TITANIUM METALS CORP
Form 10-Q
November 05, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

Commission file number 1-14368

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 October 31, 2008: 181,058,421

TITANIUM METALS CORPORATION

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

TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)

ASSETS	December 31, 2007	September 30, 2008
		(unaudited)
Current assets:		
Cash and cash equivalents	$ 90.0	$ 36.4
Accounts and other receivables	209.9	182.0
Inventories	562.7	598.0
Refundable income taxes	14.5	7.7
Prepaid expenses and other	6.1	7.4
Deferred income taxes	14.6	15.0
Total current assets	897.8	846.5
Marketable securities	2.7	24.3
Note receivable from affiliate	50.5	42.0
Property and equipment, net	382.0	428.3
Pension asset	23.3	26.9
Deferred income taxes	2.6	4.4
Other	61.0	66.0
Total assets	$ 1,419.9	$ 1,438.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	December 31, 2007	September 30, 2008
		(unaudited)
Current liabilities:		
Accounts payable	$ 72.6	$ 74.3
Accrued and other current liabilities	87.7	72.5
Customer advances	17.4	13.2
Total current liabilities	177.7	160.0
Long term debt	-	13.1
Accrued OPEB cost	29.3	30.4
Accrued pension cost	36.0	29.4
Deferred income taxes	11.3	5.1
Other	9.0	10.0
Total liabilities	263.3	248.0
Minority interest	23.9	22.5
Stockholders' equity:		
Series A Preferred Stock	4.1	3.2
Common stock	1.8	1.8
Additional paid-in capital	558.2	523.4
Retained earnings	589.0	675.9
Accumulated other comprehensive loss	(20.4)	(36.4)
Total stockholders' equity	1,132.7	1,167.9
Total liabilities, minority interest and stockholders' equity	$ 1,419.9	$ 1,438.4

Commitments and contingencies (Note 11)

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
	(unaudited)			
Net sales	$ 297.3	$ 295.4	$ 980.3	$ 886.3
Cost of sales	199.3	222.5	613.4	648.0
Gross margin	98.0	72.9	366.9	238.3
Selling, general, administrative and development expense	16.7	18.0	51.7	51.5
Other income (expense), net	-	(2.0)	0.2	(2.3)
Operating income	81.3	52.9	315.4	184.5
Other non-operating income, net	0.9	4.8	1.2	3.3
Income before income taxes and minority interest	82.2	57.7	316.6	187.8
Provision for income taxes	27.2	16.1	101.5	54.9
Minority interest in after-tax earnings	1.3	1.3	7.3	4.9
Net income	53.7	40.3	207.8	128.0
Dividends on Series A Preferred Stock	1.4	0.1	4.2	0.2
Net income attributable to common stockholders	$ 52.3	$ 40.2	$ 203.6	$ 127.8
Earnings per share attributable to common stockholders:				
Basic	$ 0.32	$ 0.22	$ 1.26	$ 0.70
Diluted	$ 0.29	$ 0.22	$ 1.13	$ 0.70
Weighted average shares outstanding:				
Basic	162.2	181.0	162.0	181.6
Diluted	184.3	182.0	184.3	182.6
Cash dividend per common share	$ -	$ 0.075	$ -	$ 0.225

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Nine months ended September 30, 2007	Nine months ended September 30, 2008
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 207.8	$ 128.0
Depreciation and amortization	30.1	35.5
Deferred income taxes	1.7	(6.5)
Minority interest	7.3	4.9
Other, net	1.9	1.6
Change in assets and liabilities:		
Receivables	12.2	25.5
Inventories	(60.1)	(44.2)
Accounts payable and accrued liabilities	(32.8)	(10.6)
Income taxes	(31.7)	7.3
Other, net	(6.7)	(13.5)
Net cash provided by operating activities	129.7	128.0
Cash flows from investing activities:		
Capital expenditures	(60.6)	(89.3)
Purchases of marketable securities	-	(26.4)
Principal payments on note receivable from affiliate	-	7.0
Other, net	(10.0)	(2.2)
Net cash used in investing activities	(70.6)	(110.9)
Cash flows from financing activities:		
Indebtedness:		
Borrowings	-	60.7
Repayments	-	(47.6)
Dividends paid:		
Common stock	-	(40.9)
Series A Preferred Stock	(4.2)	(0.2)
Minority shareholder	(8.1)	(5.4)
Treasury stock purchases	-	(36.5)
Other, net	1.6	0.4
Net cash used in financing activities	(10.7)	(69.5)
Net cash provided by (used in) operating, investing and financing activities	48.4	(52.4)
Effect of exchange rate changes on cash	1.0	(1.2)
	49.4	(53.6)
Cash and cash equivalents at beginning of period	29.4	90.0
Cash and cash equivalents at end of period	$ 78.8	$ 36.4

Supplemental disclosures:

Cash paid for:		
Interest	$ 2.2	$ 1.1
Income taxes	130.7	54.0

See accompanying Notes to Condensed Consolidated Financial Statements.

TITANIUM METALS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
(In millions)

	Series A Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total	Comprehensive Income
				(unaudited)				
Balance at January 1, 2008	$ 4.1	$ 1.8	$ 558.2	$ 589.0	$ (20.4)	$ -	$ 1,132.7	
Net income	-	-	-	128.0	-	-	128.0	$ 128.0
Other comprehensive income	-	-	-	-	(16.0)	-	(16.0)	(16.0)
Conversion of Series A Preferred Stock	(0.9)	-	0.9	-	-	-	-	-
Treasury stock purchases	-	-	-	-	-	(36.5)	(36.5)	-
Treasury stock retirement	-	-	(36.5)	-	-	36.5	-	-
Dividends declared:								
Series A Preferred Stock	-	-	-	(0.2)	-	-	(0.2)	-
Common stock	-	-	-	(40.9)	-	-	(40.9)	-
Other	-	-	0.8	-	-	-	0.8	-
Balance at September 30, 2008	$ 3.2	$ 1.8	$ 523.4	$ 675.9	$ (36.4)	$ -	$ 1,167.9	
Comprehensive income								$ 112.0

See accompanying Notes to Condensed Consolidated Financial Statements.

TITANIUM METALS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008
(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 included in our Annual Report on Form 10-K for the year ended December 31, 2007 that we filed with the Securities and Exchange Commission ("SEC") on February 28, 2008 ("2007 Annual Report"). They include the accounts of Titanium Metals Corporation and its majority owned subsidiaries (collectively referred to as "TIMET"). Unless otherwise indicated, references in this report to "we", "us" or "our" refer to TIMET and its subsidiaries, taken as a whole. All material intercompany transactions and balances with consolidated subsidiaries have been eliminated. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed or omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2007) 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 September 30, 2008 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 2007 Consolidated Financial Statements contained in our 2007 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 are presented as ended on March 31, June 30, September 30 and December 31, as applicable.

Organization. At September 30, 2008, subsidiaries of Contran Corporation held 27.9% of our outstanding common stock. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons, of which Mr. Simmons is sole trustee, or is held by Mr. Simmons or persons or other entities related to Mr. Simmons. At September 30, 2008, Mr. Simmons and his spouse owned an aggregate of 16.1% 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.

Recent accounting pronouncements. On January 1, 2008, we adopted Statement of Financial Accounting Standard ("SFAS") No. 157, Fair Value Measurements. SFAS 157 generally provides a consistent, single fair value definition and measurement techniques for GAAP pronouncements. SFAS 157 also establishes a fair value hierarchy for different measurement techniques based on the objective nature of the inputs in various valuation methods. In February 2008, the FASB issued FSP No. FAS 157-2, Effective Date of FASB Statement No. 157 which will delay the provisions of SFAS 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Beginning in the first quarter of 2008, all of our fair value measurements are in compliance with SFAS 157, except for such nonfinancial assets and liabilities for which we will be required to be in compliance with SFAS 157 prospectively beginning in the first quarter of 2009. In addition, in accordance with the new standard we have expanded our disclosures regarding the valuation methods and level of inputs we utilize beginning in the first quarter of 2008, except for such nonfinancial assets and liabilities, which will require disclosure in the first quarter of 2009. The adoption of this standard did not have a material effect on our consolidated financial position or results of operations.

On January 1, 2008 we adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose, at specified election dates, to measure eligible items at fair value, with unrealized gains and losses included in the determination of net income. The decision to elect the fair value option is generally applied on an item-by-item basis, is irrevocable unless a new election date occurs and is applied to the entire item and not only to specified risks or cash flows or a portion of the instrument. Items eligible for the fair value option include recognized financial assets and liabilities, other than investments in a consolidated subsidiary, defined benefit pension plans, other post employment benefit plans, leases and financial instruments classified in equity. An investment accounted for by the equity method is an eligible item. The specified election dates include the date the company first recognizes the eligible item, the date the company enters into an eligible commitment, the date an investment first becomes eligible to be accounted for by the equity method and the date SFAS 159 first becomes effective for us. SFAS 159 became effective for us on January 1, 2008. We did not elect to measure any eligible items at fair value in accordance with this new standard either at the date we adopted the new standard or subsequently during the first, second or third quarters of 2008. Therefore, the adoption of this standard did not have a material effect on our consolidated financial position or results of operations.

Note 2 – Inventories

	December 31, 2007	September 30, 2008
	(In millions)	
Raw materials	$ 121.8	$ 123.0
Work-in-process	268.7	308.5
Finished products	125.8	119.4
Inventory consigned to customers	23.0	17.9
Supplies	23.4	29.2
Total inventories	$ 562.7	$ 598.0

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. The aggregate cost basis of our marketable securities was $2.7 million at December 31, 2007 and $29.1 million at September 30, 2008. During 2008, we purchased 1.3 million shares of Valhi common stock in market transactions for an aggregate of $26.4 million. All of our marketable securities are classified as available-for-sale, which are carried at fair value using quoted market prices, which are Level 1 inputs as defined by SFAS 157. 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, other than any decline in value which we conclude is other than temporary. We currently believe the decline in market prices of these securities to be temporary in nature as a result of the recent market volatility. We will continue to monitor the quoted market prices of these securities. If in the future we were to conclude that the decline in value of one or more of these securities is other than temporary, we would recognize an impairment through an income statement charge. Such income statement impairment charge would be offset in comprehensive income by the reversal of the previously unrealized losses to the extent they were previously recognized in accumulated other comprehensive income.

The following table summarizes the market value of our marketable securities:

	December 31, 2007	September 30, 2008
	(In millions)	
Valhi	$ -	$ 21.9
NL	2.5	2.3
Kronos	0.2	0.1
Total marketable securities	$ 2.7	$ 24.3

Note 4 – Property and equipment

	December 31, 2007	September 30, 2008
	(In millions)	
Land and improvements	$ 11.6	$ 12.6
Buildings and improvements	55.0	59.7
Information technology systems	70.3	72.2
Manufacturing equipment and other	455.8	484.6
Construction in progress	88.7	113.5
Total property and equipment	681.4	742.6
Less accumulated depreciation	299.4	314.3
Total property and equipment, net	$ 382.0	$ 428.3

Note 5 – Other noncurrent assets

	December 31, 2007	September 30, 2008
	(In millions)	
Prepaid conversion services	$ 47.2	$ 45.3
Other	13.8	20.7
Total other noncurrent assets	$ 61.0	$ 66.0

Note 6 – Accrued and other current liabilities

	December 31, 2007	September 30, 2008
	(In millions)	
Employee related	$ 45.5	$ 32.9
Deferred revenue	14.3	16.6
Other	27.9	23.0
Total accrued liabilities	$ 87.7	$ 72.5

Note 7 – Bank debt

Our indebtedness at September 30, 2008 consists of $13.1 million outstanding under our $175 million U.S. long-term credit agreement with a weighted average interest rate of 3.38%. At September 30, 2008 we had no outstanding borrowings under our European credit facilities, and the aggregate borrowing availability under our U.S. and European credit facilities was $211.4 million.

Note 8 – Stockholders' equity

During 2007, our board of directors authorized the repurchase of up to $100 million of our common stock in open market transactions or in privately negotiated transactions, with the intention that any repurchased shares will be retired and cancelled. During 2008, we purchased 2.3 million shares of our common stock in open market transactions for an aggregate purchase price of $36.5 million, and all shares acquired under this repurchase program during 2008 have been cancelled. At September 30, 2008, we could purchase an additional $63.5 million of our common stock under our board of directors' authorization.

Note 9 – Employee benefits

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
	(In millions)			
Service cost	$ 1.4	$ 1.2	$ 4.0	$ 3.6
Interest cost	4.2	4.3	12.6	13.1
Expected return on plan assets	(5.5)	(5.7)	(16.3)	(17.2)
Amortization of net losses	0.9	0.6	2.6	1.9
Amortization of prior service cost	0.1	0.1	0.4	0.3
Total pension expense	$ 1.1	$ 0.5	$ 3.3	$ 1.7

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
	(In millions)			
Service cost	$ 0.2	$ 0.3	$ 0.7	$ 0.8
Interest cost	0.5	0.4	1.3	1.2
Amortization of net losses	0.2	0.1	0.6	0.4
Amortization of prior service credit	(0.1)	(0.1)	(0.3)	(0.2)
Total OPEB expense	$ 0.8	$ 0.7	$ 2.3	$ 2.2

Future variances from assumed actuarial rates, including the rate of return on our defined benefit pension plan assets, as well as changes in the discount rate used to determine the projected benefit obligation, may result in increases or decreases to pension plan assets and liabilities, defined benefit pension expenses and credits and funding requirements in future periods. We use a December 31 measurement date for our defined benefit pension plans. Given the current uncertainty of the U.S. and global economies, our pension plan assets may be significantly lower at December 31, 2008, as compared to December 31, 2007.

Note 10 – Income taxes

	Nine months ended September 30, 2007	2008
	(In millions)	
Expected income tax expense, at 35%	$ 111.0	$ 65.7
Non-U.S. tax rates	(2.0)	(1.3)
U.S. state income taxes, net	5.7	3.7
Nontaxable income	(9.0)	(11.2)
Domestic manufacturing credit	(4.7)	(4.0)
Uncertain tax positions, net	0.5	2.1
Other, net	-	(0.1)
Total income tax expense	$ 101.5	$ 54.9

Note 11 – Commitments and contingencies

Environmental matters. As part of our continuing assessment with respect to our plant site in Henderson, Nevada, in the third quarter of 2008 we completed and submitted to the Nevada Department of Environmental Protection (“NDEP”) a Remedial Alternative Study (“RAS”) with respect to the groundwater located at the plant site. The RAS, which was submitted pursuant to an existing agreement between the NDEP and us, identified the presence of certain contaminants in the plant site groundwater that requires remediation. The RAS proposes various alternatives to the NDEP for the remediation of these contaminants. We currently anticipate that the NDEP will complete its review of the RAS and our proposed remedial alternatives during the fourth quarter of 2008 and that following such review, the NDEP will issue its decision concerning the remediation plan.

As of September 30, 2008, we have $4.1 million accrued for remediation activities anticipated at our Henderson plant site, which include amounts accrued at the lower end of the range of estimated costs for the most likely remedial alternative contained in the groundwater RAS submitted to the NDEP. We increased such accrual by $2.6 million during the third quarter of 2008. We will continue evaluating alternative methods and timing of remediation activities, and if necessary, we may revise our estimated costs in the future. We estimate the upper end of the range of reasonably possible costs related to all of our environmental matters, including the current accrual, to be approximately $6.5 million. We expect these estimated costs to be incurred over a remediation period of at least five years.

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

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

Note 12 – Earnings per share

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
	(In millions)			
Numerator:				
Net income attributable to common stockholders	$ 52.3	$ 40.2	$ 203.6	$ 127.8
Dividends on Series A Preferred Stock	1.4	0.1	4.2	0.2
Diluted net income attributable to common stockholders	$ 53.7	$ 40.3	$ 207.8	$ 128.0
Denominator:				
Average common shares outstanding	162.2	181.0	162.0	181.6
Average dilutive stock options	0.1	-	0.1	-
Series A Preferred Stock	22.0	1.0	22.2	1.0
Diluted shares	184.3	182.0	184.3	182.6

Note 13 – Business segment information

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2008	2007	2008
	(In millions, except product shipment data)			
Titanium melted and mill products:				
Melted product net sales	$ 41.6	$ 33.3	$ 156.1	$ 94.6
Mill product net sales	227.0	228.4	727.4	693.5
Other titanium product sales	28.7	33.7	96.8	98.2
Total net sales	$ 297.3	$ 295.4	$ 980.3	$ 886.3
Melted product shipments:				
Volume (metric tons)	1,045	1,115	3,685	3,060
Average selling price (per kilogram)	$ 39.85	$ 29.85	$ 42.35	$ 30.90
Mill product shipments:				
Volume (metric tons)	3,350	3,845	10,665	11,195
Average selling price (per kilogram)	$ 67.75	$ 59.40	$ 68.20	$ 61.95

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

The statements contained in this Quarterly Report on Form 10-Q ("Quarterly Report") that are not historical facts, including, but not limited to, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), are forward-looking statements that represent management's beliefs and assumptions based on currently available information. Forward-looking statements can generally be identified by the use of words such as "believes," "intends," "may," "will," "looks," "should," "could," "anticipates," "expects" or comparable terminology o discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly affect expected results. Actual future results could differ materially from those described in such forward-looking statements, and we disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Quarterly Report, including risks and uncertainties in those portions referenced above and those described from time to time in our other filings with the SEC which include, but are not limited to:

- the cyclicality of the commercial aerospace industry;
- the performance of aerospace manufacturers and us under our long-term agreements;
- the existence or renewal of certain long-term agreements;
- the difficulty in forecasting demand for titanium products;
- global economic and political conditions;
- global production capacity for titanium;
- changes in product pricing and costs;
- the impact of long-term contracts with vendors on our ability to reduce or increase supply;
- the possibility of labor disruptions;
- fluctuations in currency exchange rates;
- fluctuations in the market price of marketable securities;
- uncertainties associated with new product or new market development;
- the availability of raw materials and services;
- changes in raw material prices and other operating costs (including energy costs);
- possible disruption of business or increases in the cost of doing business resulting from terrorist activities or global conflicts;
- competitive products and strategies; and
- other risks and uncertainties.

Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected.

SUMMARY

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

The following discussion and analysis should be read in conjunction with our Condensed Consolidated Financial Statements and related notes included elsewhere in this Quarterly Report and with our Consolidated Financial Statements and the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in our 2007 Annual Report.

RESULTS OF OPERATIONS

Quarter ended September 30, 2008 compared to quarter ended September 30, 2007

Summarized financial information. The following table summarizes certain information regarding our results of operations for the three months ended September 30, 2007 and 2008. Our reported average selling prices reflect actual selling prices after the effects of currency exchange rates, customer and product mix and other related factors throughout the periods presented.

	Three months ended September 30,					
		2007	% of Total Net Sales		2008	% of Total Net Sales
	(In millions, except product shipment data)					
Net sales:						
Melted products	$	41.6	14%	$	33.3	11%
Mill products		227.0	76%		228.4	77%
Other titanium products		28.7	10%		33.7	12%
Total net sales		297.3	100%		295.4	100%
Cost of sales		199.3	67%		222.5	75%
Gross margin		98.0	33%		72.9	25%
Selling, general, administrative and development expense		16.7	6%		18.0	6%
Other income (expense), net		-	-		(2.0)	1%
Operating income	$	81.3	27%	$	52.9	18%
Melted product shipments:						
Volume (metric tons)		1,045			1,115	
Average selling price (per kilogram)	$					