TITANIUM METALS CORP
Form 10-K/A
June 04, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 2

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

For the fiscal year ended December 31, 2003

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

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

Title of each class	Name of Each Exchange on Which Registered
Common Stock ($.01 par value per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 Form 10-K X

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

As of June 30, 2003, 3,192,182 shares of common stock were outstanding. The aggregate market value of the 1,479,967 shares of voting stock held by nonaffiliates of Titanium Metals Corporation as of such date approximated $47.5 million. No shares of non-voting stock were held by nonaffiliates. As of March 2, 2004, 3,179,602 shares of common stock were outstanding.

Documents incorporated by reference:

None.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A is an amendment to the Titanium Metals Corporation (the "Company" or "TIMET") Annual Report on Form 10-K ("Annual Report") for the year ended December 31, 2003. The purpose of the Form 10-K/A is to replace, in its entirety, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's 2003 Annual Report. The changes to Item 7 consist of the following: (i) a modification of footnote 3 and the addition of footnote 4 to the Contractual Commitments table on page 16 to provide additional information regarding such commitments, and (ii) modifications to language in the Impairment of long-lived assets and Valuation and impairment of securities subsections within the discussion of Critical Accounting Policies and Estimates on pages 23 and 24. This Form 10-K/A does not update or modify any other disclosures to reflect developments since the original filing date or otherwise.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Overview. The titanium industry derives a substantial portion of its demand from the aerospace industry, most specifically the highly cyclical commercial aerospace sector. The Company estimates that aggregate industry shipment volume for titanium mill products in 2003 was derived from the following markets: 42% from aerospace; 53% from industrial; and 5% from emerging. The commercial aerospace sector is the principal driver of titanium consumed in the aerospace markets, accounting for shipments of approximately 15,700 metric tons in 2003, which represent about 78% of mill product aerospace industry shipments and about 33% of aggregate mill product industry shipments. Mill product shipments into the military aerospace sector in 2003 were approximately 4,400 metric tons, which represent about 22% of mill product aerospace industry shipments and about 9% of aggregate mill product shipments. The Company's business is more dependent on aerospace demand than the overall titanium industry, as approximately 68% of its mill product sales volume in 2003 was represented by sales to the aerospace industry (57% commercial aerospace and 11% military aerospace).

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 agreed to pay 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. The Company paid the first two installments aggregating $4.0 million to Wyman-Gordon during 2003 and will pay the remaining $2.8 million in the first quarter of 2004. Concurrently, the Company and Wyman-Gordon entered into new long-term purchase and sale agreements covering the sale of TIMET products to various Wyman-Gordon locations through 2008. The Company expects the new agreements to, among other things, improve its future plant operating rates.

During 2003, the Company focused on (i) vigorously reducing costs throughout the business, (ii) increasing capacity utilization, (iii) improving management of working capital, especially inventory, and (iv) improving on-time delivery and customer service. Based upon this focus, the Company was able to realize substantial cost savings during 2003, primarily in the areas of manufacturing and operational performance, yield improvements and selling, general and administrative costs. While some of these savings were non-recurring, a majority of the savings will continue and positively affect future results.

The Company's successful cost reduction efforts and increased capacity utilization, coupled with increased melted product sales volume, provided for lower unit costs and decreasing book inventories during 2003, for which the Company reduced its LIFO inventory reserve at the end of 2003 as compared to the end of 2002. As a result, the Company reduced cost of sales by $11.4 million in 2003. This compared with an increase in the Company's LIFO inventory reserve at the end of 2002 as compared to the end of 2001, for which the Company increased cost of sales by $9.3 million in 2002, and with a decrease in the Company's LIFO inventory reserve at the end of 2001 as compared to the end of 2000, for which the Company decreased cost of sales by $5.0 million in 2001.

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In November 1996, the Capital Trust issued $201.3 million BUCS and $6.2 million 6.625% common securities. TIMET owns all of the outstanding common securities of the Capital Trust, and the Capital Trust is a wholly-owned subsidiary of TIMET. The Capital Trust used the proceeds from such issuance to purchase from the Company $207.5 million principal amount of TIMET's 6.625% Subordinated Debentures. The sole assets of the Capital Trust are the Subordinated Debentures. Based on the requirements of Financial Accounting Standards Board Interpretation No. 46 Revised ("FIN 46R"), the Company deconsolidated the Capital Trust as of December 31, 2003. Upon such deconsolidation, the Company now reflects both its investment in the common securities of the Capital Trust, as well as its debt payable to the Capital Trust, separately on its Consolidated Balance Sheets. Additionally, interest payments on the debt are reflected as interest expense and dividends on the common securities are reflected as equity in earnings of the unconsolidated Capital Trust on the Consolidated Statements of Operations. Under previous accounting rules, the Company consolidated the Capital Trust, reflected a minority interest related to the BUCS on its Consolidated Balance Sheets and reported minority interest dividend expense on its Consolidated Statements of Operations. All periods presented in this Annual Report have been retroactively restated, as permitted by FIN 46R, to allow for comparability with the December 31, 2003 presentation.

Summarized financial information. The table below summarizes certain information regarding the Company's results of operations for the past three years. Average selling prices, as reported by the Company, are a reflection not just of actual selling prices received by the Company, but also include other related factors such as currency exchange rates and customer and product mix in 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. See "Results of Operations - Outlook" for further discussion of the Company's business expectations for 2004.

	Year ended Decembe	
	2003	2002
		($ in thousands
Net sales	$ 385,304	$ 366,501
Gross margin	17,030	(3,123)
Operating income (loss)	5,432	(20,849)
Gross margin percent of net sales	4%	-1%
Percentage change in:		
Sales volume:		
Melted products	+97	-46
Mill products	-	-27
Average selling prices - includes changes in product mix:		
Melted products	-16	-
Mill products	-	+5
Selling prices - excludes changes in product mix:		
Melted products	-12	-1
Mill products in U.S. dollars	-3	+4
Mill products in billing currencies (1)	-7	+3

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

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Based upon the terms of the Company's amended long-term agreement ("LTA") with Boeing, the Company receives an annual $28.5 million (less $3.80 per pound of titanium product sold to Boeing subcontractors in the preceding year) customer advance from Boeing in January of each year related to Boeing's purchases from TIMET for that year. This advance continues through 2007. The terms of the amended LTA allow Boeing to purchase up to 7.5 million pounds of titanium product annually from TIMET through 2007, but limit TIMET's maximum quarterly volume obligation to 3.0 million pounds. The LTA is structured as a take-or-pay agreement such that, beginning in calendar year 2002, Boeing forfeits $3.80 per pound of its advance payment in the event that its orders for delivery are less than 7.5 million pounds in any given calendar year. The Company recognizes income to the extent Boeing's year-to-date orders for delivery plus TIMET's maximum quarterly volume obligations for the remainder of the year total less than 7.5 million pounds. This income is recognized as other operating income and is not included in sales revenue, sales volume or gross margin. During 2003 and 2002, the Company recognized $23.1 million and $23.4 million, respectively, of other operating income relative to these take-or-pay provisions. Had the Company not benefited from such provisions, the Company's results would have been as follows:

		Year ended
		2003
		(In th
Operating income (loss), as reported	$	5,432
Less Boeing take-or-pay income		23,083
Operating loss, excluding Boeing take-or-pay	$	(17,651)
Net loss, as reported	$	(13,057)
Less Boeing take-or-pay income		23,083
Net loss, excluding Boeing take-or-pay	$	(36,140)

Because the Boeing take-or-pay income continues only through 2007, the Company is striving to improve its results of operations such that the Company will generate net income exclusive of any Boeing take-or-pay income, and the Company analyses its historical results exclusive of such income. Therefore, the Company believes that presenting its operating loss and net loss excluding the Boeing take-or-pay income better measures the results of its underlying business.

2003 operations. The Company's melted product sales increased 65% from $34.8 million during 2002 to $57.4 million during 2003 primarily due to a 97% increase in melted product sales volume, partially offset by a 16% decrease in melted product average selling prices. Melted products consist of ingot and slab and are generally only sold in U.S. dollars. Melted product sales increased principally as a result of new customer relationships, share gains and changes in product mix. Excluding the effects of changes in product mix, melted product selling prices decreased 12% during 2003 compared to 2002.

Mill product sales increased 1% from $278.2 million during 2002 to $279.6 million during 2003. This increase was principally due to slight increases in both mill product sales volume and mill product average selling prices (average selling prices use actual product mix and foreign currency exchange rates prevailing during the respective periods) and changes in product mix. Mill product average selling prices were positively affected by the weakening of the U.S. dollar compared to the British pound sterling and the euro. Mill product selling prices expressed in U.S. dollars (using actual foreign currency exchange rates prevailing during the respective periods) decreased 3% during 2003 compared to 2002. In billing currencies (which exclude the effects of foreign currency translation), mill product selling prices decreased 7% during 2003 compared to 2002.

As previously discussed, net sales during 2003 were reduced by the $6.8 million one-time charge incurred by the Company to terminate a purchase and sale agreement between the Company and Wyman-Gordon.

Gross margin (net sales less cost of sales) was 4% of net sales during 2003, compared to negative 1% during 2002. The improvement in gross margin was primarily a result of the Company's continued cost reduction efforts, slightly improved plant operating rates (from 55% during 2002 to 56% during 2003) and favorable raw material mix. Additionally, as previously discussed, the Company reduced its LIFO inventory reserve at the end of 2003 as compared to the end of 2002, resulting in a reduction in cost of sales by $11.4 million in 2003. This compared with an increase in the Company's LIFO inventory reserve at the end of 2002 compared to the end of 2001, for which the Company increased cost of sales by $9.3 million in 2002. Gross margin during 2003 was also positively impacted by the Company's revision of its estimate of probable loss associated with the previously reported tungsten inclusion matter. Based upon an analysis of information pertaining to asserted and unasserted claims, the Company reduced its accrual for pending and future customer claims, resulting in a $1.7 million reduction in cost of sales during 2003. See Note 19 to the Consolidated Financial Statements. Gross margin during 2003 was adversely impacted by the $6.8 million reduction in sales relating to the termination of the Wyman-Gordon agreement.

Selling, general, administrative and development expenses decreased 15% from $43.0 million during 2002 to $36.4 million during 2003, principally as a result of lower personnel and travel costs, as well as focused cost control in other administrative areas.

Equity in earnings of joint ventures decreased 77% from $2.0 million during 2002 to $0.5 million during 2003, principally due to a decrease in the operating results of VALTIMET, the Company's minority-owned welded tube joint venture.

Net other operating income (expense) increased 5% from income of $23.3 million during 2002 to income of $24.4 million during 2003, principally due to gains of $0.5 million and $0.6 million related to the settlement of certain litigation in the first quarter and fourth quarters, respectively, of 2003. Based on actual purchases of approximately 1.4 million pounds during 2003, the Company recognized $23.1 million of other operating income for the 6.1 million pounds of product that Boeing did not purchase under the LTA during 2003. The Company recognized $23.4 million of other operating income related to these take-or-pay provisions during 2002.

2002 operations. The Company's melted product sales decreased 46% from $64.1 million during 2001 to $34.8 million during 2002 primarily due to a 46% decrease in melted product sales volume and changes in product mix. Melted products consist of ingot and slab and are generally only sold in U.S. dollars. Melted product average selling prices did not change during 2002 compared to 2001. Excluding the effects of changes in product mix, melted product selling prices decreased 1% during 2002 compared to 2001.

Mill product sales decreased 23% from $363.3 million in 2001 to $278.2 million in 2002. This decrease was principally due to a 27% decrease in mill product sales volume and changes in product mix. The Company's estimated sales volume to the commercial aerospace sector declined approximately 37% during 2002 compared to 2001. Mill product average selling prices during 2002 increased 5% compared to 2001. In billing currencies, mill product selling prices increased 3% over 2001 levels. Mill product selling prices expressed in U.S. dollars increased 4% during 2002 compared to 2001.

Gross margin was negative 1% of net sales during 2002, compared to 8% in 2001. Gross margin in 2002 was most adversely impacted by the decline in production volume and the related impact on manufacturing overhead costs, as average plant operating rates declined from approximately 75% of capacity in 2001 to approximately 55% in 2002. Because of higher unit costs and increasing book inventories during 2002, the Company increased its LIFO inventory reserve at the end of 2002 as compared to the end of 2001, for which the Company increased cost of sales by $9.3 million in 2002. This compared with a decrease in the Company's LIFO inventory reserve at the end of 2001 compared to the end of 2000, for which the Company decreased cost of sales by $5.0 million in 2001. In addition, the Company recorded certain provisions for excess and slow moving inventories during 2002 that, due to business conditions existing during 2002 (including a number of customer order cancellations) were approximately $5.3 million greater than in 2001. The Company also incurred severance costs of approximately $1.7 million related to global workforce reductions undertaken throughout 2002. Gross margin during 2001 was adversely impacted by $3.3 million of estimated costs related to the tungsten inclusion matter described above and $10.8 million of equipment impairment charges. Gross margin during 2001 was also adversely impacted by goodwill amortization of $4.6 million, as effective January 1, 2002 the Company ceased amortization of its goodwill. See Note 7 to the Consolidated Financial Statements.

Selling, general, administrative and development expenses decreased 17% from $51.8 million during 2001 to $43.0 million during 2002, principally due to the inclusion of a one-time payment of $6.2 million of incentive compensation related to the Boeing settlement in 2001 (discussed in "2001 operations") and lower personnel related costs in 2002, partially offset by higher selling and marketing costs in 2002.

Equity in earnings of joint ventures decreased 21% from $2.5 million during 2001 to $2.0 million during 2002 principally due to a decrease in the earnings of VALTIMET.

Net other operating income (expense) decreased 68% from income of $73.6 million during 2001 to income of $23.3 million during 2002. The decrease was due to the Company's settlement of litigation with Boeing whereby the Company recognized $73.0 million of income during 2001, partially offset by the $23.4 million of income the Company recognized under the take-or-pay provisions of its LTA with Boeing for the 6.2 million pounds of titanium product that Boeing did not purchase under the LTA during 2002. See Note 15 to the Consolidated Financial Statements.

Non-operating income (expense).

	Year ended Decembe	
	2003	2002
		(In thousands
Interest expense on bank debt	$ (2,017)	$ (3,381)
Interest expense on debt payable to the Capital Trust	(14,402)	(13,763)
	$ (16,419)	$ (17,144)

Dividends and interest income	$ 383	$ 118
Equity in earnings of common securities of the Capital Trust	432	413
SMC impairment charge	-	(27,500)
Surety bond guarantee	(449)	(1,575)
Foreign exchange (loss) gain	(189)	(587)
Other income (expense), net	(471)	(762)
	$ (294)	$ (29,893)

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Interest expense on bank debt for 2003 decreased 40% compared to 2002, primarily due to lower average outstanding borrowings, as the Company generated positive cash flow from operations and was able to reduce its bank borrowings to zero by year-end 2003. Interest expense on bank debt for 2002 decreased 17% compared to 2001 primarily due to lower average outstanding borrowings and lower interest rates during 2002.

Annual interest expense on the Company's Subordinated Debentures payable to the Capital Trust approximates $13.7 million, exclusive of any accrued interest on deferred interest payments. In October 2002, the Company exercised its right to defer future interest payments on this debt effective with the Company's December 1, 2002 scheduled interest payment. Interest continues to accrue at the 6.625% coupon rate on the principal and unpaid interest and has been classified as long-term in the Consolidated Financial Statements. The Company's Board of Directors will consider resuming payment of interest on this debt once the longer-term outlook for the Company's business improves substantially. In April 2000, the Company also exercised its right to defer future interest payments on this debt. On June 1, 2001, the Company resumed those interest payments and paid all previously deferred interest payments. See Note 12 to the Consolidated Financial Statements.

Dividends and interest income during 2003 and 2002 consisted solely of interest income earned on cash and cash equivalents. Dividends and interest income in 2001 consisted principally of dividends on the Company's investment in $80 million non-voting convertible preferred securities of SMC. As previously reported, the Company assessed its investment in the SMC securities during the fourth quarter of 2001 and recorded a $61.5 million impairment charge to reduce the carrying amount of this investment, including accrued dividends and interest, to an estimated fair value of $27.5 million as of December 31, 2001. In March 2002, SMC and its U.S. subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As a result, the Company undertook a further assessment of its investment and subsequently recorded a $27.5 million impairment charge during the first quarter of 2002, which reduced the Company's carrying amount of its investment in the SMC securities to zero. Under the terms of SMC's Second Amended Joint Plan of Reorganization, which was approved by the Bankruptcy Court on November 26, 2003, the convertible preferred securities were cancelled. Although the Company does have certain rights as an unsecured creditor under the SMC Plan of Reorganization related to the unpaid dividends, the Company does not believe that it will recover any material amount from this investment.

TIMET is the primary obligor on two $1.5 million workers' compensation bonds issued on behalf of a former subsidiary, Freedom Forge Corporation ("Freedom Forge"), which TIMET sold in 1989. The bonds were provided as part of the conditions imposed on Freedom Forge in order to self-insure its workers' compensation obligations. Freedom Forge filed for Chapter 11 bankruptcy protection on July 13, 2001, and discontinued payment on the underlying workers' compensation claims in November 2001. During 2002, TIMET received notices that the issuers of the bonds were required to make payments on one of the bonds with respect to certain of these claims and were requesting reimbursement from TIMET. Based upon loss projections, the Company accrued $0.9 million in the third quarter of 2002 and $0.7 million (including $0.1 million in legal fees reimbursable to the issuer of the bonds) in the fourth quarter of 2002 for this bond as other non-operating expense. Through December 31, 2003, TIMET has reimbursed the issuer approximately $0.8 million under this bond and $0.8 million remains accrued for future payments. During 2003, TIMET received notice that certain claimants had submitted claims under the second bond. Accordingly, the Company accrued $50,000 for this bond in the third quarter of 2003 and an additional $0.4 million for this bond in the fourth quarter of 2003 as other non-operating expense. As of December 31, 2003, payments under the second bond have been less than $0.1 million, and $0.4 million remains accrued for future payments. TIMET may revise its estimated liability under these bonds in the future as additional facts become known or claims develop.

Income taxes. Based on the Company's recent history of U.S. losses, its near-term outlook and management's evaluation of available tax planning strategies, in the fourth quarter of 2001 the Company concluded that realization of its previously recorded U.S. deferred tax assets did not continue to meet the "more-likely-than-not" recognition criteria and increased its U.S. deferred tax valuation allowance by $35.5 million. Additionally, the Company determined that it would not recognize a deferred tax benefit related to either future U.S. losses or future increases in U.S. minimum pension liabilities continuing for an uncertain period of time. Accordingly, the Company increased its U.S. deferred tax valuation allowance by $40.2 million in 2002 and by $0.2 million in 2003.

During the fourth quarter of 2002, the Company was required to record a charge to other comprehensive loss to reflect an increase in its U.K. minimum pension liability. The related tax effect of this charge resulted in the Company's shifting from a net deferred tax liability position to a net deferred tax asset position. Based on the Company's recent history of U.K. losses, its near-term outlook and management's evaluation of available tax planning strategies, the Company determined that it would not recognize this deferred tax asset because it did not meet the "more-likely-than-not" recognition criteria and recorded a U.K. deferred tax asset valuation allowance of $7.2 million through other comprehensive income. Additionally, the Company determined that it would not recognize deferred tax benefits related either to future U.K. losses or future increases in U.K. minimum pension liabilities for an uncertain period of time. Accordingly, the Company increased its U.K. deferred tax valuation allowance by $5.5 million in 2003.

During the first quarter of 2002, the Job Creation and Worker Assistance Act of 2002 (the "JCWA Act") was signed into law. The Company benefits from provisions of the JCWA Act, which liberalized certain net operating loss and alternative minimum tax restrictions. As a result, the Company recognized $1.8 million of refundable U.S. income taxes during the first quarter of 2002. The Company received $0.8 million of this refund in the fourth quarter of 2002 and the remaining $1.0 million in the third quarter of 2003.

See also Note 16 to the Consolidated Financial Statements.

Minority interest. Minority interest relates primarily to the 30% interest in TIMET Savoie held by CEZUS. See Note 13 to the Consolidated Financial Statements.

Cumulative effect of change in accounting principle. On January 1, 2003, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations, and recognized (i) an asset retirement cost capitalized as an increase to the carrying value of its property, plant and equipment of approximately $0.2 million, (ii) accumulated depreciation on such capitalized cost of approximately $0.1 million and (iii) a liability for the asset retirement obligation of approximately $0.3 million. The asset retirement obligation recognized relates primarily to landfill closure and leasehold restoration costs.

On January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets, and recorded a non-cash goodwill impairment charge of $44.3 million, representing the entire balance of the Company's recorded goodwill at January 1, 2002.

See further discussion regarding the Company's adoption of these accounting principles in Notes 2 and 7 to the Consolidated Financial Statements.

European operations. The Company has substantial operations and assets located in Europe, principally in the United Kingdom, France and Italy. Titanium is sold worldwide, and many similar factors influence the Company's U.S. and European operations. Approximately 42% of the Company's sales revenue originated in Europe in 2003, of which approximately 64% was 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 as such are not subject to currency exchange rate fluctuations.

The Company does not use currency contracts to hedge its currency exposures. Net currency transaction gains/losses included in results of operations were losses of $0.2 million in 2003 and $0.6 million in 2002 and a gain of $0.1 million in 2001. At December 31, 2003, consolidated assets and liabilities denominated in currencies other than functional currencies were approximately $26.5 million and $41.7 million, respectively, consisting primarily of U.S. dollar cash, accounts receivable and accounts payable.

Related party transactions. The Company is a party to certain transactions with related parties. See Note 18 to the Consolidated Financial Statements.

Supplemental information. The Company completed a reverse split of its common stock (one share of post-split common stock for each outstanding ten shares of pre-split common stock) effective after the close of trading on February 14, 2003. All share and per share disclosures for all periods presented in this MD&A have been adjusted to give effect to the reverse stock split.

Outlook. The Outlook section contains a number of forward-looking statements, all of which are based 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, unless otherwise noted. Undue reliance should not be placed on these statements, as more fully discussed in the "Forward-Looking Information" statement of this Annual 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.

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 and 1999. Demand for titanium reached its highest level in 1997 when industry mill product shipments reached approximately 60,000 metric tons. However, since that peak, industry mill product shipments have fluctuated significantly, primarily due to a continued change in demand for titanium from the commercial aerospace sector. In 2002, industry shipments approximated 50,000 metric tons, and in 2003 the Company estimates industry shipments approximated 48,000 metric tons. The Company currently expects total industry mill product shipments in 2004 will increase from 2003 levels to at least 51,000 metric tons.

Although the commercial airline industry continues to face significant challenges, recent economic data show signs of an improving business environment in that sector. According to The Airline Monitor, the worldwide commercial airline industry reported an estimated operating loss of approximately $3.5 billion in 2003, compared to a $7.3 billion loss in 2002 and an $11.7 billion loss in 2001. The Airline Monitor is currently forecasting operating income of approximately $6.3 billion for the industry in 2004. Furthermore, global airline passenger traffic returned to pre-September 11, 2001 levels in November of 2003. Although these appear to be positive signs, the Company currently believes that industry mill product shipments into the commercial aerospace sector will be somewhat flat in 2004 and show a modest upturn in 2005.

The Airline Monitor traditionally issues forecasts for commercial aircraft deliveries each January and July. According to The Airline Monitor, large commercial aircraft deliveries totaled 579 (including 154 wide bodies) in 2003. The Airline Monitor's most recently issued forecast (January 2004) calls for 575 deliveries in 2004, 540 deliveries in 2005 and 510 deliveries in 2006. Relative to 2003, these forecasted delivery rates represent anticipated declines of about 1% in 2004, 7% in 2005 and 12% in 2006. From 2007 through 2011, The Airline Monitor calls for a continued increase each year in large commercial aircraft deliveries, with forecasted deliveries of 620 aircraft in 2008, exceeding 2003 levels. 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 the current business environment continues to make it difficult to predict future performance, the Company expects sales revenue in 2004 to increase to between $425 million and $445 million, reflecting the combined effects of increases in sales volume and market share and relative weakness of the U.S. dollar as compared to the British pound sterling and the euro, partially offset by customer and product mix. Mill product sales volume, which was 8,875 metric tons in 2003, is expected to increase to between 10,300 and 10,500 metric tons in 2004. Melted product sales volume, which was 4,725 metric tons in 2003, is expected to increase to between 4,800 and 5,000 metric tons in 2004. The Company expects between 55% and 60% of its 2004 mill and melted product sales volume will be derived from the commercial aerospace sector (which would be a slight decrease from 2003), with the balance from military aerospace, industrial and emerging markets. The expected increase in sales volume in 2004 is principally driven by an anticipated increase in sales volume to industrial and emerging markets.

Additionally, the Company's backlog of unfilled orders was approximately $180 million at December 31, 2003, compared to $165 million at December 31, 2002 and $225 million at December 31, 2001. Substantially the entire 2003 year-end backlog is scheduled for shipment during 2004. The Company's order backlog may not be a reliable indicator of future business activity.

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 costs and energy costs. Raw material costs represent the largest portion of the Company's manufacturing cost structure. The Company has recently been experiencing higher raw material prices due to a tightening in raw material availability, especially in the scrap markets. The Company also expects an increase in energy costs in 2004.

The Company expects to manufacture a significant portion of its titanium sponge requirements in 2004. The unit cost of titanium sponge manufactured at TIMET's Henderson, Nevada facility is expected to decrease relative to 2003, due primarily to higher sponge plant operating rates as the plant moves to full capacity by the third quarter of 2004. The Company expects the aggregate cost of purchased sponge and scrap to increase during 2004.

The Company expects production volumes to increase in 2004, increasing overall capacity utilization to between 60% and 65% in 2004 (as compared to 56% in 2003). However, practical capacity utilization measures can vary significantly based on product mix. The Company continues to identify areas for potential cost savings, in addition to the savings realized in 2003, and expects gross margin in 2004 to range from 6% to 8% of net sales.

Selling, general, administrative and development expenses in 2004 should approximate $35 million.

The Company anticipates that it will receive orders from Boeing for about 1.5 million pounds of product during 2004. At this projected order level, the Company expects to recognize about $23 million of operating income in 2004 under the Boeing LTA's take-or-pay provisions.

The current outlook is for 2004 operating income of between $14 million and $24 million, which includes the effect of a $1.9 million reduction in the Company's vacation accrual for U.S. employees effective January 1, 2004 (see Note 9 to the Consolidated Financial Statements). Excluding the Boeing take-or-pay income, the Company currently expects operating results in 2004 to range between operating income of $1 million and operating loss of $9 million.

In 2004, interest expense on the Company's Subordinated Debentures held by the Capital Trust should approximate $15.4 million, including additional interest costs related to the deferral of the interest payments on the Subordinated Debentures. The Company's Board of Directors will consider resuming interest payments on the Subordinated Debentures once the longer-term outlook for the Company's business improves substantially.

The Company currently expects its 2004 bottom line to range between a net loss of $3 million and net income of $7 million. Excluding the Boeing take-or-pay income, the Company currently expects a net loss in 2004 of between $16 million and $26 million.

The Company expects to generate $25 million to $35 million in cash flows from operations during 2004, partially driven by the continued deferral of the interest payments on the Subordinated Debentures. Capital expenditures during 2004 are expected to approximate $16 million. The increase over 2003 relates primarily to capital needs relative to the increase in sponge production at TIMET's Henderson, Nevada facility. Depreciation and amortization should approximate $32 million in 2004. The Company currently expects to make contributions of approximately $11.5 million to its defined benefit pension plans during 2004 and expects its pension expense to approximate $8 million in 2004.

The year-on-year improvements in sales and operating income reflect achievements in many areas, most specifically with regard to vigorous cost and inventory reduction efforts, and the Company will continue its focus on reducing costs in 2004. The Company remains cautiously optimistic that the commercial aerospace industry has begun to improve and feels that with its strong balance sheet and improved cost structure, the Company is well positioned to maximize profitability during any upturn. Additionally, solid growth is expected from sales into the industrial and emerging markets during 2004, two areas in which the Company's business is continuing to diversify.

Non-GAAP financial measures. In an effort to provide investors with information in addition to the Company's results as determined by accounting principles generally accepted in the United States of America ("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 mill and melted 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;

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 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; and

- The Company discloses operating income and net income excluding the impact of the Boeing take-or-pay income. The Company believes this provides investors with useful information to better analyze the Company's business and possible future earnings during periods after December 31, 2007, at which time the Company will no longer receive the positive effects of the take-or-pay income.

LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated cash flows for each of the past three years are presented below. The following should be read in conjunction with the Company's Consolidated Financial Statements and notes thereto.

	Year ended Decembe	
	2003	2002
		(In thousands)
Cash provided (used) by:		
Operating activities	$ 65,821	$ (13,595)
Investing activities	(14,534)	(7,467)
Financing activities	(22,068)	3,523
Net cash provided (used) by operating, investing and financing activities	$ 29,219	$ (17,539)

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 has been 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 loss have an impact on cash flows from operating activities, but the impact of such items on cash may differ from their impact on net loss. 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 loss decreased from $111.5 million for the year ended December 31, 2002, to $13.1 million for the year ended December 31, 2003. See "Results of Operations - Cumulative effect of change in accounting principle" and Note 7 to the Consolidated Financial Statements for discussion of the Company's adoption of SFAS No. 142 and the related effect on net loss for the year ended December 31, 2002. See "Results of Operations - Non-operating income (expense)" and Note 5 to the Consolidated Financial Statements for discussion of the Company's impairment of its investment in SMC securities and its effect on net loss for the years ended December 31, 2002 and 2001.

Accounts receivable decreased during 2003 primarily due to improved collection efforts with the Company's customers, which resulted in a 13-day decrease in days sales outstanding ("DSO"), from 75 days at year-end 2002 to 62 days at year-end 2003, partially offset by the weakening of the U.S. dollar compared to the British pound sterling and the euro. Accounts receivable decreased significantly during 2002 primarily as a result of reduced sales, partially offset by an increase in DSO as certain customers extended their payment terms to the Company in response to unfavorable economic conditions. Accounts receivable increased in 2001 principally as a result of increased sales.

Inventories decreased during 2003 due to the Company's concentrated focus on inventory reduction during 2003. Inventories decreased during 2002 primarily as a result of reduced production in the fourth quarter of 2002 and an increase in the Company's reserves for excess inventories, which the Company recorded in response to decreased demand for its products and other changes in business conditions. Inventories increased in 2001, reflecting material purchases and production rates that were based on expected sales levels higher than actual sales levels achieved. Due to the impact of the September 11, 2001 terrorist attacks, a number of customer order deferrals and cancellations were received late in 2001, contributing to the inventory increase.

In April 2001, the Company reached a settlement of the litigation between TIMET and Boeing. Pursuant to the settlement, the Company received a cash payment of $82 million ($73 million net of legal fees) and in December 2001 received a $28.5 million customer advance from Boeing related to fiscal 2002 purchases. This advance was reduced to $0.8 million at the end of 2002 as a result of shipments and orders from Boeing as well as the recognition of take-or-pay income. The Company received a $27.9 million advance for 2004 in January 2004. Through 2007 the Company will receive a similar annual advance in January of the year to which the advance is related. See Notes 9 and 10 to the Consolidated Financial Statements.

Dividends for the period October 1998 through December 1999 on the Company's investment in SMC 6.625% convertible preferred securities were deferred by SMC. In April 2000, SMC resumed current dividend payments of $1.3 million each quarter; however, dividends and interest in arrears were not paid. On October 11, 2001, the Company was notified by SMC of SMC's intention to again defer the payment of dividends effective with the dividend due on October 28, 2001. As previously discussed, the Company recorded an impairment charge of $61.5 million related to these securities, including accrued dividends and interest, in the fourth quarter of 2001 and ceased accruing dividend income on these securities at that time. Additionally, the Company recorded a charge of $27.5 million related to these securities in the first quarter of 2002 that reduced the carrying amount of these securities to zero. See Note 5 to the Consolidated Financial Statements.

The Company did not record any deferred income tax benefits related to its U.S. or U.K. losses during 2003. Deferred income tax benefits recognized in 2003 primarily relate to increases in net deferred income tax assets of the Company's French and Italian subsidiaries. The Company did not record any deferred income tax benefits related to its U.S. losses during 2002. Deferred income tax benefits recognized in 2002 primarily relate to increases in net deferred income tax assets of the Company's European subsidiaries. Deferred income taxes in 2001 were primarily due to an increase in the Company's U.S. deferred tax asset valuation allowance to offset previously recorded tax benefits that did not meet the "more-likely-than-not" recognition criteria. See Note 16 to the Consolidated Financial Statements.

As more fully discussed in "Results of Operations - Non-operating income (expense)," in October 2002 the Company exercised its right to defer future interest payments on its Subordinated Debentures held by the Capital Trust, effective beginning with the Company's December 1, 2002 scheduled interest payment, although interest continues to accrue at the coupon rate on the principal and unpaid interest. In April 2000, the Company similarly exercised its right to defer future interest payments, and in the second quarter of 2001, as noted above, a portion of the Boeing settlement funds was used to pay the previously deferred aggregate interest of $14.3 million and resume the regularly scheduled interest payments. Changes in accrued interest payable to the Capital Trust reflect this activity.

Investing activities. The Company's capital expenditures were $12.5 million in 2003, $7.8 million in 2002 and $16.1 million in 2001, principally for replacement of machinery and equipment and for capacity maintenance. During the fourth quarter of 2003, the Company deposited funds into certificates of deposit and other interest bearing accounts as collateral for certain Company obligations in lieu of entering into letters of credit. These deposits, which are restricted as to the Company's use, provide the Company with interest income as opposed to interest expense incurred through the use of letters of credit.

Financing activities. Cash used during 2003 related primarily to the Company's $19.3 million of net repayments on its outstanding borrowings upon the Company's receipt of the $27.7 million Boeing advance in January 2003. Additionally, TIMET Savoie made a $1.9 million dividend payment to CEZUS during 2003. Cash provided during 2002 related primarily to net borrowings of $6.3 million necessary to fulfill the Company's working capital needs. Additionally, TIMET Savoie made a $1.1 million dividend payment to CEZUS during 2002. The Company incurred approximately $1.1 million in financing costs in conjunction with the Company's amendment of its U.S. revolving credit agreement in 2002. These costs are deferred and amortized over the life of the agreement, which matures in February 2006. See further discussion below in "Liquidity and Capital Resources - Borrowing arrangements." Cash used during 2001 related primarily to net repayments of $31.7 million of indebtedness at the time of the Company's litigation settlement with Boeing.

Borrowing arrangements. Under the terms of the Company's U.S. asset-based revolving credit agreement, which matures in February 2006, borrowings are limited to the lesser of $105 million or a formula-determined borrowing base derived from the value of accounts receivable, inventory and equipment ("borrowing availability"). This facility requires the Company's U.S. daily cash receipts to be used to reduce outstanding borrowings, which may then be reborrowed subject to the terms of the agreement. Interest generally accrues at rates that vary from LIBOR plus 2% to LIBOR plus 2.5%. Borrowings are collateralized by substantially all of the Company's U.S. assets. The credit agreement prohibits the payment of distributions in respect of the Capital Trust's BUCS if "excess availability," as defined, is less than $25 million, limits additional indebtedness, prohibits the payment of dividends on the Company's common stock if excess availability is less than $40 million, requires compliance with certain financial covenants and contains other covenants customary in lending transactions of this type. The Company was in compliance in all material respects with all covenants for all periods during the years ended December 31, 2003 and 2002. Excess availability is defined as borrowing availability less outstanding borrowings and certain contractual commitments such as letters of credit. At December 31, 2003, excess availability was approximately $82 million. There were no outstanding borrowings under the U.S. credit agreement as of December 31, 2003. The weighted average interest rate on borrowings outstanding under this credit agreement as of December 31, 2002 was 3.7%.

The Company's U.S. credit agreement allows the lender to modify the borrowing base formulas at its discretion, subject to certain conditions. During the second quarter of 2002, the Company's lender elected to exercise such discretion and modified the Company's borrowing base formulas, which reduced the amount that the Company could have borrowed against its inventory and equipment by approximately $7 million. In the event the lender were to exercise this discretion again in the future, such event could have a material adverse impact on the Company's liquidity. Borrowings outstanding under this U.S. facility are classified as a current liability.

The Company's subsidiary, TIMET UK, has a credit agreement that provides for borrowings limited to the lesser of (pound)22.5 million or a formula-determined borrowing base derived from the value of accounts receivable, inventory and property, plant and equipment ("borrowing availability"). The credit agreement includes revolving and term loan facilities and an overdraft facility (the "U.K. Facilities") and matures in December 2005. Borrowings under the U.K. Facilities can be in various currencies including U.S. dollars, British pounds sterling and euros. Borrowings accrue interest at rates that vary from LIBOR plus 1% to LIBOR plus 1.25% and are collateralized by substantially all of TIMET UK's assets. The U.K. Facilities require the maintenance of certain financial ratios and amounts and other covenants customary in lending transactions of this type. TIMET UK was in compliance in all material respects with all covenants for all periods during the years ended December 31, 2003 and 2002. The U.K. overdraft facility is subject to annual review in December of each year. In the event the overdraft facility is not renewed, the Company believes it could refinance any outstanding overdraft borrowings under either the revolving or term loan features of the U.K. Facilities. The overdraft facility was reviewed and renewed in December 2003. During the second quarter of 2003, TIMET UK received an interest-bearing intercompany loan from a U.S. subsidiary of the Company enabling TIMET UK to reduce its long-term borrowings under the U.K. Facilities to zero. Unused borrowing availability at December 31, 2003 under the U.K. Facilities was approximately $40 million. There were no borrowings outstanding under the U.K. Facilities as of December 31, 2003. The weighted average interest rate on borrowings outstanding under the U.K. Facilities as of December 31, 2002 was 4.6%.

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. Unused borrowing availability at December 31, 2003 under these facilities was approximately $20 million. There were no borrowings outstanding under the other European facilities as of December 31, 2003. The weighted average interest rate on borrowings outstanding under these credit agreements as of December 31, 2002 was 3.7%.

Although excess availability under TIMET's U.S. credit agreement remains above $40 million, no dividends were paid by TIMET on its common stock during 2003, 2002 or 2001. TIMET does not anticipate paying dividends on its common stock during 2004 and, as previously discussed, is not permitted to pay such dividends while deferring interest payments on the Subordinated Debentures held by the Capital Trust.

Contractual commitments. As more fully described in Notes 11, 12, 18 and 19 to the Consolidated Financial Statements, the Company was a party to various debt, lease and other agreements at December 31, 2003 that contractually and unconditionally commit the Company to pay certain amounts in the future. The following table summarizes such contractual commitments that are unconditional both in terms of timing and amount by the type and date of payment.

	Unconditional Payment Due Date			
	2004	2005/ 2006	2007/ 2008	200 Aft
Contractual Commitment			(In thousands)	
Capital leases (1)	$ 524	$ 358	$ 424	$
Operating leases	2,724	2,720	585	
Debt payable to Capital Trust (and accrued interest thereon) (2)	-	-	19,003	20
Purchase obligations (3)	36,843	20,303	10,103	
Other contractual obligations (4)	10,067	11,088	1,063	
	$ 50,158	$ 34,469	$ 31,178	$ 21

(1) Excludes interest payments due under the capital lease agreements. Inclusive of these interest payments, the total contractual commitment is $24.0 million ($1.5 million in 2004, $2.2 million in 2005/2006, $2.2 million in 2007/2008 and $18.1 million in 2009 and thereafter).

(2) Represents the Company's Subordinated Debentures purchased by the Capital Trust from TIMET in connection with the Capital Trust's issuance of the BUCS and total interest accrued on the Subordinated Debentures at December 31, 2003. Under the Indenture related to the Subordinated Debentures, the currently deferred interest payments may continue to be contractually deferred until December 1, 2007.

(3) Based on an average price and an assumed constant mix of products purchased, where appropriate. These obligations generally relate to the purchase of raw materials, primarily titanium sponge, pursuant to an LTA and various open orders. All open orders are for delivery in 2004, and the LTA expires on December 31, 2007. The LTA does not contain a renewal provision; however, the Company may choose to enter into a new agreement to replace the current LTA in the future.

(4) These obligations consist primarily of contractual operating fees paid to CEZUS for use of a portion of its Ugine, France plant pursuant to an agreement expiring in 2006 (as described in Item 2: Properties), energy purchase obligations with Basic Management, Inc. which expire in 2010 (as described in Note 18 to the Consolidated Financial Statements), the remaining obligation to Wyman-Gordon due in 2004 relating to the termination of the agreement (as described previously in this MD&A) and an obligation to Contran Corporation ("Contran") under an intercorporate services agreement ("ISA") for 2004 (as described in Note 18 to the Consolidated Financial Statements). The Company expects annually to enter into an ISA with Contran subsequent to 2004.

The Company has excluded any potential commitment for funding of retirement and postretirement benefit plans from this table. However, such potential future contributions are discussed below, as appropriate, in "Liquidity and Capital Resources - Defined benefit pension plans" and "Liquidity and Capital Resources - Postretirement benefit plans other than pensions."

Off-balance sheet arrangements. As more fully discussed in "Results of Operations - Non-operating income (expense)," the Company is the primary obligor on two $1.5 million workers' compensation bonds issued on behalf of Freedom Forge. The Company has fully expensed the obligation under one of the bonds, but based upon current claims analysis, the Company has only expensed $0.5 million on the other bond, although it is potentially obligated for the remaining $1.0 million.

Defined benefit pension plans. As of December 31, 2003, the Company maintains three defined benefit pension plans - one each in the U.S., the U.K. and France. Prior to December 31, 2003, the U.S. maintained two plans, which were merged as of that date. The majority of the discussion below relates to the U.S. and U.K. plans, as the French plan is not material to the Company's Consolidated Balance Sheets, Statements of Operations or Statements of Cash Flows.

The Company recorded consolidated pension expense of $8.9 million, $4.9 million and $1.4 million for the years ended December 31, 2003, 2002 and 2001, respectively. Pension expense for these periods was calculated based upon a number of actuarial assumptions, most significant of which are the discount rate and the expected long-term rate of return.

The discount rate the Company utilizes for determining pension expense and pension obligations is based on a review of long-term bonds (10 to 15 year maturities) that receive one of the two highest ratings given by recognized rating agencies (generally Merrill Lynch, Moody's, Solomon Smith Barney and UBS Warburg) as well as composite indices provided by the Company's actuaries. Changes in the Company's discount rate over the past three years reflect the decline in such bond rates during that period. The Company establishes a rate that is used to determine obligations as of the year-end date and expense for the subsequent year. The Company used the following discount rate assumptions for its pension plans:

	Discount rates used for:		
	Obligation at December 31, 2003 and expense in 2004	Obligation at December 31, 2002 and expense in 2003	De and

U.S. Plan(s)	6.00%	6.25%	
U.K. Plan	5.50%	5.70%	

In developing the Company's expected long-term rate of return assumptions, the Company evaluates historical market rates of return and input from its actuaries, including a review of asset class return expectations as well as long-term inflation assumptions. Projected returns are based on broad equity (large cap, small cap and international) and bond (corporate and government) indices as well as anticipation that the plans' active investment managers will generate premiums above the standard market projections. The Company used the following long-term rate of return assumptions for its pension plans:

	Long-term rates of return used for:		
	Obligation at December 31, 2003 and expense in 2004	Obligation at December 31, 2002 and expense in 2003	De and
U.S. Plan(s)	10.00%	8.50%	
U.K. Plan	7.10%	6.70%	

Lowering the expected long-term rate of return on the Company's U.S. plans' assets by 0.25% (from 8.50% to 8.25%) would have increased 2003 pension expense by approximately $0.1 million, and lowering the discount rate assumption by 0.25% (from 6.25% to 6.00%) would similarly have increased the Company's U.S. plans' 2003 pension expense by approximately $0.1 million. Lowering the expected long-term rate of return on the Company's U.K. plan's assets by 0.25% (from 7.10% to 6.85%) would have increased 2003 pension expense by approximately $0.5 million, and lowering the discount rate assumption by 0.25% (from 5.70% to 5.45%) would have increased the Company's U.K. plan's 2003 pension expense by approximately $0.2 million.

Based on continued market declines and losses on the plan assets during 2002, as well as future projected asset mix, the Company reduced its assumed long-term rate of return for 2003 to 8.50% for its U.S. plans and 6.70% for its U.K. plan. The Company's future expected long-term rate of return on plan assets for its U.S. and U.K. plans at December 31, 2002 was based on an asset allocation assumption of 50% equity securities and 50% fixed income securities. However, because of market fluctuations and prior funding strategies, actual asset allocation as of December 31, 2002 was 40% equity securities, 57% fixed income securities and 3% cash for the U.S. plans and 85% equity securities, 12% fixed income securities and 3% cash for the U.K. plan.

During the second quarter of 2003, the Company transferred all of its U.S. plans' assets into the Combined Master Retirement Trust ("CMRT"). The CMRT is a collective investment trust established by Valhi to permit the collective investment by certain master trusts which fund certain employee benefits plans sponsored by Valhi and certain related companies. The CMRT held 9.0% of TIMET common stock at December 31, 2003; however, the Company's plan assets are invested only in a portion of the CMRT that does not hold TIMET common stock. At

December 31, 2003, Valhi and related entities or persons held approximately 49.8% of TIMET's outstanding common stock and approximately 40.1% of the Capital Trust's outstanding BUCS (which are convertible into TIMET common stock). Harold C. Simmons, Chairman of the Board of Directors for Valhi, is the sole trustee of the CMRT and a member of the trust investment committee for the CMRT.

The CMRT's long-term investment objective is to provide a rate of return exceeding a composite of broad market equity and fixed income indices (including the S&P 500 and certain Russell indices) utilizing both third-party investment managers as well as investments directed by Mr. Simmons. During the 16-year history of the CMRT from inception (in 1987) through December 31, 2003, the average annual rate of return earned by the CMRT, as calculated based on the average percentage change in the CMRT's net asset value per CMRT unit for each applicable year, was 12.7%. The CMRT earned an annual return of 38.4% in 2003, and the CMRT's last 5-year and 10-year average annual returns were 10.1% and 11.1%, respectively. The CMRT's annual rates of return from inception through December 31, 2003 have varied from a high of a 42.2% return (in 1998) to a low of a 20.7% loss (in 1990). During that same period, the S&P 500's annual rates of return have varied from a high of a 34.1% return (in 1995) to a low of a 23.4% loss (in 2002). The Company believes that such historical volatility is a reasonable indicator of future levels of volatility, and a higher level of volatility is consistent with a higher level of risk in the asset mix and a higher level of expected return over the long-term.

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At December 31, 2003, the CMRT's asset mix (based on an aggregate asset value of $502 million) was 62.6% U.S. equity securities, 6.8% foreign equity securities, 23.6% debt securities and 7.0% cash and other. The CMRT`s trustee and investment committee actively manage the investments within the CMRT. Such parties have in the past, and may again in the future, periodically change the relative asset mix based upon, among other things, advice they receive from third-party advisors and their expectation as to what asset mix will generate the greatest overall return. Based on the above, the Company increased its long-term rate of return assumption to 10.0% for December 31, 2003 pension obligations and for 2004 pension expense for its U.S. plan.

Based on various factors, including improved economic and market conditions, gains on the plan assets during 2003 and projected asset mix, the Company increased its assumed long-term rate of return for December 31, 2003 pension obligations and for 2004 pension expense to 7.10% for its U.K. plan. Because of market fluctuations and prior funding strategies, actual asset allocation as of December 31, 2003 was 92% equity securities and 8% fixed income securities for the U.K. plan. During 2003, the trustees for the U.K. plan selected a new investment advisor (effective in 2004) for the U.K. plan and modified its asset allocation goals. As such, the Company's future expected long-term rate of return on plan assets for its U.K. plan is based on an asset allocation assumption of 80% equity securities and 20% fixed income securities by the end of 2005 and 60% equity securities and 40% fixed income securities by the end of 2007. The Company believes that the plans' long-term asset allocation on average will approximate the ultimate assumed 60/40 allocation, as all current contributions to the plan are invested wholly in fixed income securities in order to gradually effect the shift.

Although the expected rate of return is a long-term measure, the Company will continue to evaluate its expected rate of return, at least annually, and will adjust it as considered necessary.

Among other things, the Company bases its determination of pension expense for all plans on the fair value of plan assets. The expected return on the fair value of the plan assets, determined based on the expected long-term rate of return, is a component of pension expense. This methodology further recognizes actual investment gains or losses (i.e., the difference between the expected and actual returns based on the market value of assets) in pension expense through amortization in future periods based upon the expected average remaining service life of the plan participants. Unrealized gains or losses may impact future periods to the extent the accumulated gains or losses are outside the "corridor" as defined by SFAS No. 87.

Based on an expected rate of return on plan assets of 10.00%, a discount rate of 6.00% and various other assumptions, the Company estimates that its U.S. plan will have pension expense of approximately $0.3 million in 2004 and pension income of approximately $0.3 million in 2005 and $0.6 million in 2006. A 0.25% increase (decrease) in the discount rate would decrease (increase) projected pension expense by approximately $0.1 million in 2004 and increase (decease) projected pension income by approximately $0.1 million in 2005 and 2006. A 0.5% increase (decrease) in the long-term rate of return would decrease (increase) projected pension expense by approximately $0.3 million in 2004 and increase (decrease) projected pension income by approximately $0.3 million in 2005 and approximately $0.4 million in 2006.

Based on an expected rate of return on plan assets of 7.10%, a discount rate of 5.50% and various other assumptions (including an exchange rate of $1.75/(pound)1.00), the Company estimates that pension expense for its U.K. plan will approximate $7.5 million in 2004, $6.9 million in 2005 and $6.4 million in 2006. A 0.25% increase (decrease) in the discount rate would decrease (increase) projected pension expense by approximately $0.8 million in 2004 and $0.7 million in 2005 and 2006. A 0.25% increase (decrease) in the long-term rate of return would decrease (increase) projected pension expense by approximately $0.2 million in 2004, $0.3 million in 2005 and $0.4 million in 2006.

Actual future pension expense will depend on actual future investment performance, changes in future discount rates and various other factors related to the populations participating in the Company's pension plans.

The Company made cash contributions of approximately $4.4 million in 2003, $1.2 million in 2002 and $2.7 million in 2001 to the U.S. plans and cash contributions of approximately $7.3 million in 2003, $6.1 million in 2002 and $3.6 million in 2001 to the U.K. plan. Based upon the current underfunded status of the plans and the actuarial assumptions being used for 2004, the Company believes that it will be required to make the following cash contributions (exclusive of any required employee contributions) over the next five years:

	Projected cash contribu	
	U.S. Plan	U.K.Plan
		(In millions)
Year ending December 31,		
2004	$ 4.1	$ 7.4
2005	$ 3.2	$ 7.7
2006	$ 1.8	$ 7.9
2007	$ 0.6	$ 8.2

2008	$ 0.1	$ 8.4

The value of the plans' assets has fluctuated dramatically over the past three years based mainly on performance of the plans' equity securities. The U.S. plans' assets were $60.7 million, $48.2 million and $56.5 million at December 31, 2003, 2002 and 2001, respectively, and the U.K. plan's assets were $97.8 million, $69.8 million and $79.0 million at December 31, 2003, 2002 and 2001, respectively.

The combination of actual investment returns and changing discount rates has a significant effect on the Company's funded plan status (plan assets compared to projected benefit obligations). In 2003, the effect of positive investment returns was only partially offset by the decline in the discount rate, thereby reducing the underfunded status of the U.S. plan to $10.1 million at December 31, 2003. In 2003, the effect of positive investment returns in the U.K. plan was more than offset by the decline in the discount rate and the effect of the weakening dollar compared to the British pound sterling, thereby increasing the underfunded status of the U.K. plan to $53.6 million at December 31, 2003. The U.S. and U.K. plans were underfunded by $21.3 million and $46.7 million, respectively, at December 31, 2002. Based upon the change in the funded status of the plans during 2003, the Company was required to record a net additional minimum pension liability credit (net of tax) to equity of $1.1 million, reflecting additional comprehensive income of $8.4 million for the U.S. plan and additional comprehensive loss of $7.3 million related to the U.K. plan.

Postretirement benefit plans other than pensions. The Company provides limited postretirement healthcare and life insurance ("OPEB") benefits to a portion of its U.S. employees upon retirement. The Company funds such OPEB benefits as they are incurred, net of any retiree contributions. The Company paid OPEB benefits, net of retiree contributions, in the amount of $3.1 million, $4.6 million and $4.0 million during 2003, 2002 and 2001, respectively.

The Company recorded consolidated OPEB expense of $2.7 million, $2.9 million and $1.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. OPEB expense for these periods was calculated based upon a number of actuarial assumptions, most significant of which are the discount rate and the expected long-term health care trend rate.

The discount rate the Company utilizes for determining OPEB expense and OPEB obligations is the same as that used for the Company's U.S. pension plans. Lowering the discount rate assumption by 0.25% (from 6.25% to 6.00%) would have increased the Company's 2003 OPEB expense by less than $0.1 million.

The Company estimates the expected long-term health care trend rate based upon input from specialists in this area, as provided by the Company's actuaries. In estimating the health care trend rate, the Company considers industry trends, the Company's actual healthcare cost experience and the Company's future benefit structure. For 2003, the Company used a beginning health care trend rate of 11.35%, which is projected to reduce to an ultimate rate of 4.25% in 2010. If the health care trend rate changed by 1.00% for each year, OPEB expense would have increased/decreased by approximately $0.3 million in 2003.

For 2004, the Company is using a beginning health care trend rate of 10.35%, which is projected to reduce to an ultimate rate of 4.00% in 2010.

Based on a discount rate of 6.00%, a health care trend rate as discussed above and various other assumptions, the Company estimates that OPEB expense will approximate $2.6 million in 2004, $2.4 million in 2005 and $2.3 million in 2006. A 0.25% increase (decrease) in the discount rate would decrease (increase) projected OPEB expense by less than $0.1 million in 2004, 2005 and 2006. A 1.0% increase (decrease) in the health care trend rate for each year would increase (decrease) the projected service and interest cost components of OPEB expense by approximately $0.2 million in 2004, 2005 and 2006.

Environmental matters. See "Business - Regulatory and environmental matters" in Item 1 and Note 19 to the Consolidated Financial Statements for a discussion of environmental matters.

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 restructure indebtedness, repurchase shares of common stock, purchase BUCS, 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 Harold C. 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 Corporation, 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.

As of March 2, 2004, the Company had acquired 1,140,900 shares of CompX International, Inc. ("CompX") Class A common stock (the "Class A Shares," representing approximately 22.3% of the outstanding Class A Shares) for $11.1 million in open market or privately-negotiated transactions with unaffiliated parties. Persons or entities related to Harold C. Simmons other than TIMET hold an additional 476,300 of the Class A Shares and 100% of the 10,000,000 outstanding shares of CompX Class B common stock (the "Class B Shares"). As reported in the Schedule 13D filed with the SEC on March 2, 2004, depending upon the Company's evaluation of the business and prospects of CompX, and upon future developments (including, but not limited to, performance of the Class A Shares in the market, availability of funds, alternative uses of funds, and money, stock market and general economic conditions), TIMET may from time to time purchase, dispose of, or cease buying or selling Class A Shares. The Class A Shares held by TIMET, as of March 2, 2004, represented approximately 7.5% of the aggregate number of outstanding Class A Shares and Class B Shares.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments, and select from a range of possible estimates and assumptions, that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. On an on-going basis, the Company evaluates its estimates, including those related to allowances for uncollectible accounts receivable, inventory allowances, asset lives, impairments of investments in preferred securities and investments accounted for by the equity method, the recoverability of other long-lived assets, including property and equipment, goodwill and other intangible assets, pension and other post-retirement benefit obligations and the related underlying actuarial assumptions, the realization of deferred income tax assets, and accruals for asset retirement obligations, environmental remediation, litigation, income tax and other contingencies. The Company bases its estimates and judgments, to varying degrees, on historical experience, advice of external specialists and various other factors it believes to be prudent under the circumstances. Actual results may differ from previously estimated amounts and such estimates, assumptions and judgments are regularly subject to revision.

The policies and estimates discussed below are considered by management to be critical to an understanding of the Company's financial statements because their application requires the most significant judgments from management in estimating matters for financial reporting that are inherently uncertain. See Notes to the Consolidated Financial Statements for additional information on these policies and estimates, as well as discussion of additional accounting policies and estimates.

Inventory allowances. The Company values approximately one-half of its inventory using the LIFO method with the remainder stated primarily using an average cost method. The Company periodically reviews its inventory for estimated obsolescence or unmarketable inventory and records any write-down equal to the difference between the cost of inventory and its estimated net realizable value based upon assumptions about alternative uses, market conditions and other factors.

Impairment of long-lived assets. Generally, when events or changes in circumstances indicate that the carrying amount of long-lived assets, including property and equipment, goodwill and other intangible assets, may not be recoverable, the Company undertakes an evaluation of the assets or asset group. If this evaluation indicates that the carrying amount of the asset or asset group is not recoverable, the amount of the impairment would typically be calculated using discounted expected future cash flows or appraised values. All relevant factors are considered in determining whether an impairment exists. In 2003, no such events or circumstances indicated the need to perform such evaluation.

During the fourth quarter of 2002, the Company completed an entity-wide impairment assessment in response to continued poor conditions in the commercial aerospace market. In order to complete this assessment, the Company identified its lowest level of identifiable cash flows, resulting in the identification of four asset groups - U.S., U.K., France and Italy. Of these asset groups, Italy is not reliant on sales into the commercial aerospace market and therefore an analysis of the potential impairment of this asset group was not considered necessary. Only the U.S., U.K. and France asset groups were evaluated, and the result of this assessment led the Company to conclude that there was no impairment related to the long-lived assets in these three asset groups tested, as the undiscounted cash flows exceeded the net carrying value of the applicable net assets in each of the three asset groups. Although management utilizes certain external information sources such as The Airline Monitor as the basis for aerospace sales volume projections, significant management judgment is required in estimating other factors that are material to future cash flows including, but not limited to, customer demand, the Company's market position, selling prices, competitive forces and manufacturing costs. Future cash flows are inherently uncertain, and there can be no assurance that the Company will achieve the future cash flows reflected in its projections.

The Company also completed an impairment assessment of its goodwill and intangible assets upon its adoption of SFAS No. 142 in 2002, as discussed in "Results of Operations - Cumulative effect of change in accounting principle" and Note 7 to the Consolidated Financial Statements. Management judgment was required in order to identify the Company's reporting units, determine the carrying amount of each reporting unit by assigning its assets and liabilities, including existing goodwill and intangible assets, to those reporting units as of January 1, 2002, and determine the implied fair value of its goodwill. This evaluation considered, among other things, a combination of fair value indicators including quoted market prices, prices of comparable businesses and discounted projected cash flows based upon Company forecasts, which considered information obtained from review of The Airline Monitor and from discussions with the Company's customers throughout the first half of 2002, both of which assisted the Company in better estimating the impact of the September 11, 2001 terrorist attacks on its business. As a result of this information, step one of

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the impairment evaluation completed in the second quarter of 2002 indicated that the Company's recorded goodwill might be impaired, which obligated the Company to complete the second step of the impairment test. Based on the results of the second step of the impairment test completed during the third quarter of 2002, which indicated the Company's goodwill was impaired, the Company recorded a non-cash goodwill impairment charge of $44.3 million, representing the entire balance of the Company's recorded goodwill at January 1, 2002.

The Company also reviewed its goodwill for impairment as of December 31, 2001. However, such analysis was based upon prior GAAP, under which goodwill was deemed impaired only if the applicable estimated future undiscounted cash flows were insufficient to recover the carrying value of the goodwill and other long-lived assets. Based upon the information then available to the Company, including information from The Airline Monitor and the Company's customers, the Company concluded its goodwill was not impaired as of December 31, 2001. The Company had more information to help it estimate the impact of the September 11, 2001 terrorist attacks on its business when it evaluated its goodwill for impairment upon adoption of SFAS No. 142 than when it evaluated its goodwill for impairment as of December 31, 2001 under prior GAAP. Therefore, the goodwill impairment recognized in 2002 resulted in part from these revised forecasts and in part from a change in methodology of assessing impairment upon the adoption of SFAS No. 142.

Valuation and impairment of securities. In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company evaluates its investments in debt and equity securities whenever events or conditions occur to indicate that the fair value of such investments has declined below their carrying amounts. If the decline in fair value is judged to be other than temporary, the carrying amount of the security is written down to fair value.

In response to certain events previously described in this MD&A, the Company undertook assessments of its investment in SMC in the fourth quarter of 2001 and the first quarter of 2002. Those assessments indicated that it was unlikely that the Company would recover its then existing carrying amount of the SMC securities in accordance with the securities' contractual terms and that an other than temporary decline in the fair value of its investment had occurred. Accordingly, the Company recorded impairment charges of $61.5 million in the fourth quarter of 2001 and $27.5 million in the first quarter of 2002. The securities were not publicly traded and, accordingly, quoted market prices were unavailable. The estimate of fair value required significant judgment and considered a number of factors including, but not limited to, the financial health and prospects of SMC and market yields of comparable securities.

Deferred income tax valuation allowances. Under SFAS No. 109, Accounting for Income Taxes, and related guidance, the Company is required to record a valuation allowance if realization of deferred tax assets is not "more-likely-than-not." Substantial weight must be given to recent historical results and near-term projections, and management must assess the availability of tax planning strategies that might impact either the need for, or amount of, any valuation allowance.

As more fully discussed in "Results of Operations - Income taxes," the Company has concluded that realization of its previously recorded U.S. and U.K. deferred tax assets does not meet the "more-likely-than-not" recognition criteria. Additionally, the Company has determined that it will not recognize deferred tax benefits related to future U.S. or U.K. losses or future increases in the U.S. or U.K. minimum pension liabilities continuing for an uncertain period of time. Accordingly, the Company increased its deferred tax valuation allowance in 2001 through 2003 to offset deferred tax benefits related to net U.S. deferred tax assets and in 2002 and 2003 to offset deferred tax benefits related to net U.K. deferred tax assets.

Regular reviews of the "more-likely-than-not" criteria and availability of tax planning strategies will continue to require significant management judgment.

Pension and OPEB expenses and obligations. The Company's pension and OPEB expenses and obligations are calculated based on several estimates, including discount rates, expected rates of returns on plan assets and expected health care trend rates. The Company reviews these rates annually with the assistance of its actuaries. See further discussion of the factors considered and potential effect of these estimates in "Liquidity and Capital Resources - Defined benefit pension plans" and "Liquidity and Capital Resources - Postretirement benefit plans other than pensions."

Revenue recognition. Sales revenue is generally recognized when the Company has certified that its product meets the related customer specifications, the product has been shipped, and title and substantially all the risks and rewards of ownership have passed to the customer. Payments received from customers in advance of these criteria being met are recorded as customer advances until earned. Amounts charged to customers for shipping and handling are included in net sales. Sales revenue is stated net of price and early payment discounts.

Other loss contingencies. Accruals for estimated loss contingencies, including, but not limited to, product-related liabilities, environmental remediation and litigation, are recorded when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure is made when there is a reasonable possibility that a loss may have been incurred. Contingent liabilities are often resolved over long time periods. Estimating probable losses often requires analysis of various projections that are dependent upon the future outcome of multiple factors, including costs, the findings of investigations and actions by the Company and third parties.

ITEM 15: EXHIBITS

(c) Exhibits:

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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.

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) 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
(Registrant)

By /s/ J. Landis Martin

J. Landis Martin, June 4, 2004
Chairman of the Board, President
and Chief Executive Officer