TITANIUM METALS CORP
Form 10-Q
August 04, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

Commission file number 1-14368

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

* The registrant has not yet been phased into the interactive data requirements

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

þ Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Number of shares of common stock outstanding on July 29, 2009: 180,566,821

TITANIUM METALS CORPORATION

INDEX

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

-1-

TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)

ASSETS	December 31, 2008	June 30, 2009 (unaudited)
Current assets:		
Cash and cash equivalents	$45.0	$106.6
Accounts and other receivables	145.4	128.9
Inventories	569.7	547.0
Refundable income taxes	2.3	2.3
Prepaid expenses and other	4.8	4.4
Deferred income taxes	21.7	22.4
Total current assets	788.9	811.6
Marketable securities	16.4	12.0
Notes receivable from affiliates	58.4	57.9
Property and equipment, net	427.1	427.3
Deferred income taxes	17.8	22.1
Other	59.1	59.7
Total assets	$1,367.7	$1,390.6

See accompanying Notes to Condensed Consolidated Financial Statements.

Index

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

LIABILITIES AND EQUITY	December 31, 2008	June 30, 2009 (unaudited)
Current liabilities:		
Accounts payable	$58.5	$40.1
Accrued and other current liabilities	76.1	62.6
Customer advances	17.6	18.9
Income taxes payable	-	1.9
Total current liabilities	152.2	123.5
Accrued OPEB cost	28.5	29.3
Accrued pension cost	77.5	82.3
Deferred income taxes	-	1.4
Other	9.2	9.4
Total liabilities	267.4	245.9
Equity:		
TIMET stockholders’ equity:		
Series A Preferred Stock	3.2	3.2
Common stock	1.8	1.8
Additional paid-in capital	523.4	519.3
Retained earnings	696.7	725.0
Accumulated other comprehensive loss	(145.5)	(121.5)
Total TIMET stockholders’ equity	1,079.6	1,127.8
Noncontrolling interest in subsidiary	20.7	16.9
Total equity	1,100.3	1,144.7
Total liabilities and equity	$1,367.7	$1,390.6
Commitments and contingencies (Note 10)		

See accompanying Notes to Condensed Consolidated Financial Statements.

Index

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

	Three months ended June 30,		Six months ended June 30,	
	2008	2009	2008	2009
	(unaudited)			
Net sales	$297.3	$205.7	$591.0	$409.1
Cost of sales	213.0	174.1	425.6	338.1
Gross margin	84.3	31.6	165.4	71.0
Selling, general, administrative and development expense	16.2	15.8	33.5	30.6
Other income (expense), net	0.7	(0.2)	(0.3)	1.7
Operating income	68.8	15.6	131.6	42.1
Other non-operating income (expense), net	0.6	(0.8)	(1.5)	0.5
Income before income taxes	69.4	14.8	130.1	42.6
Provision for income taxes	20.8	5.7	38.7	12.8
Net income	48.6	9.1	91.4	29.8
Noncontrolling interest in net income of subsidiary	1.2	0.4	3.6	1.4
Net income attributable to TIMET stockholders	47.4	8.7	87.8	28.4
Dividends on Series A Preferred Stock	0.1	0.1	0.2	0.1
Net income attributable to TIMET common stockholders	$47.3	$8.6	$87.6	$28.3
Earnings per share attributable to TIMET common stockholders	$0.26	$0.05	$0.48	$0.16
Weighted average shares outstanding:				
Basic	181.0	181.0	181.8	181.0
Diluted	182.0	181.0	183.0	182.0
Cash dividends per common share	$0.075	$-	$0.15	$-

See accompanying Notes to Condensed Consolidated Financial Statements.

Index

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

	Six months ended June 30, 2008	Six months ended June 30, 2009
	(unaudited)	
Cash flows from operating activities:		
Net income	$91.4	$29.8
Depreciation and amortization	23.4	25.1
Deferred income taxes	(5.8)	(1.3)
Other, net	1.0	0.7
Change in assets and liabilities:		
Receivables	27.7	21.0
Inventories	(29.7)	38.0
Accounts payable and accrued liabilities	(13.4)	(40.1)
Income taxes	3.1	1.8
Other, net	(11.3)	1.4
Net cash provided by operating activities	86.4	76.4
Cash flows from investing activities:		
Capital expenditures	(66.2)	(16.3)
Proceeds from sale of property	-	3.5
Purchases of marketable securities	(21.4)	(0.7)
Other, net	(1.8)	0.6
Net cash used in investing activities	(89.4)	(12.9)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	46.6	-
Repayments	(24.1)	-
Common stock dividends	(27.3)	-
Dividends paid to noncontrolling interest in subsidiary	(5.4)	-
Treasury stock purchases	(36.5)	(4.4)
Other, net	0.3	-
Net cash used in financing activities	(46.4)	(4.4)
Net cash (used in) provided by operating, investing and financing activities	(49.4)	59.1
Effect of exchange rate changes on cash	0.8	2.5
Net cash (used) provided during period	(48.6)	61.6
Cash and cash equivalents at beginning of period	90.0	45.0
Cash and cash equivalents at end of period	$41.4	$106.6
Supplemental disclosures of cash paid for:		
Interest	$0.5	$0.3
Income taxes	$41.3	$12.3

Non-cash investing and financing activities:		
Asset retirement obligation recognized	$-	$0.5
Dividends declared to noncontrolling interest in subsidiary	$-	$5.5

See accompanying Notes to Condensed Consolidated Financial Statements.

Index

TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AND COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2009
(UNAUDITED)
(In millions)

	TIMET stockholders' equity								
	Series A Preferred Stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Non-controlling interest	Total	Comprehensive income
Balance at January 1, 2009	$ 3.2	$ 1.8	$ 523.4	$ 696.7	$ (145.5)	$ -	$ 20.7	$ 1,100.3	
Net income	-	-	-	28.4	-	-	1.4	29.8	$ 29.8
Other comprehensive income	-	-	-	-	24.0	-	0.3	24.3	24.3
Treasury stock purchases	-	-	-	-	-	(4.4)	-	(4.4)	-
Treasury stock retirement	-	-	(4.4)	-	-	4.4	-	-	-
Dividends declared to noncontrolling interest in subsidiary	-	-	-	-	-	-	(5.5)	(5.5)	
Other	-	-	0.3	(0.1)	-	-	-	0.2	-
Balance at June 30, 2009	$ 3.2	$ 1.8	$ 519.3	$ 725.0	$ (121.5)	$ -	$ 16.9	$ 1,144.7	
Comprehensive income									$ 54.1

See accompanying Notes to Condensed Consolidated Financial Statements.
Index

TITANIUM METALS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2009
(Unaudited)

Note 1 – Basis of presentation and organization

Basis of presentation. The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2008 that we filed with the Securities and Exchange Commission ("SEC") on February 26, 2009 ("2008 Annual Report"), except for the adoption of Statement of Financial Accounting Standard ("SFAS") No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51, as discussed below. They include the accounts of Titanium Metals Corporation and its majority owned subsidiaries (collectively referred to as "TIMET"). Unless otherwise indicated, references in this report to "we", "us" or "our" refer to TIMET and its subsidiaries, taken as a whole. All material intercompany transactions and balances with consolidated subsidiaries have been eliminated. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed or omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2008) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Our results of operations for the interim period ended June 30, 2009 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with the 2008 Consolidated Financial Statements contained in our 2008 Annual Report. Our first three fiscal quarters reported are the approximate 13-week periods ending on the Saturday generally nearest to March 31, June 30 and September 30. Our fourth fiscal quarter and fiscal year always end on December 31. For presentation purposes, our financial statements and the accompanying notes have been presented as ended on March 31, June 30, September 30 and December 31, as applicable. We evaluated the events occurring after the balance sheet for potential recognition and disclosure through August 4, 2009, the date the financial statements were issued.

Organization. At June 30, 2009, subsidiaries of Contran Corporation held 27.4% of our outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. At June 30, 2009, Mr. Simmons and his spouse owned an aggregate of 16.3% of our common stock, and the Combined Master Retirement Trust ("CMRT"), a trust sponsored by Contran to permit the collective investment by trusts that maintain the assets of certain employee benefit plans adopted by Contran and certain related companies, held an additional 8.5% of our common stock. Mr. Simmons is the sole trustee of the CMRT and a member of the trust investment committee for the CMRT. Consequently, Mr. Simmons may be deemed to control each of Contran and us.

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

Recent accounting pronouncements. On January 1, 2009, we adopted SFAS 160. SFAS 160 establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation. On a prospective basis, any changes in ownership will be accounted for as equity transactions with no gain or loss recognized on the transactions unless there is a change in control. Previously, such changes in ownership would generally result either in the recognition of additional goodwill (for an increase in ownership) or a gain or loss included in the determination of net income (for a decrease in ownership). SFAS 160 standardizes the presentation of noncontrolling interest as a component of equity on the balance sheet and on a net income basis in the statement of income. SFAS 160 also requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners of a subsidiary. Upon adoption of SFAS 160, we reclassified our condensed consolidated balance sheet and statement of income to conform to the new presentation requirements for the noncontrolling interest in our 70%-owned French subsidiary. Subsequent to our adoption of SFAS 160, if our ownership of a less than wholly owned subsidiary increases for an amount of consideration that exceeds the then-carrying value of the noncontrolling interest related to the increased ownership, the amount of equity attributable to our shareholders will be reduced.

As of June 30, 2009, we adopted FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments which requires us to disclose the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments for interim as well as annual periods. Prior to the adoption of this FSP, we were only required to disclose this information annually. We have included the required disclosures above.

As of June 30, 2009, we adopted FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments which amends existing guidance for the recognition and measurement of other-than-temporary impairments for debt securities classified as available-for-sale and held-to-maturity and expands the disclosure requirements for interim and annual periods for available-for-sale and held-to-maturity debt and equity securities to include additional information about investments in an unrealized loss position for which an other-than-temporary impairment has or has not been recognized. We have included these additional disclosures in Note 3.

We adopted SFAS No. 165, Subsequent Events for the Quarterly Report for the period ending June 30, 2009. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued, which are referred to as subsequent events. The statement clarifies existing guidance on subsequent events, including a requirement that a public entity should evaluate subsequent events through the issue date of the financial statements, the determination of when the effects of subsequent events should be recognized in the financial statement and disclosures regarding all subsequent events. SFAS 165 also requires a public entity to disclose the date through which an entity has evaluated subsequent events. Adoption of SFAS 165 did not have a material affect on our condensed consolidated financial statements.

Index

In June 2009, the Financial Accounting Standards Board ("FASB") issued SFAS No. 168, The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles. SFAS 168 establishes the Accounting Standards Codification ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. The Codification is not intended to change GAAP but consolidates all existing GAAP sources into a single set of comprehensive standards. SFAS 168 will become effective for us in the third quarter of 2009 and will not have a material effect on our condensed consolidated financial statements.

During the fourth quarter of 2008, the FASB issued FSP FAS 132 (R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets, which amends SFAS No. 87, 88 and 106 to require expanded disclosures about employers' pension plan assets. FSP 132 (R)-1 will be effective for us beginning with our 2009 annual report, and we will provide the expanded disclosures about our pension plan assets at that time.

Note 2 – Inventories

	December 31, 2008	June 30, 2009
	(In millions)	
Raw materials	$138.0	$127.4
Work-in-process	264.1	250.3
Finished products	119.8	119.4
Inventory consigned to customers	19.2	16.8
Supplies	28.6	33.1
Total inventories	$569.7	$547.0

Note 3 – Marketable securities

Our marketable securities consist of investments in the publicly traded shares of related parties. NL Industries, Inc., Kronos Worldwide, Inc. and Valhi, Inc. are each majority owned subsidiaries of Contran. All of our marketable securities are classified as available-for-sale, which are carried at fair value using quoted market prices for each marketable security, representing inputs from the highest level (level 1) within the fair value hierarchy.

The following table summarizes our marketable securities as of December 31, 2008 and June 30, 2009:

Marketable security	Fair value measurement level	Market value	Cost basis	Unrealized gains (losses)
			(In millions)	
As of December 31, 2008:				
Valhi	1	$13.4	$26.4	$(13.0)
NL	1	3.0	2.5	0.5
Kronos	1	-	0.2	(0.2)
Total		$16.4	$29.1	$(12.7)
As of June 30, 2009:				
Valhi	1	$9.8	$26.6	$(16.8)
NL	1	1.6	2.5	(0.9)
Kronos	1	0.6	0.7	(0.1)
Total		$12.0	$29.8	$(17.8)

During 2008 and the first six months of 2009, we purchased 1.3 million shares of Valhi common stock in market transactions for an aggregate of $26.6 million, and we held approximately 1.1% of Valhi common stock at June 30, 2009. Additionally, we held approximately 0.5% of NL's outstanding common stock and 0.2% of Kronos' outstanding common stock at June 30, 2009. Valhi and NL held an aggregate of approximately 95.2% of Kronos' outstanding common stock at June 30, 2009.

Because we have classified all of our marketable securities as available-for-sale, any unrealized gains or losses on the securities are recognized through other comprehensive income. With respect to our investment in Valhi common stock, we considered the decline in market price for Valhi common stock to be temporary at June 30, 2009. We considered all available evidence in reaching this conclusion. While our investment in Valhi common stock has been in a continuous unrealized loss position since August 2008, the positive evidence we considered to conclude the decline was temporary at June 30, 2009 includes (i) our ability and intent to hold the investment in Valhi common stock for a reasonable period of time sufficient for the recovery of fair value (as evidenced by the amount of liquidity we currently have with cash on hand and our borrowing availability) and (ii) the significant partial recovery of fair value as the quoted market price for Valhi common stock increased 70% during the month of July 2009 as compared to the 63% decline in Valhi's quoted market price during the period from August 2008 through June 2009. For our other investments in marketable securities that currently have cost bases in excess of their respective market values, we currently believe the decline in market prices of these securities to be temporary in nature as a result of recent market volatility.

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

Index

Note 4 – Property and equipment

	December 31, 2008	June 30, 2009
	(In millions)	
Land and improvements	$12.5	$13.5
Buildings and improvements	57.8	66.1
Information technology systems	71.0	73.3
Manufacturing equipment and other	481.1	550.8
Construction in progress	109.3	53.4
Total property and equipment	731.7	757.1
Less accumulated depreciation	304.6	329.8
Total property and equipment, net	$427.1	$427.3

Note 5 – Other noncurrent assets

	December 31, 2008	June 30, 2009
	(In millions)	
Prepaid conversion services	$44.7	$43.4
Other	14.4	16.3
Total other noncurrent assets	$59.1	$59.7

Note 6 – Accrued and other current liabilities

	December 31, 2008	June 30, 2009
	(In millions)	
Employee related	$38.3	$21.3
Deferred revenue	18.5	14.2
Other	19.3	27.1