

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

TITANIUM METALS CORP
Form 10-Q
January 04, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

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 No X
----- -----

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No
----- -----

Indicate by check mark whether the registrant is a shell company (as defined by rule 12b-2 of the Exchange Act).

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

PART I. FINANCIAL INFORMATION

- Item 1. Consolidated Financial Statements
- Consolidated Balance Sheets - September 30, 2005 (unaudited) and December 31, 2004
- Consolidated Statements of Operations - Three and nine months ended September 30, 2005 and 2004 (unaudited)
- Consolidated Statements of Comprehensive Income (Loss) - Three and nine months ended September 30, 2005 and 2004 (unaudited)
- Consolidated Statements of Cash Flows - Nine months ended September 30, 2005 and 2004 (unaudited)
- Consolidated Statement of Changes in Stockholders' Equity - Nine months ended September 30, 2005 (unaudited)
- Notes to Consolidated Financial Statements (unaudited)
- Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosures About Market Risk
- Item 4. Controls and Procedures

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 6. Exhibits

-1-

TITANIUM METALS CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)

ASSETS	September 30, 2005
	----- (unaudited)
Current assets:	
Cash and cash equivalents	\$ 5,540
Restricted cash and cash equivalents	146
Accounts and other receivables, less	

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

allowance of \$1,614 and \$1,683, respectively	140,353
Inventories	337,157
Prepaid expenses and other	4,766
Deferred income taxes	3,218

Total current assets	491,180
Marketable securities	48,560
Investment in joint ventures	24,183
Investment in common securities of TIMET Capital Trust I	180
Property and equipment, net	245,257
Intangible assets, net	4,309
Deferred income taxes	16,293
Other	11,401

Total assets	\$ 841,363
	=====

See accompanying Notes to Consolidated Financial Statements

-2-

TITANIUM METALS CORPORATION
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(In thousands, except per share data)

LIABILITIES, MINORITY INTEREST AND	September 30, 2005

STOCKHOLDERS' EQUITY	(unaudited)
Current liabilities:	
Notes payable	\$ 64,996
Accounts payable	55,940
Accrued liabilities	57,304
Deferred gain on sale of property	-
Customer advances	18,827
Income taxes payable	12,139
Other	556

Total current liabilities	209,762
Long-term debt	10,727
Accrued OPEB cost	14,824
Accrued pension cost	72,414
Accrued environmental cost	1,948
Deferred income taxes	57
Debt payable to TIMET Capital Trust I	5,965
Other	4,823

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Total liabilities	320,520

Minority interest	12,237

Stockholders' equity:	
Series A Preferred Stock, \$.01 par value; \$167,686 liquidation preference; 3,469 and 4,025 shares authorized, respectively, 3,354 and 3,909 shares issued, respectively	148,978
Common stock, \$.01 par value; 90,000 shares authorized, 34,174 and 31,926 shares issued, respectively	342
Additional paid-in capital	383,257
Accumulated earnings (deficit)	27,619
Accumulated other comprehensive loss	(51,590)
Treasury stock, at cost; 0 and 90 shares, respectively	-
Deferred compensation	-

Total stockholders' equity	508,606

Total liabilities, minority interest and stockholders' equity	\$ 841,363
	=====
Commitments and contingencies (Note 14)	

See accompanying Notes to Consolidated Financial Statements

-3-

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(In thousands, except per share data)

	Three months ended September 30,	
	2005	2004
		(as restated, see Note 1)
	-----	-----
Net sales	\$ 190,032	\$ 120,246
Cost of sales	134,284	105,534
	-----	-----
Gross margin	55,748	14,712
Selling, general, administrative and development expense	13,287	11,710
Equity in earnings joint ventures	1,235	393

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Other income (expense), net	8,048	10,088
	-----	-----
Operating income	51,744	13,483
Interest expense	1,080	3,099
Other non-operating income (expense), net	1,350	15,399
	-----	-----
Income before income taxes and minority interest	52,014	25,783
Income tax expense (benefit)	14,426	(629)
Minority interest, net of tax	1,325	120
	-----	-----
Net income	36,263	26,292
Dividends on Series A Preferred Stock	2,830	1,099
	-----	-----
Net income attributable to common stockholders	\$ 33,433	\$ 25,193
	=====	=====
Earnings per share attributable to common stockholders:		
Basic	\$ 1.02	\$ 0.79
Diluted	\$ 0.80	\$ 0.71
Weighted average shares outstanding:		
Basic	32,737	31,774
Diluted	45,476	40,078

See accompanying Notes to Consolidated Financial Statements

-4-

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

(In thousands)

	Three months ended September 30,	
	2005	2004
	-----	-----
Net income	\$ 36,263	\$ 26,292
	-----	-----

(as restated,
see Note 1)

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Other comprehensive income (loss):	-----	-----	-----
Currency translation adjustment, net of taxes	(2,268)	445	
Unrealized gains (losses) on marketable securities, net of taxes	(768)	4,950	
TIMET's share of VALTIMET SAS's unrealized net losses on derivative financial instruments qualifying as cash flow hedges, net of taxes	(404)	(67)	
	-----	-----	-----
Total other comprehensive (loss) income	(3,440)	5,328	
	-----	-----	-----
Comprehensive income	\$ 32,823	\$ 31,620	\$
	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements

-5-

TITANIUM METALS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

			Nine mon
			Septem

			2005

Cash flows from operating activities:			
Net income		\$ 114,567	
Depreciation and amortization		23,357	
Gain on exchange on BUCS		-	

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

(Gain) loss on disposal of fixed assets	(13,532)
Noncash impairment of equipment	1,251
Equity in (earnings) losses of joint ventures, net of distributions	(3,381)
Equity in earnings of common securities of TIMET Capital Trust I, net of distributions	-
Deferred income taxes	(10,549)
Minority interest, net of tax	3,429
Other, net	(50)
Change in assets and liabilities:	
Receivables	(48,861)
Inventories	(86,925)
Prepaid expenses and other	(3,298)
Accounts payable and accrued liabilities	17,343
Customer advances	12,298
Income taxes	10,201
Accrued OPEB and pension costs	384
Accrued interest on debt payable to TIMET Capital Trust I	-
Other, net	818

Net cash provided (used) by operating activities	17,052

Cash flows from investing activities:	
Capital expenditures	(43,292)
Purchase of marketable securities	(2,223)
Change in restricted cash, net	576
Proceeds from the sale of property	1,289

Net cash used by investing activities	(43,650)

Cash flows from financing activities:	
Indebtedness:	
Borrowings	255,248
Repayments	(222,701)
Dividends paid on Series A Preferred Stock	(9,687)
Dividend paid to minority shareholder	(2,216)
Issuance of common stock	5,256
Principal payments on capitalized leases	(16)

Net cash provided by financing activities	25,884

Net cash used by operating, investing and financing activities	\$ (714)
	=====

See accompanying Notes to Consolidated Financial Statements

-6-

TITANIUM METALS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (CONTINUED)

(In thousands)

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	Nine months September 30,
	2005
Cash and cash equivalents:	
Net decrease from:	
Operating, investing and financing activities	\$ (714)
Effect of exchange rate changes on cash	(940)

	(1,654)
Cash and cash equivalents at beginning of period	7,194

Cash and cash equivalents at end of period	\$ 5,540
	=====
Supplemental disclosures:	
Cash paid for:	
Interest, net of amounts capitalized of \$526 and \$5, respectively	\$ 2,297
Income taxes, net	\$ 5,214

See accompanying Notes to Consolidated Financial Statements

-7-

TITANIUM METALS CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
Nine months ended September 30, 2005
(In thousands)

	Common Shares	Common Stock	Series A Preferred Stock	Additional Paid-in Capital	Accumulated (Deficit) Earnings	Accumul Other rehe Los
	-----	-----	-----	-----	-----	-----
Balance at December 31, 2004 (as restated, see Note 1)	31,836	\$ 319	\$173,650	\$350,707	\$(77,044)	\$(39,9
Comprehensive income	-	-	-	-	114,567	(11,6
Issuance of common stock	485	5	-	5,393	-	-
Conversion of Series A Preferred Stock	1,853	19	(24,672)	24,653	-	-
Treasury stock retirement	-	(1)	-	(990)	(217)	-
Tax benefit of stock options						

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

exercised and restricted stock vested	-	-	-	3,494	-	-
Dividends declared on Series A Preferred Stock	-	-	-	-	(9,687)	-
Amortization of deferred compensation	-	-	-	-	-	-
	-----	-----	-----	-----	-----	-----
Balance at September 30, 2005	34,174	\$ 342	\$148,978	\$383,257	\$ 27,619	\$(51,5
	=====	=====	=====	=====	=====	=====

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. The accompanying Consolidated Financial Statements include the accounts of TIMET and its majority owned subsidiaries (collectively, the "Company"), except the TIMET Capital Trust I (the "Capital Trust"). All material intercompany transactions and balances with consolidated subsidiaries have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation. The Consolidated Balance Sheet at September 30, 2005 and the Consolidated Statements of Operations, Comprehensive Income (Loss), Changes in Stockholders' Equity and Cash Flows for the interim periods ended September 30, 2005 and 2004, as applicable, have been prepared by the Company without audit in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In the opinion of management, all adjustments necessary to fairly state 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 information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. The Company's 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. The Company's fourth fiscal quarter and fiscal year always end on December 31. For presentation purposes, the Company's Consolidated Financial Statements and notes thereto have been presented as ending on March 31, June 30, September 30 and December 31, as applicable. 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, 2004 (the "2004 Annual Report").

At September 30, 2005, Valhi, Inc. and subsidiaries ("Valhi") held 40.9% of TIMET's outstanding common stock and 0.4% of the Company's 6.75% Series A Convertible Preferred Stock (the "Series A Preferred Stock"). At September 30, 2005, Contran Corporation ("Contran") held, directly or through subsidiaries, approximately 92% of Valhi's outstanding common stock. At September 30, 2005, the Combined Master Retirement Trust ("CMRT"), a trust sponsored by Contran to permit the collective investment by trusts that maintain the assets of certain

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

employee benefit plans adopted by Contran and certain related companies, held 11.2% of the Company's common stock. TIMET's U.S. pension plans invest in a portion of the CMRT that does not hold TIMET common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. In addition, Mr. Simmons is the sole trustee of the CMRT and a member of the trust investment committee for the CMRT. At September 30, 2005, Mr. Simmons directly owned 1.5% of TIMET's outstanding common stock and Mr. Simmons' spouse owned 0.4% of TIMET's outstanding common stock and 47.7% of the Company's outstanding Series A Preferred Stock. Consequently, Mr. Simmons may be deemed to control each of Contran, Valhi and TIMET. During October 2005, Mr. Simmons purchased 190,000 shares of TIMET common stock in open market transactions, increasing his direct ownership to approximately 2.0%.

-9-

Effective January 1, 2005, the Company changed its method for inventory costing from the last-in, first-out ("LIFO") cost method to the specific identification cost method for the approximate 40% of the Company's consolidated inventories previously accounted for under the LIFO cost method. With the significant volatility seen recently in raw material prices, the Company believes this change in accounting method provides a better matching of revenues and expenses. As required by GAAP, the Company has restated its financial statements for prior periods. As a result, the Company's net inventory balance as of December 31, 2004 increased by \$26.7 million from the previously reported amount, with a corresponding decrease to the Company's accumulated deficit. There was no impact on the Company's cash flow from operations for the three or nine months ended September 30, 2004 related to this accounting change. The effect of the accounting change on income for the three and nine months ended September 30, 2004 was to (i) increase net income by \$1.1 million and \$3.0 million, respectively, (ii) increase earnings per basic share by \$0.03 and \$0.10, respectively and (iii) increase earnings per diluted share by \$0.02 and \$0.09, respectively. See Note 2.

The Company completed a two-for-one split of its common stock, which was effected in the form of a stock dividend (whereby an additional one share of post-split stock was distributed for each share of pre-split stock) and became effective after the close of trading on September 6, 2005. The Company completed a five-for-one split of its common stock, which was effected in the form of a stock dividend (whereby an additional four shares of post-split stock were distributed for each share of pre-split stock) and became effective after the close of trading on August 26, 2004. All share and per share disclosures have been adjusted to give effect to these stock splits.

The Company currently follows the disclosure alternative prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, and has chosen to account for its stock-based employee compensation related to stock options in accordance with Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and its various interpretations. See Note 15. Under APB Opinion No. 25, compensation cost is generally recognized for fixed stock options for which the exercise price is less than the market price of the underlying stock on the grant date. All of the Company's stock options have been granted with exercise prices equal to or in excess of the market price on the date of grant, and the Company recognized no compensation expense for stock options during the three and nine months ended September 30, 2005 and 2004. If the Company had applied the fair value recognition provisions of SFAS No. 123 to all options granted, basic and diluted earnings per share attributable to common

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

stockholders would have been unchanged for all periods presented.

VALTIMET, the Company's 43.7% owned affiliate accounted for by the equity method, has entered into certain derivative financial instruments that qualify as cash flow hedges under GAAP. The Company's pro-rata share of VALTIMET's unrealized net gains (losses) on such derivative financial instruments is included as a component of other comprehensive income.

-10-

Note 2 - Inventories

	September 30, 2005	December 31, 2004

(In thousands)		
Raw materials	\$ 91,101	\$ 71,067
Work-in-process	145,031	97,848
Finished products	88,636	77,012
Supplies	12,389	12,397
	-----	-----
	\$ 337,157	\$ 258,324
	=====	=====

In connection with finalizing the preparation of the Company's consolidated financial statements for the third quarter of 2005, the Company determined that certain cost variances in prior periods that had been charged to cost of sales when incurred should have been capitalized into inventory and allocated to cost of sales when the related inventory was sold. The Company has analyzed the impact of this error and has determined that prior periods' annual and quarterly financial statements were not materially misstated. The Company corrected its methodology of capitalizing variances to inventory, effective during the third quarter of 2005, so that such variances are now initially capitalized into inventory and then expensed to cost of sales in future periods as the related inventory is sold. The cumulative effect of this change on the Company's consolidated third quarter results during the third quarter of 2005 was an increase in inventory and a decrease in cost of sales of \$0.9 million, and an increase in net income attributable to common stockholders of \$0.6 million (or \$0.01 per diluted share).

Effective January 1, 2005, the Company changed its method for inventory costing from the LIFO cost method to the specific identification cost method, as described in Note 1. As a result of this accounting change, the Company's net inventory balance as of December 31, 2004 increased by \$26.7 million from the previously reported amount (representing the elimination of the Company's LIFO reserve at such date).

Note 3 - Marketable securities

The following table summarizes the Company's marketable securities as of September 30, 2005 and December 31, 2004:

September 30, 2005

Dec

Market

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Marketable security	Shares	value	Shares
(\$ in thousands)			
CompX International, Inc. ("CompX")	2,696,420	\$ 44,222	2,549,520
NL Industries, Inc. ("NL")	222,100	4,173	222,100
Kronos Worldwide, Inc. ("Kronos")	5,203	165	3,980
		\$ 48,560	

-11-

During the first nine months of 2004, the Company purchased 2,212,820 shares of CompX Class A common shares and, on October 1, 2004, contributed such shares to CompX Group, Inc. ("CGI") in return for a 17.6% ownership interest in CGI (the remaining 82.4% interest is held by NL). As of September 30, 2005 and December 31, 2004, the Company directly held 483,600 and 336,700 shares, respectively, of CompX, which were purchased subsequent to October 1, 2004. The Company has not contributed any of the 483,600 shares purchased subsequent to October 1, 2004, and currently does not expect to contribute those shares or any other shares of CompX Class A common stock that it may subsequently acquire, to CGI.

During each of the first three quarters of 2005, CompX and Kronos each paid cash dividends on their respective common stock. NL paid a first quarter 2005 dividend in the form of shares of Kronos common stock and paid second and third quarter 2005 cash dividends. See Note 11.

Note 4 - Property and equipment

	September 30, 2005	December 31, 2004
(In thousands)		
Land and improvements	\$ 6,292	\$ 8,703
Buildings and improvements	31,735	31,780
Information technology systems	61,396	63,609
Manufacturing equipment and other	327,056	333,031
Construction in progress	47,298	14,819
	473,777	451,942
Less accumulated depreciation	228,520	223,769
	\$ 245,257	\$ 228,173

During the first quarter of 2005, the Company determined that certain of its manufacturing equipment would no longer be utilized in its operations, and, accordingly, recognized a \$1.2 million noncash abandonment charge to cost of sales during the period.

In November 2004, pursuant to an agreement with Basic Management, Inc. and certain of its affiliates ("BMI"), the Company sold certain property located adjacent to its Henderson, Nevada plant site to BMI, a 32%-owned indirect

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

subsidiary of Valhi, and recorded a \$12.0 million deferred gain related to the cash proceeds received in November 2004. During the second quarter of 2005, the Company ceased using the property and, accordingly, recognized a \$13.9 million gain related to the sale of such property, which is comprised of (i) the previously reported \$12.0 million cash proceeds received in November 2004, (ii) the reversal of \$0.6 million previously accrued by the Company for potential environmental issues related to the property and (iii) an additional \$1.2 million cash payment received from BMI in June 2005. See Note 11.

-12-

Note 5 - Other noncurrent assets

	September 30, 2005
(In thou	
Prepaid pension cost	\$ 11,047
Deferred financing costs	179
Notes receivable from officers	-
Other	175
	\$ 11,401

Note 6 - Accrued liabilities

	September 30, 2005
(In thou	
OPEB cost	\$ 2,686
Pension cost	4,856
Payroll and vacation	4,825
Performance-based employee incentive compensation	15,996
Other employee benefits	9,756
Deferred income	2,013
Environmental costs	1,632
Taxes, other than income	6,240
Other	9,300
	\$ 57,304

Note 7 - Customer advances

Under the terms of the Company's previous long-term agreement ("LTA") with The Boeing Company ("Boeing"), in 2002 through 2007, Boeing was required to advance TIMET \$28.5 million annually less \$3.80 per pound of titanium product purchased by Boeing subcontractors from TIMET during the preceding year. The advance related to Boeing's take-or-pay obligations under the previous LTA.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Effectively, the Company collected \$3.80 less from Boeing than the LTA selling price for each pound of titanium product sold directly to Boeing and reduced the related customer advance recorded by the Company. For titanium products sold to Boeing subcontractors, the Company collected the full LTA selling price, but gave Boeing credit by reducing the next year's annual advance by \$3.80 per pound of titanium product sold to Boeing subcontractors. The Boeing customer advance is also reduced as take-or-pay benefits are earned. As of September 30, 2005, approximately \$11.8 million of customer advances related to the Company's previous LTA with Boeing.

Effective July 1, 2005, the Company amended its LTA with Boeing for the purchase and sale of titanium products. The new LTA expires on December 31, 2010 and provides for, among other things, (i) mutual annual purchase and supply commitments by both parties, (ii) continuation of the existing buffer inventory program currently in place for Boeing and (iii) certain improved product pricing. Beginning in 2006, the new LTA also replaces the take-or-pay provisions of the previous LTA with an annual makeup payment early in the following year in the event Boeing purchases less than its annual volume commitment in any year.

-13-

Note 8 - Bank debt

During the second quarter of 2005, the Company amended its U.S. credit facility to increase its maximum authorized borrowings from \$105 million to \$125 million. In addition, the amended credit facility reduced the excess availability requirement related to the payment of dividends on the Company's Series A Preferred Stock and distributions on the Capital Trust's 6.625% mandatorily redeemable convertible preferred securities, beneficial unsecured convertible securities ("BUCS") from \$25 million to \$10 million.

During the second quarter of 2005, the Company's subsidiary, TIMET UK, terminated its previous credit agreement and entered into a new working capital credit facility that expires on April 30, 2008. Under the new U.K. credit facility, TIMET UK may borrow up to (pound)22.5 million, subject to a formula-determined borrowing base derived from the value of accounts receivable, inventory and property, plant and equipment. Borrowings under the U.K. facility can be in various currencies, including U.S. dollars, British pounds sterling and euros and are collateralized by substantially all of TIMET UK's assets. Interest on outstanding borrowings generally accrues at rates that vary from 1.125% to 1.375% above the lender's published base rate. The U.K. facility agreement also contains financial ratios and covenants customary in lending transactions of this type, including a minimum net worth covenant.

As of September 30, 2005, the Company had outstanding borrowings of \$65.0 million under its U.S. credit agreement and \$10.7 million under its European credit facilities. Aggregate unused borrowing availability under the Company's U.S. and European credit facilities was approximately \$102 million as of September 30, 2005.

Note 9 - Capital Trust

In August 2004, the Company completed an exchange offer, pursuant to which the Company had offered to exchange any and all of the 4,024,820 outstanding BUCS issued by the Capital Trust for shares of the Company's Series A Preferred Stock at the exchange rate of one share of Series A Preferred Stock for each BUCS. Based upon the 3,909,103 BUCS tendered and accepted for exchange as of the close of the offer on August 31, 2004, the Company issued 3,909,103 shares of Series A Preferred Stock in exchange for such BUCS. During the third quarter of 2004, the Company recognized a \$15.5 million non-cash non-operating

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

gain related to the BUCS exchange, reflecting the difference between the carrying value of the related Subordinated Debentures (\$195.5 million) and the fair value of the Series A Preferred Stock issued (\$173.7 million, based on the closing price of the BUCS on August 31, 2004 according to NASDAQ's website of \$45.25 per share, less \$3.2 million attributable to accrued and unpaid dividends), less \$6.3 million of unamortized deferred financing costs related to the exchanged BUCS.

On September 1, 2005, the Company and the Capital Trust agreed to the cancellation of 120,907 of the Capital Trust's common securities (all of which were held by the Company) and a corresponding cancellation of \$6.0 million of the Company's 6.625% convertible junior subordinated debentures (the "Subordinated Debentures") (all of which were held by the Capital Trust). There was no net effect of this transaction on the Company's consolidated financial position or results of operations, as the Company's carrying value of the common securities of the Capital Trust that were cancelled equaled the carrying value of the Subordinated Debentures that were also cancelled.

-14-

Note 10 - Stockholders' equity

Preferred stock. During the third quarter of 2005, certain holders of the Company's Series A Preferred Stock converted an aggregate of 555,390 shares of the Series A Preferred Stock into 1,852,697 shares of TIMET's common stock.

Treasury stock. On August 12, 2005, the Company retired all 90,000 shares of its treasury stock. The retirement of such treasury stock, which had a cost basis of \$1.2 million, resulted in a \$900 reduction of common stock, a \$990,000 reduction of additional paid-in capital and a \$217,000 decrease in accumulated earnings.

Note 11 - Other income (expense)

	Three months ended September 30,		Nine Months ended September 30,
	2005	2004	2005
	(In thousands)		
Other operating income (expense):			
Settlement of customer claim	\$ -	\$ -	\$ 1,8
Boeing take-or-pay	8,285	10,058	8,7
Other, net	(237)	30	1
	\$ 8,048	\$ 10,088	\$ 10,7
Other non-operating income (expense):			
Dividends and interest	\$ 491	\$ 68	\$ 1,4
Equity in earnings of common securities of the Capital Trust	70	103	2
Gain on sale of property (Note 4)	-	-	13,8
Gain on BUCS exchange	-	15,465	

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Foreign exchange gain (loss), net	498	(471)	2,0
Other, net	291	234	(1
	-----	-----	-----
	\$ 1,350	\$ 15,399	\$ 17,5
	=====	=====	=====

During the first quarter of 2005, the Company received \$1.8 million related to its settlement of a customer claim regarding prior order cancellations from such customer. Additionally, the Company received dividends from its investments in marketable securities, as discussed in Note 3.

-15-

Note 12 - Income taxes

	Nine months ended	

	2005	

	(In thous	
Expected income tax expense, at 35% (1)	\$	43,009
Non-U.S. tax rates		(863)
U.S. state income taxes, net		1,706
Dividends received deduction		(227)
Change in state income tax law		550
Tax on repatriation of foreign earnings		998
Revision of estimated tax liability		-
Adjustment of deferred income tax asset valuation allowance (1)		(41,345)
Other, net		1,058

	\$	4,886
		=====

(1) 2004 amount as restated. See Note 1.

The Company periodically reviews its deferred income tax assets to determine if future realization is more likely than not. During the first quarter of 2005, based on the Company's recent history of U.S. income, its near term outlook and the effect of its change in method of inventory costing from the LIFO cost method to the specific identification cost method for U.S. federal income tax purposes (see Note 1), the Company changed its estimate of its ability to utilize the tax benefits of its U.S. net operating loss ("NOL") carryforwards, alternative minimum tax ("AMT") credit carryforwards and other net deductible temporary differences (other than the majority of the Company's capital loss carryforwards). Consequently, the Company determined that its net deferred income tax asset related to such U.S. tax attributes and other net deductible temporary differences now meets the "more-likely-than-not" recognition criteria. Accordingly, the Company reversed \$28.2 million of the valuation allowance attributable to such U.S. deferred income tax asset in the

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

first three quarters of 2005 (\$5.6 million in the third quarter) and the Company will reverse the remaining valuation allowance attributable to such U.S. deferred income tax asset of \$8.6 million during the fourth quarter of 2005 in accordance with the GAAP requirements of accounting for income taxes at interim dates.

During the first quarter of 2005, based on the Company's recent history of U.K. income, its near term outlook and its historic U.K. profitability, the Company also changed its estimate of its ability to utilize its net deductible temporary differences and other tax attributes related to the U.K., primarily comprised of (i) the future benefits associated with the reversal of its U.K. minimum pension liability deferred income tax asset and (ii) the benefits of its U.K. NOL carryforward. Consequently, the Company determined that its net deferred income tax asset in the U.K. now meets the "more-likely-than-not" recognition criteria. Accordingly, the Company reversed \$13.1 million of the valuation allowance attributable to such deferred income tax asset in the first three quarters of 2005 (\$0.1 million in the third quarter) and the Company will reverse the remaining U.K. valuation allowance of \$0.3 million during the fourth quarter of 2005 in accordance with the GAAP requirements of accounting for income taxes at interim dates.

-16-

At September 30, 2005, the Company had, for U.S. federal income tax purposes, (i) NOL carryforwards of \$46 million that expire in 2020 through 2023, (ii) a capital loss carryforward of \$73 million that expires in 2008 and (iii) AMT credit carryforwards of \$5 million, which can be utilized to offset regular income taxes payable in future years, with an indefinite carryforward period. In addition, at September 30, 2005, the Company had the equivalent of a \$0.7 million NOL carryforward in Germany, which has an indefinite carryforward period.

In October 2004, the American Jobs Creation Act of 2004 was enacted into law. The new law provides for a special 85% deduction for certain dividends received from controlled foreign corporations in 2005. In the second quarter of 2005, the Company completed its evaluation of this new provision and determined that it would benefit from the special dividend received deduction. As a consequence, the Company repatriated \$19 million of earnings from its European subsidiaries in the third quarter of 2005. The \$1 million related tax impact of this repatriation was recorded as tax expense in the second quarter of 2005 in accordance with the requirements of FASB Staff Position No. 109-2. However, the Company has not provided for U.S. deferred income taxes or foreign withholding taxes on basis differences in its non-U.S. consolidated subsidiaries that result primarily from undistributed earnings the Company intends to reinvest indefinitely. Determination of the deferred income tax liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

The new law also provides for a special deduction from U.S. taxable income equal to a specified percentage of a U.S. company's qualified income from domestic manufacturing activities (as defined). The Company believes that the majority of its operations meet the definition of qualified domestic manufacturing activities. However, the Company expects to derive only a minimal benefit from the special manufacturing deduction in 2005, because the Company projects that its existing U.S. NOL carryforwards will offset the majority of its 2005 U.S. taxable income.

In June 2005, the State of Ohio enacted a new tax law that phases out Ohio's existing corporate income tax system over the next five years and

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

replaces it with a tax based on gross receipts. In the second quarter of 2005, as a result of this phase out, the Company reduced its deferred income tax asset related primarily to its Ohio NOL carryforwards by \$0.6 million.

Note 13 - Employee benefits

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

	Three months ended September 30,		Nine Sep
	2005	2004	2005
	(In thousands)		
Service cost	\$ 901	\$ 789	\$ 2,7
Interest cost	3,346	3,135	10,2
Expected return on plan assets	(3,651)	(3,257)	(11,1
Amortization of net losses	1,186	1,088	3,6
Amortization of unrecognized prior service cost	139	122	4
	-----	-----	-----
Net periodic pension expense	\$ 1,921	\$ 1,877	\$ 5,9

-17-

During the first three quarters of 2005, the Company has made \$6.6 million of cash contributions to its defined benefit pension plans, and the Company currently expects to make additional cash contributions of approximately \$2.2 million to its defined benefit pension plans during the fourth quarter of 2005. All of the contributions relate to the Company's U.K. plan.

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

	Three months ended September 30,		Nine S
	2005	2004	2005
	(In thousands)		
Service cost	\$ 165	\$ 152	\$ 4
Interest cost	413	529	1,2
Amortization of unrecognized prior service cost	(116)	(116)	(3
Amortization of net losses	245	386	7
	-----	-----	-----
Net periodic OPEB expense	\$ 707	\$ 951	\$ 2,1

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act of 2003") introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the Financial Accounting Standards Board ("FASB") issued FSP No. 106-2 which provides guidance on (i) accounting for the effects of the Medicare Act of 2003 once the Company is able to determine actuarial equivalency and (ii) various required disclosures.

During 2005, the Company determined that the benefits provided by its U.S. health and welfare plan are actuarially equivalent to the Medicare Part D benefit and therefore the Company is eligible for the federal subsidy provided for by the Medicare 2003 Act. The effect of such subsidy, which was accounted for prospectively from the date actuarial equivalence was determined in accordance with FASB Staff Position No. 106-2, resulted in a reduction in the Company's accumulated OPEB obligation of approximately \$5 million and a reduction in net periodic OPEB cost of approximately \$0.6 million in 2005.

Note 14 - Commitments and contingencies

Environmental matters. In November 2004, the Company and BMI entered into several agreements pursuant to which the Company conveyed certain land owned by the Company adjacent to its Henderson, Nevada plant site on which the Company operated settling ponds (the "TIMET Pond Property") to BMI. See Note 4. Subsequent to the conveyance, TIMET continued to use certain of the settling ponds located on the TIMET Pond Property (pursuant to a lease with BMI) until May 2005, at which time all such usage ceased. Based on the terms of the conveyance agreement, BMI assumed the Company's obligation for certain potential environmental issues related to the TIMET Pond Property.

The Company is also continuing assessment work with respect to its own active plant site in Henderson, Nevada. The Company currently has \$3.4 million accrued based on the undiscounted cost estimates of the probable costs for remediation of this site related to specific future remediation costs which the Company now considers probable. The Company expects these accrued expenses to be paid over a period of up to thirty years.

-18-

At September 30, 2005, the Company had accrued an aggregate of approximately \$3.6 million for environmental matters, including those discussed above. The upper end of the range of reasonably possible costs to remediate these matters is approximately \$6 million. The Company records liabilities related to environmental remediation obligations when estimated future costs are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future costs are not discounted to their present value. The imposition of more stringent standards or requirements under environmental laws or regulations, the results of future testing and analysis undertaken by the Company at its operating facilities, or a determination that the Company is potentially responsible for the release of hazardous substances at other sites, could result in costs in excess of amounts currently estimated to be required for such matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to sites as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional environmental matters will not arise in the future.

Legal proceedings. The Company records liabilities related to legal proceedings when estimated costs are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Estimated future costs are not discounted to their present value. It is

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

not possible to estimate the range of costs for certain matters. No assurance can be given that actual costs will not exceed accrued amounts or that costs will not be incurred with respect to matters as to which no problem is currently known or where no estimate can presently be made. Further, there can be no assurance that additional legal proceedings will not arise in the future.

Other. The Company has entered into letters of credit to collateralize (i) potential workers' compensation claims in Ohio and Nevada and (ii) potential obligations under contracts relating to future usage of electricity in Nevada. As of September 30, 2005, the outstanding amounts for such letters of credit, which reduce the Company's excess availability under its U.S. credit agreement, were \$2.3 million and \$1.3 million, respectively.

The Company is involved in various employment, environmental, contractual, product liability and other claims, disputes and litigation incidental to its business including those discussed above. While management currently believes that the outcome of these matters, individually and in the aggregate, will not have a material adverse effect on the Company's financial position, liquidity or overall trends in results of operations, all such matters are subject to inherent uncertainties. Were an unfavorable outcome to occur with respect to several of these matters in a given period, it is possible that it could have a material adverse impact on the results of operations or cash flows in that particular period.

See the 2004 Annual Report for additional information concerning certain legal and environmental matters, commitments and contingencies.

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 common stock options, restricted stock and the assumed conversion of the Company's BUCS and the Series A Preferred Stock, if applicable. A reconciliation of the numerator and denominator used in the calculation of basic and diluted earnings per share is presented below:

-19-

	Three months ended September 30,		Nine S
	2005	2004	2005
	(In thousands)		
Numerator:			
Net income attributable to common			
Stockholders (1)	\$ 33,433	\$ 25,193	\$ 105,1
Interest on BUCS (2)	73	2,254	2
Dividends on Series A			
Preferred Stock	2,830	1,099	9,4
Diluted net income attributable			
to common stockholders	\$ 36,336	\$ 28,546	\$ 114,8

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Denominator:			
Average common shares outstanding	32,737	31,774	32,1
Average dilutive stock options and restricted stock	175	173	1
BUCS (2)	155	3,549	1
Series A Preferred Stock	12,409	4,582	12,8
	-----	-----	-----
Diluted shares	45,476	40,078	45,3
	=====	=====	=====

(1) 2004 amounts as restated. See Note 1.

(2) Antidilutive during the nine months ended September 30, 2004.

Stock options to purchase 61,000 and 441,380 shares of common stock during the three and nine months ended September 30, 2005, respectively, and 576,600 and 726,200 shares of common stock during the three and nine months ended September 30, 2004, respectively, were excluded from the calculation of diluted earnings per share because the exercise price for such options was greater than the average market price of the common shares and such options were therefore antidilutive during the respective period. Net income attributable to common stockholders for the three and nine months ended September 30, 2005 included \$0.9 million (\$0.28 per outstanding share) of undeclared dividends on its Series A Preferred Stock.

Note 16 - Business segment information

The Company's production facilities are located in the U.S., U.K., France and Italy, and its products are sold throughout the world. The Company's Chief Executive Officer is the Company's chief operating decision maker ("CODM") as that term is defined in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The CODM receives financial information about TIMET from which he makes decisions concerning resource utilization and performance analysis only on a global, consolidated basis. Based upon this level of decision-making, the Company currently has one segment, its worldwide "Titanium melted and mill products" segment. Sales, gross margin, operating income, inventory and receivables are the key management measures used to evaluate segment performance. The following table provides segment information supplemental to the Company's Consolidated Financial Statements:

-20-

	Three months ended September 30,		Nine S
	2005	2004	2005

	(\$ in thousands, except product ship		
Titanium melted and mill products:			
Melted product net sales	\$ 31,137	\$ 16,461	\$ 77,0
Mill product net sales	128,184	87,183	373,7
Other product sales	30,711	16,602	78,1

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	-----	-----	-----
	\$ 190,032	\$ 120,246	\$ 529,0
	=====	=====	=====
Melted product shipments:			
Volume (metric tons)	1,345	1,180	4,1
Average selling price (\$ per kilogram)	\$ 23.15	\$ 13.95	\$ 18.
Mill product shipments:			
Volume (metric tons)	2,940	2,695	9,3
Average selling price (\$ per kilogram)	\$ 43.60	\$ 32.35	\$ 39.

Note 17 - Accounting principles not yet adopted

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 ("SFAS No. 151"), which clarifies the types of costs that should be expensed rather than capitalized as inventory. This statement also clarifies the circumstances under which fixed overhead costs associated with operating facilities involved in inventory processing should be capitalized. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, and the Company will adopt SFAS No. 151 on January 1, 2006. Because of the Company's currently expected capacity utilization levels for 2006, the Company does not believe that adoption of this statement will have a material impact on its consolidated financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment ("SFAS No. 123R"), which replaces SFAS No. 123 and supersedes APB No. 25. SFAS No. 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. Under SFAS No. 123R, the pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. As permitted by SEC regulations, the Company will adopt SFAS No. 123R as of January 1, 2006 and the adoption of SFAS No. 123R will not have any effect on the Company's financial position or results of operations, as all of TIMET's outstanding options are fully vested.

-21-

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

RESULTS OF OPERATIONS

Summarized financial information. The following table summarizes certain information regarding the Company's results of operations for the three and nine months ended September 30, 2005 and 2004. Average selling prices, as reported by the Company, are a reflection of not just actual selling prices received by the Company, but also include other related factors such as currency exchange rates and customer and product mix during a given period. Consequently, changes in average selling prices from period to period will be impacted by changes occurring not just in actual prices, but by these other factors as well. The percentage change information presented below represents changes from the respective prior year.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

	Three months ended September 30,		Nine Se
	2005	2004	2005
	(\$ in thousands, except product ship		
Net sales:			
Melted products	\$ 31,137	\$ 16,461	\$ 77,0
Mill products	128,184	87,183	373,7
Other products	30,711	16,602	78,1
Net sales	\$ 190,032	\$ 120,246	\$ 529,0
Gross margin (1)	55,748	14,712	132,5
Gross margin percent of net sales (1)	29%	12%	2
Melted product shipments:			
Volume (metric tons)	1,345	1,180	4,1
Average selling price (\$ per kilogram)	\$ 23.15	\$ 13.95	\$ 18.
Mill product shipments:			
Volume (metric tons)	2,940	2,695	9,3
Average selling price (\$ per kilogram)	\$ 43.60	\$ 32.35	\$ 39.
Percentage change in:			
Sales volume:			
Melted products	+14	-3	
Mill products	+9	+34	
Average selling prices:			
Melted products	+66	+39	
Mill products	+35	-	
Selling prices - excludes changes in product mix:			
Melted products	+44	+15	
Mill products in U.S. dollars	+31	+6	
Mill products in billing currencies (2)	+31	+2	

(1) The 2004 periods have been restated for the Company's change in method of inventory costing, effective on January 1, 2005. See Notes 1 and 2 to the Consolidated Financial Statements.

(2) Excludes the effect of changes in foreign currencies.

-22-

In connection with finalizing the preparation of the Company's consolidated financial statements for the third quarter of 2005, the Company determined that certain cost variances in prior periods that had been charged to cost of sales when incurred should have been capitalized into inventory and allocated to cost of sales when the related inventory was sold. The Company has analyzed the impact of this error and has determined that prior periods' annual and quarterly financial statements were not materially misstated. The Company changed its methodology of capitalizing variances to inventory, effective during the third quarter of 2005, so that such variances are now initially capitalized

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

into inventory and then expensed to cost of sales in future periods as the related inventory is sold. The cumulative effect of this change on the Company's consolidated third quarter results during the third quarter of 2005 was an increase in inventory and a decrease in cost of sales of \$0.9 million, and an increase in net income attributable to common stockholders of \$0.6 million (or \$0.01 per diluted share).

Third quarter of 2005 compared to third quarter of 2004. Melted product sales increased 89% and mill product sales increased 47% during the third quarter of 2005 compared to the year ago period, primarily due to significant increases in average selling prices for both melted and mill products. Mill product sales volume in the third quarter of 2005 was adversely impacted by various manufacturing interruptions related to certain production equipment breakdowns at the Company's U.S. and European locations. Other non-mill product sales increased 85% compared to the year ago period due principally to higher selling prices for titanium scrap and improved demand for the Company's fabrication products. Average selling prices use actual customer and product mix and foreign currency exchange rates prevailing during the respective periods. The Company's melted products are generally sold only in U.S. dollars. Average selling prices for both melted and mill products were positively affected by current market conditions and changes in customer and product mix.

In addition to average selling price increases, the third quarter of 2005 was positively impacted by a 14% increase in melted product sales volume and a 9% increase in mill product sales volume, a result of increased demand across all market segments.

Effective January 1, 2005, the Company changed its method for inventory costing from the LIFO cost method to the specific identification cost method for the approximate 40% of the Company's consolidated inventories previously accounted for under the LIFO cost method. With the significant volatility seen recently in raw material prices, the Company believes this change in accounting method provides a better matching of revenues and expenses. As required by GAAP, the Company has restated its financial statements for prior periods. As a result of this change, the Company's cost of sales for the three months ended September 30, 2004 was restated to \$105.5 million, a decrease of \$1.1 million from the previously reported amount. See Notes 1 and 2 to the Consolidated Financial Statements.

Gross margin (net sales less cost of sales) increased during the third quarter of 2005 compared to the year ago period primarily due to higher average selling prices and improved plant operating rates (from 72% in the third quarter of 2004 to 77% in the third quarter of 2005). In addition, the Company generated an additional \$5.1 million of gross margin from the sale of titanium scrap and other non-mill products during the third quarter of 2005, as compared to the year ago period. These positive effects were partially offset by higher costs for raw materials as compared to the year ago period.

Selling, general, administrative and development expenses increased from \$11.7 million during the third quarter of 2004 to \$13.3 million during the third quarter of 2005, principally as a result of increased personnel costs as compared to the year ago period.

-23-

The Company recognized equity in earnings of joint ventures of \$1.2 million during the third quarter of 2005, compared to \$0.4 million during the year ago period. This change was principally due to improved operating results of VALTIMET, the Company's minority-owned welded tube joint venture.

Net other income (expense) decreased during the third quarter of 2005

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

as compared to the year ago period primarily related to lower Boeing take-or-pay income during the 2005 period as compared to the 2004 period. Boeing purchased approximately 0.8 million pounds of titanium from the Company during the 2005 period, as compared to approximately 0.4 million pounds of titanium during the 2004 period.

First nine months of 2005 compared to first nine months of 2004. Melted product sales increased 48% and mill product sales increased 39% during the first nine months of 2005 compared to the first nine months of 2004, primarily due to significant increases in average selling prices for both melted and mill products. Other non-mill product sales increased 74% compared to the year ago period due principally to higher selling prices for titanium scrap and improved demand for the Company's fabrication products. Average selling prices use actual customer and product mix and foreign currency exchange rates prevailing during the respective periods. Average selling prices for both melted and mill products were positively affected by current market conditions and changes in customer and product mix. Mill product average selling prices during the first nine months of 2005 were also positively affected by the relative weakness of the U.S. dollar compared to both the British pound sterling and the euro.

In addition to average selling price increases, the first nine months of 2005 were positively impacted by a 5% increase in melted product sales volume and a 10% increase in mill product sales volume, a result of increased demand across all market segments.

As a result of the Company's change in inventory costing methods (as previously discussed), the Company's cost of sales for the nine months ended September 30, 2004 was restated to \$320.4 million, a decrease of \$3.0 million from the previously reported amount. See Notes 1 and 2 to the Consolidated Financial Statements.

Gross margin increased during the nine months ended September 30, 2005 compared to the year ago period primarily due to higher average selling prices and improved plant operating rates (from 72% during the nine months ended September 30, 2004 to 78% during the nine months ended September 30, 2005). In addition, the Company generated an additional \$15.0 million of gross margin from the sale of titanium scrap and other non-mill products during the first nine months of 2005, as compared to the year ago period. These positive effects were offset by higher raw material costs as well as charges to cost of sales during the 2005 period for:

- o \$3.6 million of additional costs during the 2005 period related to the accrual of certain performance-based employee incentive compensation payments, as compared to the first nine months of 2004; and
- o A \$1.2 million noncash impairment charge during the 2005 period related to the Company's abandonment of certain manufacturing equipment.

In addition, gross margin during the 2004 period was positively affected by a \$1.6 million reduction in cost of sales related to the modification of the Company's vacation policy. On January 1, 2004, the Company modified its vacation policy for its U.S. salaried employees, whereby such employees no longer accrue their entire year's vacation entitlement on January 1, but rather accrue the current year's vacation entitlement over the course of the year.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Selling, general, administrative and development expenses increased from \$32.4 million during the first nine months of 2004 to \$38.6 million during the first nine months of 2005, principally as a result of (i) \$1.0 million of additional auditing and consulting costs incurred during the first quarter of 2005 primarily related to the Company's compliance with the Sarbanes-Oxley Act's internal control requirements for the fiscal year ended December 31, 2004, (ii) additional personnel costs, including \$0.9 million of additional costs related to the accrual of certain performance-based employee incentive compensation payments and (iii) a \$0.3 million reduction in the first quarter of 2004 related to the previously discussed change in the Company's vacation policy.

The Company recognized equity in earnings of joint ventures of \$3.4 million during the first nine months of 2005, compared to \$0.2 million during year ago period. This change was principally due to improved operating results of VALTIMET.

Net other income (expense) decreased during the first nine months of 2005 primarily related to lower Boeing take-or-pay income during the 2005 period as compared to the 2004 period. Boeing purchased approximately 2.2 million pounds of titanium from the Company during the 2005 period, as compared to approximately 1.2 million pounds of titanium during the 2004 period. This decrease was partially offset by the Company's settlement of a \$1.8 million customer claim during the first quarter of 2005 regarding prior order cancellations from such customer.

Non-operating income (expense).

	Three months ended September 30,		Nine S
	2005	2004	2005
	(In thousands)		
Interest expense:			
On debt payable to the Capital Trust	\$ 165	\$ 2,357	\$ 5
On bank debt and capital leases	915	742	2,1
	\$ 1,080	\$ 3,099	\$ 2,6
Dividends and interest	\$ 491	\$ 68	\$ 1,4
Equity in earnings of common securities of the Capital Trust	70	103	2
Gain on sale of property	-	-	13,8
Gain on BUCS exchange, net	-	15,465	
Foreign exchange gain, net	498	(471)	2,0
Other, net	291	234	(1
	\$ 1,350	\$ 15,399	\$ 17,5

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Prior to September 1, 2004, quarterly interest expense on the Company's debt payable to the Capital Trust approximated \$3.4 million, exclusive of any accrued interest on deferred interest payments. On September 1, 2004, the Company exchanged 97.1% of its outstanding BUCS for its Series A Preferred Stock. After such exchange, interest expense related to the remaining debt payable to the Capital Trust approximated \$0.2 million per quarter, partially offset by \$0.1 million of equity in earnings related to the Company's holdings of the common securities of the Capital Trust. On September 1, 2005, the Company and the Capital Trust agreed to the cancellation of 120,907 of the Capital Trust's common securities. Upon such cancellation, the related equity in earnings became insignificant and the interest expense on debt payable to the Capital Trust decreased to approximately \$0.1 million per quarter. See Note 9 to the Consolidated Financial Statements.

Dividends and interest income during the three and nine months ended September 30, 2005 and 2004 consisted of dividends received on the Company's investments in marketable securities and interest income earned on cash and cash equivalents.

In November 2004, pursuant to an agreement with BMI, the Company sold certain property located adjacent to its Henderson, Nevada plant site to BMI, a 32%-owned indirect subsidiary of Valhi, and recorded a \$12 million deferred gain related to the cash proceeds received in November 2004. During the second quarter of 2005, the Company ceased using the property and, accordingly, recognized a \$13.9 million gain related to the sale of such property, which is comprised of (i) the previously reported \$12.0 million cash proceeds received in November 2004, (ii) the reversal of \$0.6 million previously accrued by the Company for potential environmental issues related to the property and (iii) an additional \$1.2 million cash payment received from BMI in June 2005.

In August 2004, the Company completed an exchange offer, pursuant to which the Company had offered to exchange any and all of the 4,024,820 outstanding BUCS issued by the Capital Trust for shares of the Company's Series A Preferred Stock at the exchange rate of one share of Series A Preferred Stock for each BUCS. Based upon the 3,909,103 BUCS tendered and accepted for exchange as of the close of the offer on August 31, 2004, the Company issued 3,909,103 shares of Series A Preferred Stock in exchange for such BUCS. During the third quarter of 2004, the Company recognized a \$15.5 million non-cash non-operating gain related to the BUCS exchange, reflecting the difference between the carrying value of the related Subordinated Debentures (\$195.5 million) and the fair value of the Series A Preferred Stock issued (\$173.7 million, based on the closing price of the BUCS on August 31, 2004 according to NASDAQ's website of \$45.25 per share, less \$3.2 million attributable to accrued and unpaid dividends), less \$6.3 million of unamortized deferred financing costs related to the exchanged BUCS.

Income taxes. The Company operates in several tax jurisdictions and is subject to varying income tax rates. As a result, the geographic mix of pretax income or loss can impact the Company's overall effective tax rate. For the nine months ended September 30, 2005 and 2004, the Company's income tax rate varied from the U.S. statutory rate primarily due to changes in the deferred income tax valuation allowance related to the Company's tax attributes with respect to the "more-likely-than-not" recognition criteria during those periods. See Note 12 to the Consolidated Financial Statements.

The Company periodically reviews its deferred income tax assets to determine if future realization is more likely than not. During the first

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

quarter of 2005, based on the Company's recent history of U.S. income, its near term outlook and the effect of its change in method of inventory costing from the LIFO cost method to the specific identification cost method for U.S. federal income tax purposes (see Note 1), the Company changed its estimate of its ability to utilize the tax benefits of its U.S. NOL carryforwards, AMT credit carryforwards and other net deductible temporary differences (other than the majority of the Company's capital loss carryforwards). Consequently, the Company determined that its net deferred income tax asset related to such U.S. tax attributes and other net deductible temporary differences now meets the "more-likely-than-not" recognition criteria. Accordingly, the Company reversed \$28.2 million of the valuation allowance attributable to such U.S. deferred income tax asset in the first nine months of 2005 (\$5.6 million in the third quarter) and the Company will reverse the remaining U.S. valuation allowance attributable to its U.S. net deferred income tax asset of \$8.6 million during the fourth quarter of 2005 in accordance with the GAAP requirements of accounting for income taxes at interim dates.

During the first quarter of 2005, based on the Company's recent history of U.K. income, its near term outlook and its historic U.K. profitability, the Company also changed its estimate of its ability to utilize its net deductible temporary differences and other tax attributes related to the U.K., primarily comprised of (i) the future benefits associated with the reversal of its U.K. minimum pension liability deferred income tax asset and (ii) the benefits of its U.K. NOL carryforward. Consequently, the Company determined that its net deferred income tax asset in the U.K. now meets the "more-likely-than-not" recognition criteria. Accordingly, the Company reversed \$13.1 million of the valuation allowance attributable to such deferred income tax asset in the first nine months of 2005 (\$0.1 million in the third quarter) and the Company will reverse the remaining U.K. valuation allowance of \$0.3 million during the fourth quarter of 2005 in accordance with the GAAP requirements of accounting for income taxes at interim dates.

In October 2004, the American Jobs Creation Act of 2004 was enacted into law. The new law provides for a special 85% deduction for certain dividends received from controlled foreign corporations in 2005. In the second quarter of 2005, the Company completed its evaluation of this new provision and determined that it would benefit from the special dividend received deduction. As a consequence, the Company repatriated \$19 million of earnings from its European subsidiaries in the third quarter of 2005. The \$1 million related tax impact of this repatriation was recorded as tax expense in the second quarter of 2005 in accordance with the requirements of FASB Staff Position No. 109-2. However, the Company has not provided for U.S. deferred income taxes or foreign withholding taxes on basis differences in its non-U.S. consolidated subsidiaries that result primarily from undistributed earnings the Company intends to reinvest indefinitely. Determination of the deferred income tax liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

-27-

Dividends on Series A Preferred Stock. Shares of the Company's Series A Preferred Stock are convertible, at any time, at the option of the holder thereof, into three and one-third shares of the Company's common stock, subject to adjustment in certain events. The Series A Preferred Stock is not mandatorily redeemable, but is redeemable at the option of the Company under certain circumstances. When, as and if declared by the Company's board of directors, holders of the Series A Preferred Stock are entitled to receive cumulative cash dividends at the rate of 6.75% of the \$50 per share liquidation preference per annum per share (equivalent to \$3.375 per annum per share). During the third

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

quarter of 2005, certain holders of the Series A Preferred Stock converted an aggregate of 555,390 shares of the Series A Preferred Stock into 1,852,697 shares of TIMET's common stock. The Company paid dividends of \$2.8 million and \$9.4 million during the three and nine months ended September 30, 2005, respectively, to holders of the Series A Preferred Stock.

European operations. The Company has substantial operations located in Europe, principally the U.K., France and Italy. Approximately 40% of the Company's sales originated in Europe for the nine months ended September 30, 2005, of which approximately 59% were denominated in the British pound sterling or 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, and the European subsidiaries 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 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 are not subject to currency exchange rate fluctuations.

The Company does not use currency contracts to hedge its currency exposures. At September 30, 2005, consolidated assets and liabilities denominated in currencies other than functional currencies were approximately \$51.9 million and \$41.9 million, respectively, consisting primarily of U.S. dollar cash, accounts receivable and accounts payable.

VALTIMET has entered into certain derivative financial instruments that qualify as cash flow hedges under GAAP. The Company's pro-rata share of VALTIMET's unrealized net gains on such derivative financial instruments is included as a component of other comprehensive income.

Outlook. The "Outlook" section contains a number of forward-looking statements, all of which are based, unless otherwise noted, on current expectations and exclude the effect of potential future charges related to restructurings, asset impairments, valuation allowances, changes in accounting principles and similar items. Undue reliance should not be placed on these statements, as more fully discussed in the "Forward-Looking Information" statement of this Quarterly Report. Actual results may differ materially. See also Notes to the Consolidated Financial Statements regarding commitments, contingencies, legal matters, environmental matters and other matters, including new accounting principles, which could materially affect the Company's future business, results of operations, financial position and liquidity.

Over the past several quarters, the Company has seen the availability of raw materials (primarily titanium scrap and sponge) tighten, and, consequently, the prices for such raw materials increased generally over that period. The Company currently expects that a shortage in raw materials is likely to continue throughout 2006, which could limit the Company's ability to produce enough titanium products to fully meet customer demand. In addition, the Company has certain long-term agreements that limit the Company's ability to pass on all of its increased raw material costs to its customers.

-28-

In July 2005, The Airline Monitor, a leading aerospace publication, issued its semi-annual forecast for commercial aircraft deliveries. This new forecast increased its estimate of large commercial aircraft deliveries over the next five years beginning in 2006 by 460 planes, including 55 additional Boeing 787 wide bodies (which are expected to require a higher percentage of titanium

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

in their airframes, engines and other parts than any other commercial aircraft). This updated forecast supports the Company's belief that the titanium industry is in the early stages of the business cycle and that the current uptrend will likely continue through 2006 and beyond.

The Company's backlog at the end of September 2005 was a record \$710 million, a \$130 million (22%) increase over the \$580 million backlog at the end of June 2005 and a \$310 million (78%) increase over the \$400 million backlog at the end of September 2004.

The Company's cost of sales is affected by a number of factors including customer and product mix, material yields, plant operating rates, raw material costs, labor and energy costs. Raw material costs, which include sponge, scrap and alloys, represent the largest portion of the Company's manufacturing cost structure. As previously reported, scrap and certain alloy prices have increased significantly from year ago prices, and increased energy costs also continue to have a negative impact on gross margin. However, the Company has recently begun to see a softening of certain alloy costs.

Overall, the Company currently expects its sales and operating income in the fourth quarter and full year of 2005 will continue to be higher than the comparable amounts in 2004 due primarily to higher average selling prices and sales volumes for both melted and mill products and higher production capacity utilization, offset in part by higher costs for raw materials and energy. Income attributable to common stockholders is also expected to be higher in the fourth quarter and full year of 2005 due to the higher expected operating income as well as the favorable effect of the \$13.9 million second quarter 2005 non-operating gain on the sale of certain property and a \$50.2 million income tax benefit in 2005 related to the reversal of the Company's deferred income tax asset valuation allowance in the U.S. and the U.K.

In May 2005, the Company announced its plans to expand its existing titanium sponge facility in Henderson, Nevada. This expansion, which the Company expects to complete by the first quarter of 2007, will provide the capacity to produce an additional 4,000 metric tons of sponge annually, an increase of approximately 42% over current Henderson sponge production capacity levels. The Company currently estimates the capital cost for the project will approximate \$38 million.

Non-GAAP financial measures. In an effort to provide investors with information in addition to the Company's results as determined by GAAP, the Company has provided the following non-GAAP financial disclosures that it believes may provide useful information to investors:

- o The Company discloses percentage changes in its melted and mill product selling prices in U.S. dollars, which have been adjusted to exclude the effects of changes in product mix. The Company believes such disclosure provides useful information to investors by allowing them to analyze such changes without the impact of changes in product mix, thereby facilitating period-to-period comparisons of the relative changes in average selling prices. Depending on the composition of changes in product mix, the percentage change in selling prices excluding the effect of changes in product mix can be higher or lower than such percentage change would be using the actual product mix prevailing during the respective periods; and

-29-

- o In addition to disclosing percentage changes in its mill product selling prices adjusted to exclude the effects of changes in product mix, the Company also discloses such percentage changes in billing

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

currencies, which have been further adjusted to exclude the effects of changes in foreign currency exchange rates. The Company believes such disclosure provides useful information to investors by allowing them to analyze such changes without the impact of changes in foreign currency exchange rates, thereby facilitating period-to-period comparisons of the relative changes in average selling prices in the various actual billing currencies. Generally, when the U.S. dollar strengthens (weakens) against other currencies, the percentage change in selling prices in billing currencies will be higher (lower) than such percentage changes would be using actual exchange rates prevailing during the respective periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows for the nine months ended September 30, 2005 and 2004 are presented below. The following discussion should be read in conjunction with the Company's Consolidated Financial Statements and Notes thereto.

		Nine months ended S	
		----- 2005 -----	
			(In thousand)
Cash provided (used) by:			
Operating activities	\$	17,052	\$
Investing activities		(43,650)	
Financing activities		25,884	

Net cash used by operating, investing and financing activities	\$	(714)	\$
		=====	

Operating activities. The titanium industry historically has derived a substantial portion of its business from the aerospace industry. The aerospace industry is cyclical, and changes in economic conditions within the aerospace industry significantly impact the Company's earnings and operating cash flows. Cash flow from operations is considered a primary source of the Company's liquidity. Changes in titanium pricing, production volume and customer demand, among other things, could significantly affect the Company's liquidity.

Certain items included in the determination of net income have an impact on cash flows from operating activities, but the impact of such items on cash may differ from their impact on net income. For example, pension expense and OPEB expense will generally differ from the outflows of cash for payment of such benefits. In addition, relative changes in assets and liabilities generally result from the timing of production, sales and purchases. Such relative changes can significantly impact the comparability of cash flow from operations from period to period, as the income statement impact of such items may occur in a different period than that in which the underlying cash transaction occurs. For example, raw materials may be purchased in one period, but the cash payment for such raw materials may occur in a subsequent period. Similarly, inventory may be sold in one period, but the cash collection of the receivable may occur in a subsequent period.

Net income was \$114.6 million for the nine months ended September 30, 2005, compared to net income of \$28.5 million for the nine months ended

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

September 30, 2004.

-30-

Accounts receivable increased during the first nine months of 2005 and 2004 primarily as a result of increased sales. Inventories increased during the first nine months of 2005 and 2004 as a result of increased run rates and related inventory build in order to meet expected customer demand, as well as the effects of increased raw material costs.

Changes in accounts payable and accrued liabilities reflect, among other things, the timing of (i) payments to suppliers of titanium sponge, titanium scrap and other raw material purchases and (ii) changes to accrued employee benefits, including performance-based employee incentive compensation. During the first nine months of 2004, accrued liabilities also decreased due to payment of the \$2.8 million final installment related to termination of the Company's prior agreement with Wyman-Gordon Company.

The increase in customer advances during the first nine months of 2005 and 2004 primarily reflects the Company's receipt of a \$27.9 million advance from Boeing in each of January 2005 and 2004, partially offset by the application of customer purchases. Under the terms of the previous Boeing LTA, Boeing advanced TIMET \$28.5 million annually, less \$3.80 per pound of titanium product purchased from TIMET by Boeing subcontractors during the preceding year.

See "Results of Operations - Income taxes" for discussion of the Company's income taxes.

Investing activities. The Company's capital expenditures were \$43.3 million for the nine months ended September 30, 2005, compared to \$10.9 million for the comparable period in 2004, principally for replacement of machinery and equipment, capacity maintenance and environmental compliance and improvement. The 2005 amount includes \$20.2 million related to construction of the water conservation facility and \$4.9 million related to the expansion of the Company's sponge plant in Henderson, Nevada. During the first nine months of 2005, the Company purchased 146,900 shares of CompX Class A common stock for \$2.2 million. During the first nine months of 2004, the Company purchased 2,212,820 shares of CompX Class A common stock for \$26.7 million and 221,100 shares of NL Industries, Inc. common stock for \$2.5 million. See Note 3 to the Consolidated Financial Statements.

Financing activities. Cash provided during the nine months ended September 30, 2005 related primarily to the Company's net borrowings of \$32.5 million, used in part to (i) fund construction of the water conservation facility as well as the Company's expansion of its sponge plant and (ii) support the accumulation of inventory in order to meet expected customer demand. The Company also received \$5.3 million from the issuance of common stock related to the exercise of certain employee stock options during the 2005 period. These cash inflows were partially offset by the Company's \$9.7 million payment of dividends on the Company's Series A Preferred Stock. In addition, the Company's 70%-owned subsidiary, TIMET Savoie, S.A. made dividend payments to its 30% minority partner of \$2.2 million during the second quarter of 2005 and \$0.7 million during the second quarter 2004. The Company had \$33.8 million of net borrowings during the nine months ended September 30, 2004, primarily to support the Company's accumulation of inventory in order to meet expected customer demand during the balance of 2004 and into 2005 and to fund its investing activities.

-31-

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

Borrowing arrangements. During the second quarter of 2005, the Company amended its U.S. credit facility to increase its maximum authorized borrowings from \$105 million to \$125 million. In addition, the amended credit facility reduced the excess availability requirement related to the payment of dividends on the Company's Series A Preferred Stock and distributions on the Capital Trust's BUCS from \$25 million to \$10 million. During the first quarter of 2004, the Company amended its U.S. credit facility to, among other things, allow the Company the flexibility to remove the equipment component from the determination of the Company's borrowing availability in order to avoid the costs of an appraisal. Interest currently accrues at rates based on LIBOR plus 2% or bank prime rate plus 0.5%. Borrowings are collateralized by substantially all of the Company's U.S. assets. The Company was in compliance with all covenants for all periods during the nine months ended September 30, 2005 and 2004. As of September 30, 2005, the Company had outstanding borrowings under the U.S. credit agreement of \$65.0 million, and excess availability was approximately \$56 million.

During the second quarter of 2005, the Company's subsidiary, TIMET UK, terminated its previous credit agreement and entered into a new working capital credit facility that expires on April 30, 2008. Under the new U.K. credit facility, TIMET UK may borrow up to (pound)22.5 million, subject to a formula-determined borrowing base derived from the value of accounts receivable, inventory and property, plant and equipment. Borrowings under the U.K. facility can be in various currencies, including U.S. dollars, British pounds sterling and euros and are collateralized by substantially all of TIMET UK's assets. Interest on outstanding borrowings generally accrues at rates that vary from 1.125% to 1.375% above the lender's published base rate. The U.K. facility agreement also contains financial ratios and covenants customary in lending transactions of this type, including a minimum net worth covenant. TIMET UK was in compliance with all covenants for all periods during the nine months ended September 30, 2005 and 2004. As of September 30, 2005, the Company had outstanding borrowings under the U.K. facility of \$10.7 million, and unused borrowing availability was approximately \$29 million.

The Company also has overdraft and other credit facilities at certain of its other European subsidiaries. These facilities accrue interest at various rates and are payable on demand. As of September 30, 2005, the Company had no borrowings under these facilities, and unused borrowing availability was approximately \$17 million.

No dividends were paid by the Company on its common stock during the three and nine months ended September 30, 2005 or 2004. During the three and nine months ended September 30, 2005, the Company paid \$3.1 million and \$9.7 million in dividends on its Series A Preferred Stock.

Legal and environmental matters. See Note 14 to the Consolidated Financial Statements for discussion of legal and environmental matters, commitments and contingencies.

-32-

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, or 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

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

restructure indebtedness, repurchase shares of common stock, purchase or redeem BUCS or Series A Preferred 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.

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. The Company continuously considers, reviews and evaluates such transactions, and understands that Contran, Valhi and related entities consider, review and evaluate such transactions. Depending upon the business, tax and other objectives then relevant, it is possible that the Company might be a party to one or more such transactions in the future.

The Company completed a two-for-one split of its common stock, which was effected in the form of a stock dividend (whereby an additional one share of post-split stock was distributed for each share of pre-split stock) and became effective after the close of trading on September 6, 2005. The Company completed a five-for-one split of its common stock, which was effected in the form of a stock dividend (whereby an additional four shares of post-split stock were distributed for each share of pre-split stock) and became effective after the close of trading on August 26, 2004. All share and per share disclosures have been adjusted to give effect to these stock splits.

Effective July 1, 2005, the Company amended its LTA with Boeing for the purchase and sale of titanium products. The new LTA expires on December 31, 2010 and provides for, among other things, (i) mutual annual purchase and supply commitments by both parties, (ii) continuation of the existing buffer inventory program currently in place for Boeing and (iii) certain improved product pricing. Beginning in 2006, the new LTA also replaces the take-or-pay provisions of the previous LTA with an annual makeup payment early in the following year in the event Boeing purchases less than its annual volume commitment in any year. Based on its current expectations of Boeing purchases during 2006, the Company anticipates that any annual makeup payment for 2006 will be minimal.

-33-

On September 1, 2005, the Company and the Capital Trust agreed to the cancellation of 120,907 of the Capital Trust's common securities (all of which were held by the Company) and a corresponding cancellation of \$6.0 million of the Company's 6.625% convertible junior subordinated debentures (the "Subordinated Debentures ") (all of which were held by the Capital Trust). There was no net effect of this transaction on the Company's consolidated financial position or results of operations, as the Company's carrying value of the common securities of the Capital Trust that were cancelled equaled the carrying value

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

of the of the Subordinated Debentures that were also cancelled.

On August 12, 2005, the Company retired all 90,000 shares of its treasury stock. The retirement of such treasury stock, which had a cost basis of \$1.2 million, resulted in a \$900 reduction of common stock, a \$990,000 reduction of additional paid-in capital and a \$217,000 increase in accumulated deficit.

-34-

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of the Company's market risks, refer to the Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in the 2004 Annual Report. There have been no material changes to the information provided that would require additional information with respect to the nine months ended September 30, 2005.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company maintains 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 the Company files or submits to the SEC under the Securities Exchange Act of 1934, as amended (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 the Company in the reports that it files or submits to the SEC under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and its principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions to be made regarding required disclosure. Each of Harold C. Simmons, the Company's Chairman of the Board and Chief Executive Officer, and Bruce P. Inglis, the Company's Vice President - Finance and Corporate Controller, have evaluated the Company's disclosure controls and procedures as of September 30, 2005. Based upon their evaluation, these executive officers have concluded that the Company's disclosure controls and procedures are effective as of the date of such evaluation.

Internal control over financial reporting. The Company also maintains 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, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's 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:

- o Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- o Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

- o Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's Consolidated Financial Statements.

-35-

As permitted by the SEC, the Company's assessment of internal control over financial reporting excludes (i) internal control over financial reporting of its equity method investees and (ii) internal control over the preparation of the Company's financial statement schedules required by Article 12 of Regulation S-X. However, the Company's assessment of internal control over financial reporting with respect to the Company's equity method investees did include its controls over the recording of amounts related to the Company's investments that are recorded in its Consolidated Financial Statements, including controls over the selection of accounting methods for the Company's investments, the recognition of equity method earnings and losses and the determination, valuation and recording of the Company's investment account balances.

Changes in internal control over financial reporting. During the third quarter of 2005, the Company implemented new accounting software at the Company's operations in France, replacing a combination of older systems as the Company's sole principal accounting software system at this location. The implementation, effective July 3, 2005, was carried out according to a plan based on Company policy that included controls to (i) safeguard data migrated to the new system, (ii) test the functionality of the new system in a development environment prior to implementation and (iii) develop a post-implementation internal control environment. Management has conducted testing of the implementation plan and the post-implementation environment and has limited evidence that internal controls involved with the development of new software are operating effectively. As a result of the implementation, certain controls previously operating in France were migrated to the Company's UK location for the third quarter of 2005. Further testing of the post-implementation control environment will be necessary for management to conclude that its internal controls over information technology and internal controls over financial reporting as a whole are operating effectively at this location. Management expects to conclude its evaluation by the end of the fourth quarter of 2005.

-36-

PART II. - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Reference is made to Note 14 of the Consolidated Financial Statements, which information is incorporated herein by reference, and to the Company's 2004 Annual Report for descriptions of certain previously reported legal proceedings.

Item 6. EXHIBITS

- 10.1* General Terms Agreement between The Boeing Company and Titanium Metals Corporation, incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K/A filed with the SEC on November 16, 2005.

Edgar Filing: TITANIUM METALS CORP - Form 10-Q

10.2* Special Business Provisions between The Boeing Company and Titanium Metals Corporation, incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K/A filed with the SEC on November 16, 2005.

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.

* Portions of the exhibit have been omitted pursuant to a request for confidential treatment.

Note: The Company has retained a signed original of any exhibit listed above that contains signatures, and the Company will provide any such exhibit to the SEC or its staff upon request. Such request should be directed to the attention of the Company's Corporate Secretary at the Company's corporate offices located at 1999 Broadway, Suite 4300, Denver, Colorado 80202.

-37-

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: January 4, 2006

By /s/ Harold C. Simmons

Harold C. Simmons
Chairman of the Board and
Chief Executive Officer

Date: January 4, 2006

By /s/ Bruce P. Inglis

Bruce P. Inglis
Vice President - Finance and Corporate
Controller

-38-