

Edgar Filing: TITANIUM METALS CORP - Form 10-K

TITANIUM METALS CORP
Form 10-K
March 16, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2004

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, including zip code)

Registrant's telephone number, including area code: (303) 296-5600

Securities registered pursuant to Section 12(b) of the Act:

Common Stock (\$.01 par value)

New York Stock Exchange

(Title of each class)

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

6 3/4% Series A Convertible Preferred Stock (\$.01 par value)

(Title of class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Edgar Filing: TITANIUM METALS CORP - Form 10-K

Form 10-K ____

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

--- ---

As of June 30, 2004, 15,945,010 shares of common stock were outstanding. The aggregate market value of the 7,465,975 shares of voting stock held by nonaffiliates of Titanium Metals Corporation as of such date approximated \$138.2 million. There are no shares of non-voting stock outstanding. As of March 14, 2005, 15,988,350 shares of common stock were outstanding.

Documents incorporated by reference:

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

Forward-Looking Information

The statements contained in this Annual Report on Form 10-K ("Annual Report") that are not historical facts, including, but not limited to, statements found in the Notes to Consolidated Financial Statements and in Item 1 - Business, Item 2 - Properties, Item 3 - Legal Proceedings and Item 7 - 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 be identified by the use of words such as "believes," "intends," "may," "will," "looks," "should," "could," "anticipates," "expects" or comparable terminology or by discussions of strategies or trends. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, it cannot give any assurances that these expectations will prove to be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly affect expected results. Actual future results could differ materially from those described in such forward-looking statements, and the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Annual Report, including risks and uncertainties in those portions referenced above and those described from time to time in the Company's other filings with the Securities and Exchange Commission ("SEC") which include, but are not limited to, the cyclical nature of the commercial aerospace industry, the performance of aerospace manufacturers and the Company under their long-term agreements, the renewal of certain long-term agreements, the difficulty in forecasting demand for titanium products, global economic and political conditions, global productive capacity for titanium, changes in product pricing and costs, the impact of long-term contracts with vendors on the ability of the Company to reduce or increase supply or achieve lower costs, the possibility of labor disruptions, fluctuations in currency exchange rates, fluctuations in the market price of marketable securities, control by certain stockholders and possible conflicts of interest, uncertainties associated with new product development, the supply of raw materials and services, changes in raw material and other operating costs (including energy costs), possible disruption of business or increases in the cost of doing business resulting from terrorist activities or global conflicts, the Company's ability to achieve reductions in its cost structure, the potential for adjustment of the Company's

Edgar Filing: TITANIUM METALS CORP - Form 10-K

deferred income tax asset valuation allowance 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.

PART I

ITEM 1: BUSINESS

General. Titanium Metals Corporation ("TIMET" or the "Company") was originally formed in 1950 and was incorporated in Delaware in 1955. TIMET is one of the world's leading producers of titanium melted and mill products. The Company is the only producer with major titanium production facilities in both the United States and Europe, the world's principal markets for titanium consumption. TIMET is currently the only major producer of titanium sponge, a key raw material, in the United States.

Titanium was first manufactured for commercial use in the 1950s. Titanium's unique combination of corrosion resistance, elevated-temperature performance and high strength-to-weight ratio makes it particularly desirable for use in commercial and military aerospace applications where these qualities are essential design requirements for certain critical parts such as wing supports and jet engine components. While aerospace applications have historically accounted for a substantial portion of the worldwide demand for titanium, the number of non-aerospace end-use markets for titanium has expanded substantially. Today, numerous industrial uses for titanium exist, including chemical plants, power plants, desalination plants and pollution control equipment. Demand for titanium is also increasing in emerging markets with such diverse uses as offshore oil and gas production installations, military armor, automotive, geothermal facilities and architectural applications.

TIMET's products include titanium sponge, melted products, mill products and industrial fabrications. The titanium industry is comprised of several manufacturers that, like TIMET, produce a relatively complete range of titanium products and a significant number of producers worldwide that manufacture a limited range of titanium mill products. Based on the Company's industry experience and information obtained from publicly-available external resources (e.g., United States Geological Survey, International Titanium Association and Japan Titanium Society), the Company estimates that it accounted for approximately 18% of worldwide industry shipments of titanium mill products in 2004 and 2003 and approximately 10% and 8% of worldwide titanium sponge production in 2004 and 2003, respectively.

The Company's long-term strategy is to maximize the value of its core aerospace business while also developing new markets, applications and products to help reduce its traditional dependence on the aerospace industry. In the near-term, the Company continues to focus on maintaining a lean cost structure, managing its raw material requirements, improving the quality of its products and processes and taking other actions to continue to generate positive cash flow and further expand its profitability.

Industry. The titanium industry historically has derived a substantial portion of its business from the aerospace industry. Aerospace demand for titanium products, which includes both jet engine components (e.g., blades, discs, rings and engine cases) and air frame components (e.g., bulkheads, tail sections, landing gear, wing supports and fasteners) can be broken down into commercial and military sectors. The commercial aerospace sector has a

Edgar Filing: TITANIUM METALS CORP - Form 10-K

significant influence on titanium companies, particularly mill product producers such as TIMET. Military aerospace sector shipments are largely driven by government defense spending in North America and Europe.

The following table illustrates the Company's estimates of titanium industry mill product shipments during 2004 and 2003:

	Year ended December 31,	
	2004	2003
	(metric tons)	
Mill product shipments to:		
Commercial aerospace sector	20,900	16,000
Military aerospace sector	4,000	4,100
	24,900	20,100
Total aerospace industry	24,900	20,100
Aggregate mill product shipments to all industries	61,800	50,200

The Company's business is more dependent on aerospace demand than is the overall titanium industry, as approximately 70% of the Company's mill product shipment volume in 2004 was to the aerospace industry (58% commercial aerospace and 12% military aerospace), whereas approximately 40% of the overall titanium industry's shipment volume in 2004 was to the aerospace industry, as indicated by the above table.

The cyclical nature of the aerospace industry has been the principal driver of the historical fluctuations in the performance of most titanium companies. Over the past 20 years, the titanium industry had cyclical peaks in mill product shipments in 1989, 1997 and 2001 and cyclical lows in 1983, 1991, 1999 and 2002. Prior to 2004, demand for titanium reached its highest level in 1997 when industry mill product shipments reached approximately 60,700 metric tons. However, since 1997, industry mill product shipments have fluctuated significantly, primarily due to a continued change in demand for titanium from the commercial aerospace sector. The Company estimates that industry shipments approximated 50,200 metric tons in 2003 and 61,800 metric tons in 2004. The Company currently expects total industry mill product shipments will increase from 2004 levels to approximately 71,000 metric tons in 2005.

The Airline Monitor, a leading aerospace publication, traditionally issues forecasts for commercial aircraft deliveries each January and July. According to The Airline Monitor, large commercial aircraft deliveries for the 1996 to 2004 period peaked in 1999 with 889 aircraft, including 254 wide body aircraft that use substantially more titanium than their narrow body counterparts. Large commercial aircraft deliveries totaled 602 (including 147 wide bodies) in 2004. The following table summarizes The Airline Monitor's most recently issued forecast (January 2005) for large commercial aircraft deliveries over the next five years:

Edgar Filing: TITANIUM METALS CORP - Form 10-K

Year	Forecasted deliveries		% increase (decrease) over previous year	
	Total	Wide bodies	Total	Wide
2005	680	172	13%	
2006	720	171	6%	
2007	760	200	6%	
2008	805	240	6%	
2009	795	255	(1%)	

2

Deliveries of titanium generally precede aircraft deliveries by about one year, although this varies considerably by titanium product. This correlates to the Company's cycle, which historically precedes the cycle of the aircraft industry and related deliveries. Although global traffic increased in 2004 compared to 2003, persistently high oil prices had an adverse impact on the commercial airline industry. According to The Airline Monitor, the worldwide commercial airline industry's estimated operating loss for 2004 was \$5.9 billion, and the projected 2005 operating loss is \$2.9 billion. According to ROM Associates, Inc., a leading aerospace research company, global airline passenger traffic returned to pre-September 11, 2001 levels in October 2003. The Company estimates that industry mill product shipments into the commercial aerospace sector will approximate 26,000 metric tons in 2005.

Military aerospace programs were the first to utilize titanium's unique properties on a large scale, beginning in the 1950s. Titanium shipments to military aerospace markets reached a peak in the 1980s before falling to historical lows in the early 1990s after the end of the Cold War. However, the importance of military markets to the titanium industry is expected to rise in coming years as defense spending budgets increase in reaction to terrorist activities and global conflicts.

Several of today's active U.S. military programs, including the C-17, F/A-18, F-16 and F-15 began during the Cold War and are forecast to continue production through the end of the current decade. In addition to these established U.S. programs, new U.S. programs offer growth opportunities for increased titanium consumption. The F/A-22 Raptor is currently in low-rate initial production, and the U.S. Air Force currently plans to purchase between 276 and 300 aircraft over the life of the program, depending on funding levels. The recent budget proposed by President Bush provides for an overall increase in spending compared to current levels, principally to continue funding military ground efforts in Iraq and Afghanistan. The current budget proposal also calls for an end to procurement of the F/A-22 in 2008, with total F/A-22 production capped at 179 aircraft. However, final procurement decisions must receive Congressional approval.

In October 2001, Lockheed-Martin Corporation was awarded the contract for construction of the F-35 Joint Strike Fighter ("JSF"). The JSF is expected to enter low-rate initial production in 2006, and although no specific delivery patterns have been established, procurement is expected to extend over the next 30 to 40 years and to include as many as 3,000 to 4,000 planes. European military programs also have active aerospace programs offering the possibility for increased titanium consumption. Production levels for the Saab Gripen,

Edgar Filing: TITANIUM METALS CORP - Form 10-K

Eurofighter Typhoon, Dassault Rafale and Dassault Mirage 2000 are all forecasted to remain steady through the end of the decade.

Since titanium's initial applications in the aerospace sector, the number of end-use markets for titanium has significantly expanded. Established industrial uses for titanium include chemical plants, power plants, desalination plants and pollution control equipment. Rapid growth of the Chinese and other Southeast Asian economies has brought unprecedented demand for titanium-intensive industrial equipment. Titanium continues to gain acceptance in many emerging market applications, including automotive, military armor, energy and architecture. Although titanium is generally higher cost than other competing metals, in many cases customers find the physical properties of titanium to be attractive from the standpoint of weight, performance, longevity, design alternatives, life cycle value and other factors. Although the Company estimates that emerging market demand presently represents only about 5% of the 2004 total industry demand for titanium mill products, the Company believes emerging market demand, in the aggregate, could grow at double-digit rates over the next several years. The Company is actively pursuing these markets.

3

The automotive market continues to be an attractive emerging market segment due to its potential for sustainable long-term growth. For this reason, in 2002, TIMET established TiMET Automotive, which is focused on developing and marketing proprietary alloys and processes specifically suited for automotive applications. Titanium is now used in several consumer car applications as well as in numerous motorcycles.

At the present time, titanium is primarily used for exhaust systems, suspension springs and engine valves in consumer vehicles. In exhaust systems, titanium provides for significant weight savings, while its corrosion resistance provides life-of-vehicle durability. In suspension spring applications, titanium's low modulus of elasticity allows the spring's height to be reduced by 20% to 40% compared to a steel spring, which, when combined with the titanium's low density, permits 30% to 60% weight savings over steel spring suspension systems. Titanium suspension springs and exhaust applications are also attractive compared to alternative lightweight technologies because the titanium component can often be formed and fabricated on the same tooling used for the steel component it is typically replacing. Titanium is also making inroads into other automotive applications, including turbo charger wheels, brake parts and connecting rods. Titanium engine components provide mass-reduction benefits that directly improve vehicle performance and fuel economy. The decision to select titanium components for consumer car, truck and motorcycle components remains highly cost sensitive; however, the Company believes titanium's acceptance in consumer vehicles will expand as the automotive industry continues to better understand the benefits titanium offers.

Utilization of titanium on military ground combat vehicles for armor applique and integrated armor or structural components continues to gain acceptance within the military market segment. Titanium armor components provide the necessary ballistic performance while achieving a mission critical vehicle performance objective of reduced weight. In order to counteract increased threat levels, titanium is being utilized on vehicle upgrade programs in addition to new builds. Based on active programs, as well as programs currently under evaluation, the Company believes there will be additional usage of titanium on ground combat vehicles that will provide continued growth in the military market segment.

The oil and gas market utilizes titanium for down-hole logging tools, critical riser components, fire water systems and saltwater-cooling systems. Additionally, as offshore development of new oil and gas fields moves into the

Edgar Filing: TITANIUM METALS CORP - Form 10-K

ultra deep-water depths, market demand for titanium's light-weight, high-strength and corrosion-resistance properties is creating new opportunities for the material. The Company has a group dedicated to developing the expansion of titanium use in this market and in other non-aerospace applications.

Products and operations. The Company is a vertically integrated titanium manufacturer whose products include:

- (i) titanium sponge, the basic form of titanium metal used in processed titanium products;
- (ii) melted products (ingot and slab), the result of melting sponge and titanium scrap, either alone or with various alloys;
- (iii) mill products that are forged and rolled from ingot or slab, including long products (billet and bar), flat products (plate, sheet and strip) and pipe; and
- (iv) fabrications (spools, pipefittings, manifolds, vessels, etc.) that are cut, formed, welded and assembled from titanium mill products.

4

During the past three years, all of TIMET's net sales were generated by the Company's integrated titanium operations (its "Titanium melted and mill products" segment), its only business segment. Business and geographic segment financial information is included in Note 21 to the Consolidated Financial Statements.

Titanium sponge (so called because of its appearance) is the commercially pure, elemental form of titanium metal. The first step in TIMET's sponge production involves the chlorination of titanium-containing rutile ores (derived from beach sand) with chlorine and petroleum coke to produce titanium tetrachloride. Titanium tetrachloride is purified and then reacted with magnesium in a closed system, producing titanium sponge and magnesium chloride as co-products. The Company's titanium sponge production facility in Henderson, Nevada incorporates vacuum distillation process ("VDP") technology, which removes the magnesium and magnesium chloride residues by applying heat to the sponge mass while maintaining a vacuum in the chamber. The combination of heat and vacuum boils the residues from the sponge mass, and then the mass is mechanically pushed out of the distillation vessel, sheared and crushed, while the residual magnesium chloride is electrolytically separated and recycled.

Titanium ingot is a cylindrical solid shape that, in TIMET's case, weighs up to 8 metric tons. Titanium slab is a rectangular solid shape that, in TIMET's case, weighs up to 16 metric tons. Each ingot or slab is formed by melting titanium sponge, scrap or both, usually with various other alloys such as vanadium, aluminum, molybdenum, tin and zirconium. Titanium scrap is a by-product of the forging, rolling, milling and machining operations, and significant quantities of scrap are generated in the production process for finished titanium products and components. The melting process for ingot and slab is closely controlled and monitored utilizing computer control systems to maintain product quality and consistency and to meet customer specifications. In most cases, TIMET uses its ingot and slab as the starting material for further processing into mill products. However, it also sells ingot and slab to third parties.

The Company sends certain products either to the Company's service centers or to outside vendors for further processing before being shipped to customers. The Company's customers either process the Company's products for their ultimate

Edgar Filing: TITANIUM METALS CORP - Form 10-K

end-use or for sale to third parties.

During the production process and following the completion of manufacturing, the Company performs extensive testing on its products. The inspection process is critical to ensuring that the Company's products meet the high quality requirements of its customers, particularly in aerospace component production. The Company certifies that its products meet customer specification at the time of shipment for substantially all customer orders.

The Company currently is reliant on several outside processors (one of which is owned by a competitor) to perform certain rolling, finishing and other processing steps in the U.S., and certain melting and forging steps in France. In France, the processor is also a joint venture partner in the Company's 70%-owned subsidiary, TIMET Savoie, S.A. ("TIMET Savoie"). During the past several years, the Company has made significant strides toward reducing the reliance on competitor-owned sources for these services, so that any interruption in these functions should not have a material adverse effect on the Company's business, results of operations, financial position or liquidity.

5

Distribution. The Company sells its products through its own sales force based in the U.S. and Europe and through independent agents and distributors worldwide. The Company's distribution system also includes eight Company-owned service centers (five in the U.S. and three in Europe), which sell the Company's products on a just-in-time basis. The service centers primarily sell value-added and customized mill products, including bar, flat-rolled sheet and strip. The Company believes its service centers provide a competitive advantage because of their ability to foster customer relationships, customize products to suit specific customer requirements and respond quickly to customer needs.

Raw materials. The principal raw materials used in the production of titanium ingot, slab and mill products are titanium sponge, titanium scrap and alloys. The following table summarizes the Company's 2004 raw material usage requirements for its melted and mill products:

	Percentage of total raw material requirements
Internally produced sponge	30%
Purchased sponge	32%
Titanium scrap	31%
Alloys	7%

	100%
	=====

The primary raw materials used in the production of titanium sponge are titanium-containing rutile ore, chlorine, magnesium and petroleum coke. Rutile ore is currently available from a limited number of suppliers around the world, principally located in Australia, South Africa and Sri Lanka. The Company purchases the majority of its supply of rutile ore from Australia. The Company believes the availability of rutile ore will be adequate for the foreseeable

Edgar Filing: TITANIUM METALS CORP - Form 10-K

future and does not anticipate any interruptions of its rutile supplies. However, there can be no assurance that the Company will not experience interruptions.

Chlorine is currently obtained from a single supplier near the Company's sponge plant in Henderson, Nevada. While the Company does not presently anticipate any chlorine supply problems, there can be no assurances the chlorine supply will not be interrupted. In the event of supply disruption, the Company has taken steps to mitigate this risk, including establishing the feasibility of certain equipment modifications to enable it to utilize material from alternative chlorine suppliers or to purchase and utilize an intermediate product which will allow the Company to eliminate the purchase of chlorine if needed. Magnesium and petroleum coke are generally available from a number of suppliers.

During 2004, the Company was the only major U.S. producer of titanium sponge and one of only five major worldwide producers (the others are located in Russia, Kazakhstan and two in Japan). However, it cannot supply all of its needs for all grades of titanium sponge internally and is dependent, therefore, on third parties for a substantial portion of its sponge requirements. Titanium melted and mill products require varying grades of sponge and/or scrap depending on the customers' specifications and expected end use. Presently, TIMET and certain companies in Japan are the only producers of premium quality sponge that currently have complete approval for all significant demanding aerospace applications. Over the past few years, sponge producers in Russia and Kazakhstan have progressed in their efforts to obtain approval for the use of their sponge into all aerospace applications. This qualification process is likely to continue for several more years.

6

Historically, the Company has purchased sponge predominantly from producers in Kazakhstan and Japan. In September 2002, the Company entered into a sponge supply agreement, effective from January 1, 2002 through December 31, 2007, which requires minimum annual purchases by the Company. The Company has no other long-term sponge supply agreements. Since 2000, the Company has also purchased sponge from the U.S. Defense Logistics Agency ("DLA") stockpile; however, the DLA stockpile is expected to become fully depleted during 2005. The Company expects to continue to purchase sponge from a variety of sources during 2005.

The Company utilizes a combination of internally produced, customer returned and externally purchased titanium scrap at its melting locations. Such scrap consists of alloyed and commercially pure solids and turnings. Internally produced scrap is generated in the Company's factories during both melting and mill product processing. Customer returned scrap is generally part of a supply agreement with a customer, which provides a "closed loop" arrangement resulting in supply and cost stability. Externally purchased scrap comes from a wide range of sources, including customers, collectors, processors and brokers. The Company anticipates that 50% to 60% of the scrap it will utilize during 2005 will be purchased from external suppliers, as compared to 52% for 2004. The Company also occasionally sells scrap, usually in a form or grade it cannot economically recycle.

Market forces can significantly impact the supply or cost of externally produced scrap. The amount of scrap generated in the supply chain varies during the titanium business cycles. During the middle of the cycle, scrap generation and consumption are in relative equilibrium, minimizing disruptions in supply or significant changes in market prices for scrap. Increasing or decreasing cycles tend to cause significant changes in the market price of scrap. Early in the

Edgar Filing: TITANIUM METALS CORP - Form 10-K

titanium cycle, when the demand for titanium melted and mill products begins to increase, the Company's requirements (and those of other titanium manufacturers) precede the increase in scrap generation by downstream customers and the supply chain, placing upward pressure on the market price of scrap. The opposite situation occurs when demand for titanium melted and mill products begins to decline, placing downward pressure on the market price of scrap. As a net purchaser of scrap, the Company is susceptible to price increases during periods of increasing demand. Although this phenomenon normally results in higher selling prices for melted and mill products, which tends to offset the increased material costs, the Company is somewhat limited in its ability to raise prices by the portion of its business that is under long-term pricing agreements.

All of the Company's major competitors utilize scrap as a raw material in their melt operations. In addition to use by titanium manufacturers, titanium scrap is used in steel-making operations during production of interstitial-free steels, stainless steels and high-strength-low-alloy steels. Recent strong demand for these steel products, especially from China, has produced a significant increase in demand for titanium scrap at a time when titanium scrap generation rates are at low levels, partly due to lower commercial aircraft build rates. These events created a significantly tightened supply of titanium scrap during 2004, and the Company expects this trend to continue and worsen during 2005. For TIMET, this will translate to lower availability and higher cost for externally purchased scrap in the near-term. The Company's ability to recover these material costs via higher selling prices to its customers is uncertain. The expected increase in commercial aircraft build rates over the next several years, as previously discussed, could have the effect of relieving the shortage of titanium scrap.

7

Various alloys used in the production of titanium products are also available from a number of suppliers. However, the recent high level of global demand for steel products also has resulted in a significant increase in the prices for several alloys, such as vanadium and molybdenum. Although availability is not expected to be a problem, the Company's cost for these alloys during 2005 could be as much as double that of 2004.

Customer agreements. The Company has long-term agreements ("LTAs") with certain major aerospace customers, including, among others, The Boeing Company ("Boeing"), Rolls-Royce plc and its German and U.S. affiliates ("Rolls-Royce"), United Technologies Corporation (Pratt & Whitney and related companies) and Wyman-Gordon Company ("Wyman-Gordon," a unit of Precision Castparts Corporation ("PCC")). Most of these LTAs expire from 2005 through 2008, subject to certain conditions, and generally provide for (i) minimum market shares of the customers' titanium requirements or firm annual volume commitments and (ii) fixed or formula-determined prices (although some contain elements based on market pricing). Generally, the LTAs require the Company's service and product performance to meet specified criteria and contain a number of other terms and conditions customary in transactions of these types. Certain provisions of these LTAs have been amended in the past and may be amended in the future to meet changing business conditions.

In certain events of nonperformance by the Company or the customer, the LTAs may be terminated early. Although it is possible that some portion of the business would continue on a non-LTA basis, the termination of one or more of the LTAs could result in a material effect on the Company's business, results of operations, financial position or liquidity. The LTAs were designed to limit selling price volatility to the customer, while providing TIMET with a committed base of volume throughout the aerospace business cycles. To varying degrees,

Edgar Filing: TITANIUM METALS CORP - Form 10-K

these LTAs effectively obligate TIMET to bear the majority of the risks of increases in raw material and other costs, but also allow TIMET to benefit from decreases in such costs.

During the third quarter of 2003, the Company and Wyman-Gordon agreed to terminate the 1998 purchase and sale agreement associated with the formation of the titanium castings joint venture previously owned by the two parties. The Company paid Wyman-Gordon a total of \$6.8 million in three quarterly installments in connection with this termination, which included the termination of certain favorable purchase terms. The Company recorded a one-time charge for the entire \$6.8 million as a reduction to sales in the third quarter of 2003. Concurrently, the Company entered into new long-term purchase and sale agreements with Wyman-Gordon that expire in 2008.

During 2001, the Company reached a settlement of certain litigation between TIMET and Boeing related to the parties' LTA entered into in 1997. Pursuant to the settlement, the Company received a cash payment of \$82 million from Boeing. Under the terms of the LTA, as amended, in 2002 through 2007, Boeing advances TIMET \$28.5 million annually less \$3.80 per pound of titanium product purchased by Boeing subcontractors under the Boeing LTA during the preceding year. Effectively, the Company collects \$3.80 less from Boeing than the LTA selling price for each pound of titanium product sold directly to Boeing and reduces the related customer advance recorded by the Company. For titanium products sold to Boeing subcontractors, the Company collects the full LTA selling price, but gives Boeing credit by reducing the next year's annual advance by \$3.80 per pound. The Boeing customer advance is also reduced as the Company recognizes income under the take-or-pay provisions of the LTA, as described in Note 10 to the Consolidated Financial Statements. Under a separate agreement, TIMET must establish and hold buffer stock for Boeing at TIMET's facilities, for which Boeing will be invoiced for an LTA sale by TIMET when such material is produced into a mill product by TIMET. See Item 7 - MD&A for additional information regarding the Boeing LTA.

8

The Company also has an LTA with VALTIMET SAS ("VALTIMET"), a manufacturer of welded stainless steel and titanium tubing that is principally sold into the industrial markets. VALTIMET is a 44%-owned affiliate of TIMET. The LTA was entered into in 1997 and expires in 2007. Under the LTA, TIMET has agreed to provide a certain percentage of VALTIMET's titanium requirements at formula-determined selling prices, subject to certain conditions. Certain provisions of this contract have been amended in the past and may be amended in the future to meet changing business conditions.

Markets and customer base. The following table summarizes the Company's sales revenue by geographical location:

	Year ended Decem	
	2004	2003
	(Percentage of total s	
Sales revenue to customers within:		
North America	55%	
Europe	40%	
Other	5%	

Edgar Filing: TITANIUM METALS CORP - Form 10-K

100%
===== 1
=====

Further information regarding the Company's external sales, net income, long-lived assets and total assets by segment can be found in the Company's Consolidated Balance Sheets, Consolidated Statements of Operations and Notes 6 and 21 to the Consolidated Financial Statements.

Substantially all of the Company's sales and operating income are derived from operations based in the U.S., the U.K., France and Italy. As shown in the below table, the Company generates over two-thirds of its sales revenue from sales to the aerospace industry (commercial and military sectors). The Company expects that a similar percentage of its 2005 sales revenue will be to the aerospace industry. As previously noted, the Company has LTAs with certain major aerospace customers, including Boeing, Rolls-Royce, UTC and Wyman-Gordon. This concentration of customers may impact the Company's overall exposure to credit and other risks, either positively or negatively, in that all of these customers may be similarly affected by the same economic or other conditions. The following table provides supplemental sales revenue information regarding the Company's dependence on certain industries and customer relationships:

9

	Year ended December	
	2004	2003
	(Percentage of total sales)	
Sales revenue to:		
Aerospace industry:		
Commercial aerospace sector	57%	57%
Military aerospace sector	13%	11%
	-----	-----
Total aerospace industry	70%	68%
	=====	=====
Customers under LTAs	44%	41%
	=====	=====
Significant customers under LTAs: (1)		
Rolls-Royce and other Rolls-Royce suppliers (2)	15%	15%
	=====	=====
Ten largest customers	48%	44%
	=====	=====
Significant customers: (1)		
PCC and related entities	13%	13%
	=====	=====

Edgar Filing: TITANIUM METALS CORP - Form 10-K

The primary market for titanium products in the commercial aerospace industry consists of two major manufacturers of large (over 100 seats) commercial airframes - Boeing Commercial Airplanes Group (a unit of Boeing) and Airbus (80% owned by European Aeronautic Defence and Space Company and 20% owned by BAE Systems). In addition to the airframe manufacturers, the following four manufacturers of large civil aircraft engines are also significant titanium users - Rolls-Royce, General Electric Aircraft Engines, Pratt & Whitney and Societe Nationale d