases of titanium sponge and alloys for our European operations, are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local currencies. The functional currencies of our European subsidiaries are those of their respective countries. Our European operations may incur borrowings denominated in U.S. dollars or in their respective functional currencies. Our export sales from the U.S. are denominated in U.S. dollars and are not subject to currency exchange rate fluctuations. We do not use currency contracts to hedge our currency exposures.

The translated U.S. dollar value of our foreign sales and operating results are subject to currency exchange rate fluctuations which may favorably or adversely impact reported earnings and may affect the comparability of period-to-period operating results. By applying the exchange rates prevailing during the prior year period to our local currency results of operations for the current year period, the translation impact of currency rate fluctuations can be estimated. The U.S. dollar weakened against the British pound and euro in the three and nine months ended September 30, 2011 as compared to the corresponding periods in 2010. These fluctuations in foreign currency exchange rates had the following effects on our sales and operating income:

	Three months ended September 30, 2011		Nine months ended September 30, 2011 vs. 2010	
	vs. 2010		(In millions)	
Increase in:				
Net sales	\$	7.2	\$	16.0
Operating income		0.7		1.8



**Table of Contents****Outlook**

Demand for our titanium melted and mill products has been strong throughout 2011, following the recovery we, and the titanium industry as a whole, began to experience during 2010. Our customers, particularly within the commercial aerospace supply chain, have significantly increased their purchasing activity during 2011 due to the combined effects of the continued production ramp-up of next generation aircraft, the increased build rates on legacy models and the replenishment and growth of inventory to support the anticipated increase in aircraft deliveries. Our record shipments during the first three quarters of 2011 exceeded the comparable prior year period by 26% for mill products and 29% for melted products.

We believe the current strong demand for our products will continue for the remainder of 2011 and throughout 2012. While subject to temporary fluctuations resulting from adjustments to inventory levels within the supply chain, commercial aerospace demand should remain strong and grow steadily if the industry's estimated timelines for fleet replacement and commercial aircraft production are realized. Certain industrial markets have also demonstrated signs of increased activity and should continue to recover, subject to global economic conditions.

We have been successful over the past several years in establishing significant flexibility and cost efficiencies throughout our manufacturing processes, and we believe the current environment of strong demand and stable pricing will allow us to take advantage of these strengths. Our fiscal discipline and industry expertise have allowed us to manage our production rates and costs effectively while investing capital conservatively and maintaining a strong balance sheet. We believe our financial strength and operating flexibility position us to take advantage of opportunities to strengthen and expand our presence in key markets.

**LIQUIDITY AND CAPITAL RESOURCES**

Our consolidated cash flows for the nine months ended September 30, 2010 and 2011 are presented below. The following should be read in conjunction with our Condensed Consolidated Financial Statements and notes thereto.

	Nine months ended September 30,	
	2010	2011
	(In millions)	
Cash provided by (used in):		
Operating activities	\$ 106.2	\$ (14.2)
Investing activities	(46.7)	(72.6)
Financing activities	(6.3)	(107.1)
Net cash provided by (used in) operating, investing and financing activities	\$ 53.2	\$ (193.9)

**Table of Contents**

**Operating activities.** Cash flow from operations is a primary source of our liquidity. Changes in pricing, production volume and customer demand, among other things, could significantly affect our liquidity. Trends in cash flows from operating activities, excluding changes in assets and liabilities, have generally been similar to the trends in operating income. Changes in assets and liabilities result primarily from the timing of production, sales and purchases. Changes in assets and liabilities tend to even out over time. However, period to period relative changes in assets and liabilities can significantly affect the comparability of cash flows from operating activities. Our cash from operating activities decreased \$120.4 million, from \$106.2 million provided during the first nine months of 2010 to \$14.2 million used in the first nine months of 2011 primarily due to the net effects of the following factors:

increased operating income in 2011 of \$32.7 million (excluding the impact of the \$10.6 million non-cash settlement received from Tronox during the first quarter of 2011 discussed in Note 12 to our Condensed Consolidated Financial Statements);

net cash from the relative changes in our receivables, inventories, payables and accruals and other operating assets and liabilities decreased by \$137.6 million in 2011 resulting primarily from increased inventories to support higher production levels partially offset by the associated increases to payables and accrued liabilities; and

higher cash paid for income taxes in 2011 of \$13.9 million due to higher taxable earnings.

Relative changes in working capital can have significant effects on cash flows from operating activities. As shown below, our average days sales outstanding ( DSO ) increased from December 31, 2010 to September 30, 2011. The increase in our DSO was the result of an increase in receivables relating to strong sales in the first nine months of 2011 and the timing of collection of those receivables.

As shown below, our average number of days sales in inventory ( DSI ) increased from December 31, 2010 to September 30, 2011. The overall increase in average DSI was the result of the timing of inventory purchases and our strong sales results during the first nine months of 2011. Based on our sales order backlog and outlook for inventory purchases, we expect to deploy additional working capital to maintain appropriate inventory levels in response to improving customer demand trends.

For comparative purposes, we have also provided average DSO and DSI for the comparative prior year periods in the table below:

	December 31, 2009	September 30, 2010	December 31, 2010	September 30, 2011
DSO	43 days	54 days	52 days	<b>59 days</b>
DSI	255 days	238 days	243 days	<b>246 days</b>

**Investing activities.** Cash flows used in our investing activities increased from \$46.7 million in the first nine months of 2010 to \$72.6 million in the first nine months of 2011 primarily due to the net effects of the following factors:

Capital expenditures of \$11.3 million during the first nine months of 2010 and \$32.2 million in the same period of 2011;

Purchases of marketable securities of affiliates of \$3.0 million in the first nine months of 2010 and \$35.1 million in the first nine months of 2011;

Purchases of mutual funds of \$207.0 million and proceeds from the sale of such mutual funds of \$212.2 million in the first nine months of 2011;

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Net loans of \$32.0 million to Contran during the first nine months of 2010 and net loans of \$13.2 million during the first nine months of 2011 pursuant to an unsecured revolving credit facility; and

- 21 -

## **Table of Contents**

Repayments of \$4.7 million from CompX during the first nine months of 2011 pursuant to a promissory note receivable. **Financing activities.** We had the following significant items included in our cash flows from financing activities:

We paid dividends on our common stock of \$26.8 million in the first nine months of 2011.

We paid dividends to the noncontrolling interest in subsidiary of \$2.2 million in the first nine months of 2010 compared to \$3.4 million for the same period in 2011.

We purchased \$3.9 million of treasury stock during the first nine months of 2010 and \$76.8 million in the first nine months of 2011.

### **Future cash requirements**

**Liquidity.** Our primary sources of liquidity on an ongoing basis are our cash flow from operating activities and borrowings under various credit facilities. We generally use these amounts to (i) fund capital expenditures, (ii) repay indebtedness incurred primarily for working capital purposes and (iii) provide for the payment of dividends. From time-to-time we will incur indebtedness, generally to (i) fund short-term working capital needs, (ii) refinance existing indebtedness, (iii) make investments in marketable and other securities (including the acquisition of securities issued by our subsidiaries and affiliates) or (iv) fund major capital expenditures or the acquisition of other assets outside the ordinary course of business.

We routinely evaluate our liquidity requirements, capital needs and availability of resources in view of, among other things, our 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, we have in the past, or in light of our current outlook, may in the future, seek to raise additional capital, modify our common and preferred dividend policies, restructure ownership interests, incur, refinance or restructure indebtedness, repurchase shares of common stock, sell assets, or take a combination of such steps or other steps to increase or manage our liquidity and capital resources. In the normal course of business, we investigate, evaluate, discuss and engage 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, we may consider using then-available liquidity, issuing equity securities or incurring indebtedness.

At September 30, 2011, we had aggregate cash, cash equivalents and short term investments of \$96.0 million, and we had borrowing availability under our existing European credit facilities of \$50.7 million. Our non-U.S. subsidiaries hold \$71.5 million of our aggregate cash and cash equivalents. Our U.S. revolving credit facility expired in February 2011. Our U.K. credit facilities mature in August 2012. Based upon our expectations of our operating performance, the anticipated demands on our cash resources, borrowing availability under our European credit facilities and anticipated borrowing capacity after the maturity of these credit facilities, we expect to have sufficient liquidity to meet our obligations for the short-term (defined as the next twelve-month period) and our long-term obligations.

**Repurchases of common stock.** At October 27, 2011, we had approximately \$64.3 million available for repurchase of our common stock under the authorizations described in Note 10 to our Condensed Consolidated Financial Statements.

**Capital expenditures.** We currently estimate we will invest a total of approximately \$45 million to \$55 million for capital expenditures during 2011. Our planned capital expenditures are concentrated in areas that allow us to properly maintain and drive efficiencies in the operation of our equipment and facilities. Capital spending for the remainder of 2011 is expected to be funded by cash flows from operating activities or existing cash resources and available credit facilities.

We continue to evaluate additional opportunities to improve or replace productive assets including capital projects, acquisitions or other investments which, if consummated, any required funding would be provided by available cash or borrowings under our European credit facilities.

---

## **Table of Contents**

**Contractual commitments.** There have been no material changes to our contractual commitments discussed in our 2010 Annual Report.

**Off-balance sheet arrangements.** There have been no material changes to our off-balance sheet arrangements discussed in our 2010 Annual Report.

**Recent accounting pronouncements.** See Note 2 to the Condensed Consolidated Financial Statements.

**Critical accounting policies.** For a discussion of our critical accounting policies, refer to Part I, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations *Critical Accounting Policies and Estimates* in our 2010 Annual Report. There have been no changes in our critical accounting policies during the first nine months of 2011.

**Affiliate transactions.** Corporations that may be deemed to be controlled by or affiliated with Mr. Simmons sometimes engage in (i) intercorporate transactions such as guarantees, management and expense sharing arrangements, shared fee arrangements, joint ventures, partnerships, loans, options, advances of funds on open account, and sales, leases and exchanges of assets, including securities issued by both related and unrelated parties, and (ii) common investment and acquisition strategies, business combinations, reorganizations, recapitalizations, securities repurchases, and purchases and sales (and other acquisitions and dispositions) of subsidiaries, divisions or other business units, which transactions have involved both related and unrelated parties and have included transactions which resulted in the acquisition by one related party of a publicly-held minority equity interest in another related party. We continuously consider, review and evaluate such transactions, and understand that Contran and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that we might be a party to one or more such transactions in the future. See Notes 4 and 5 to our Condensed Consolidated Financial Statements.

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

We are exposed to market risk, including foreign currency exchange rates, commodity prices and security prices. Except as disclosed below, there have been no material changes in these market risks since we filed our 2010 Annual Report, and we refer you to the report for a complete description of these risks.

**Securities prices.** As of December 31, 2010 and September 30, 2011, we held certain marketable securities that are exposed to market risk due to changes in prices of the securities. The aggregate market value of these equity securities was \$38.1 million at December 31, 2010 and \$125.8 million at September 30, 2011. The potential change in the aggregate market value of these securities, assuming a 10% change in prices, would have been \$3.8 million at December 31, 2010 and \$12.5 million at September 30, 2011. See Note 4 to the Condensed Consolidated Financial Statements.

### **Item 4. CONTROLS AND PROCEDURES**

**Evaluation of disclosure controls and procedures.** We maintain a system of disclosure controls and procedures. The term disclosure controls and procedures, as defined by regulations of the SEC, means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit to the SEC under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Bobby D. O'Brien, our Chief Executive Officer, and James W. Brown, our Chief Financial Officer, have evaluated the design and operating effectiveness of our disclosure controls and procedures as of September 30, 2011. Based upon their evaluation, these executive officers have concluded that our disclosure controls and procedures were effective as of September 30, 2011.

**Table of Contents**

**Scope of management's report on internal control over financial reporting.** We also maintain internal control over financial reporting. The term internal control over financial reporting, as defined by regulations of the SEC, means a process designed by, or under the supervision of, our principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our Consolidated Financial Statements.

**Changes in internal control over financial reporting.** There have been no changes to our internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

Refer to our 2010 Annual Report for descriptions of certain previously reported legal proceedings.

**Item 1A. RISK FACTORS**

There have been no material changes in the first nine months of 2011 with respect to our risk factors presented in Item 1A in our 2010 Annual Report on Form 10-K.

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Prior to 2011, our board of directors authorized the repurchase of up to \$100 million of our common stock in open market transactions or in privately negotiated transactions. In July 2011, our board of directors authorized the repurchase of up to an additional \$100 million of our common stock in open market transactions or in privately negotiated transactions. Prior to 2011, we purchased 4 million shares of our common stock in open market transactions for an aggregate purchase price of \$55.1 million. During the first nine months of 2011, we purchased 4.9 million shares of our common stock in open market transactions for an aggregate purchase price of \$76.9 million. See Note 10 to the Condensed Consolidated Financial Statements. The following table discloses certain information regarding the shares of our common stock we purchased during the third quarter of 2011.

Period	Total number of shares purchased	Average price paid per share	Maximum dollar value that may yet be purchased under	
			Total number of shares purchased as part of a publicly announced plan	value that may yet be purchased under a publicly announced plan

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

					(In millions)
July 1, 2011 to July 31, 2011	49,525	\$	17.72	49,525	\$ 102.8
August 1, 2011 to August 31, 2011	1,280,100	\$	13.81	1,280,100	\$ 85.1
September 1, 2011 to September 30, 2011	1,151,627	\$	14.89	1,151,627	\$ 68.0

- 24 -

**Table of Contents**

**Item 6. EXHIBITS**

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

Note: We have retained a signed original of any exhibit listed above that contains signatures, and we will provide any such exhibit to the SEC or its staff upon request. Such request should be directed to the attention of our Corporate Secretary at our corporate offices located at 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240.

**Table of Contents**

**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

Date: November 2, 2011

By /s/ James W. Brown  
James W. Brown  
Vice President and Chief Financial Officer  
Principal Financial Officer

Date: November 2, 2011

By /s/ Scott E. Sullivan  
Scott E. Sullivan  
Vice President and Controller  
  
Principal Accounting Officer

- 26 -