RTI INTERNATIONAL METALS INC
Form 10-K405
March 14, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K

(MARK ONE)

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [fee required] for the fiscal year ended December 31, 2001 or

[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [no fee required] for the transition period from to

COMMISSION FILE NUMBER 001-14437

RTI INTERNATIONAL METALS, INC.
(Exact name of registrant as specified in its charter)

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|---|---|
| OHIO<br>(State of Incorporation) | 52-2115953<br>(I.R.S. Employer Identification No.) |
| 1000 WARREN AVENUE, NILES, OHIO<br>(Address of principal executive offices) | 44446<br>(Zip code) |

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 330-544-7700

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common Stock, Par Value $0.01 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 (or for such shorter period that the registrant was required to file such reports), 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]

Aggregate market value of the voting stock held by non-affiliates of the registrant as of March 1, 2002: $108,818,572. The amount shown is based on the closing price of the registrant's common stock on the New York Stock Exchange on that date. Shares of common stock known by the registrant to be beneficially owned by officers or directors of the registrant or persons who have filed a report on Schedule 13D or 13G are not included in the computation. The registrant, however, has made no determination that such persons are "affiliates" within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934.

Number of shares of common stock outstanding at March 1, 2002: 20,807,772

DOCUMENTS INCORPORATED BY REFERENCE:

Selected Portions of the 2002 Proxy Statement-Part III of this Report.

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RTI INTERNATIONAL METALS, INC.
AND CONSOLIDATED SUBSIDIARIES

As used in this report, the terms "RTI", "Company", and "Registrant" mean RTI International Metals, Inc., its predecessors and consolidated subsidiaries, taken as a whole, unless the context indicates otherwise.

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PART I

ITEM 1. BUSINESS

THE COMPANY

RTI International Metals, Inc., is a leading U.S. producer of titanium mill and fabricated-metal products for the global market. The Company conducts business in two segments: the Titanium Group and the Fabrication and Distribution Group. The Titanium Group's mill products are processed by RTI's customers to provide products for use in the aerospace industry and industrial markets. The Fabrication and Distribution Group's products are used primarily in the aerospace, oil and gas, geothermal energy production and chemical process industries, and a number of other industrial applications. The Fabrication and Distribution Group also provides fabrication, extrusion and conversion services to titanium and other specialty metals producers, and operates a number of distribution centers specializing in high temperature and corrosion resistant alloys including titanium, stainless steel and nickel-based products.

On September 30, 1998, the shareholders of the Company's now wholly-owned subsidiary RMI Titanium Company ("RMI") approved a proposal to reorganize into a holding company structure (the "1998 Reorganization"). Pursuant to this reorganization, the Company became the parent company of RMI, and shares of RMI Common Stock were automatically exchanged on a one-for-one (1:1) basis for shares of RTI. Shares of RTI began trading on the New York Stock Exchange on October 1, 1998.

The Company is a successor to entities that have been operating in the titanium industry since 1951. In 1990, USX Corporation ("USX") and Quantum Chemical Corporation ("Quantum") transferred their entire ownership interest in RMI's immediate predecessor, RMI Company, an Ohio general partnership, to the Company in exchange for shares of the Company's common stock (the "1990 Reorganization"). Quantum sold its shares of common stock to the public while USX retained ownership of its shares.

In November, 1996, USX completed a public offering of its 6 3/4% notes (the "Notes") which were exchangeable in February, 2000, for 5,483,600 shares of RTI Common Stock owned by USX. On February 1, 2000, the trustee under the note indenture delivered 5,483,000 of RTI common stock to the note holders in exchange for the Notes terminating USX's ownership interest in RTI.

On July 3, 1997, the Company acquired 90% of the common stock of Galt Alloys, Inc., ("Galt") a manufacturer of ferro titanium and a producer and worldwide distributor of specialty alloys to ferrous and nonferrous customers. Subsequent to the 90% acquisition of Galt, new facilities were constructed at Galt that provide low cost feedstock to the Company's Niles, Ohio facility. Galt conducts business as part of the Titanium Group.

On October 1, 1998, RTI acquired all of the capital stock of New Century Metals, Inc. ("NCM") of Solon, Ohio. NCM was a manufacturer and distributor of high temperature and corrosion resistant alloys including titanium, stainless steel and nickel, in long bar form, for use in the aerospace, chemical processing, oil exploration and production, and power generation industries. In addition to manufacturing facilities acquired as part of the NCM capital stock acquisition, the Company built and installed a 5,000 ton press in leased space in Houston, Texas. This project was completed in the fall of 2001. The Houston facility operates as part of the Fabrication unit of the Fabrication and Distribution Group; and effective April 1, 2001, was formed as RTI Fabrications, LP. NCM operated four distribution centers which now operate as part of the Distribution unit of the Fabrication and Distribution Group.

Also on October 1, 1998, RTI acquired the assets of Weld-Tech Engineering, L.P. ("Weld-Tech"). Weld-Tech, based in Houston, Texas operates as part of the Energy unit of the Fabrication and Distribution Group. Weld-Tech provides engineered and fabricated products, systems and services for the oil and gas industry, including weld design, fabrication and repair, as well as materials engineering and testing services.

On December 14, 2000, the Company purchased the remaining 60% of the outstanding shares of Reamet, S.A. ("Reamet"). Since 1992, the Company had owned 40% of the outstanding shares of Reamet. Reamet, located in Villette, France, is a premier distributor of titanium products to the French market, serving aerospace, military and industrial customers. Its largest customer is Aerospatiale, French partner to the Airbus consortium,



with which it has a contract to supply titanium, principally in the form of cut plate. Reamet, a wholly owned subsidiary of RTI France, S.A.S., now operates as part of the Fabrication and Distribution Group.

## INDUSTRY OVERVIEW

Titanium is one of the newest specialty metals. Its physical characteristics include high strength-to-weight ratio, high temperature performance and superior corrosion and erosion resistance. The first major commercial application of titanium occurred in the early 1950's when it was used in components in aircraft gas turbine engines. Subsequent applications were developed to use the material in other aerospace component parts and in airframe construction. Historically, a majority of the U.S. titanium industry's output has been used in aerospace applications. However, significant quantities of the industry's output are currently used in nonaerospace applications, such as the global chemical processing industry, oil and gas exploration and production, geothermal energy production, consumer products and armor plate for military applications.

The terrorists attacks of September 11, 2001 and their effect on the general economy will have a significant influence on overall business conditions for several years.

### COMMERCIAL AEROSPACE AND DEFENSE

Aerospace demand originates from two aerospace sectors: commercial and defense. The largest impact of September 11 is likely to be in commercial aerospace markets, which provide approximately 40% of RTI's sales. Commercial aerospace markets have been the dominant source of titanium demand since the late 1980's. Airline operators experienced a dramatic drop in travel immediately following September 11, which is expected to result in significant losses within their industry causing a reduced demand for new aircraft. The primary builders of large commercial aircraft, Boeing and Airbus, have adjusted their build rates beginning in 2002 downward to reflect the expected change in demand. The most current information indicates a drop in commercial aircraft production in 2002 of about 30-40% at Boeing and 20-25% at Airbus, or a total combined reduction of approximately 30-35%. Neither aircraft producer has, as yet, issued firm build schedules beyond 2002, and all build schedules are subject to change, and are highly dependent on airline passenger travel and airline profitability.

Therefore, the exact magnitude of the downturn on commercial aerospace remains uncertain for 2002.

In spite of this, the commercial aerospace sector is expected to continue to dominate the long-term demand for titanium as a result of the expected long-term growth of worldwide traffic and the need to repair and replace aging commercial airline fleets over the next 20 years.

Defense markets represent approximately 30% of RTI's revenues. In 2001, it is estimated that global demand from the commercial aerospace market approximated 40% of total industry mill product shipments. The importance of the military demand is expected to grow in 2002 and beyond due to increased defense budgets and increased hardware purchases by the U.S. Government and European nations, partially brought about by the events of September 11. It is estimated that global military demand for titanium will increase, but it is not expected to offset the total decline in the market caused by the drop in the commercial aerospace sector. In 2001, it is estimated that global demand from military markets for titanium approximated 15% of the total mill product shipments.

Historically, the cyclical nature of the aerospace industry has been the principal cause of the fluctuations in performance of companies engaged in the titanium industry. Over the past 20 years, U.S. titanium mill product shipments registered cyclical peaks of 65 million pounds in 1997 to a low of 32 million pounds in 1983. The U.S. titanium industry's reported shipments increased to 52 million in 2000 from 48 million pounds in 1999 . The estimate for 2001 is approximately 53-55 million pounds, although published figures have not been issued at the time of printing. If commercial airline passenger travel fails to return to pre-September 11 levels, commercial airlines will continue to cancel or delay aircraft orders, resulting in further pressure on titanium demand and pricing.

INDUSTRIAL AND CONSUMER

The Company manufactures and distributes high temperature and corrosion resistant alloys such as titanium, stainless steel and nickel to the chemical processing, oil exploration and production, power generation, and sports and recreation industries. The company also provides engineering and fabrication services to the oil and gas



industry, including weld design, fabrication and repair, as well as materials engineering and testing services. It is estimated that these market segments total about 45% of worldwide demand for titanium.

The demand for oil and gas has increased deepwater exploration and production in 2001, and this resulted in much higher demand for the Company's products used in oil and gas exploration. At the end of 2001, the Company's energy related business continued to expand, and this is expected to be ongoing due to deepwater exploration and production which is forecast to grow over the next several years.

PRODUCTS AND MARKETS

The Company's products are produced and marketed by two operating segments: (1) the Titanium Group and (2) the Fabrication and Distribution Group.

The Titanium Group's products consist primarily of titanium mill products and specialty alloys for use in the ferrous and nonferrous metals industries. Titanium mill products consist of basic mill shapes such as ingot, slab, bloom, billet, bar, sheet, plate, strip and welded tube. These products are sold to a customer base consisting primarily of manufacturing and fabrication companies in the aerospace and nonaerospace markets such as prime aircraft manufacturers and subcontractors including metal fabricators, forge shops, machine shops and metal distribution companies. Titanium mill products are semi-finished goods and most often represent the raw or starting material for these customers, who then form, fabricate, machine or further process them into finished or semi-finished parts. This Group also manufactures titanium powders and sells specialty alloys used by the ferrous and nonferrous metal industries.

The Fabrication and Distribution Group consists primarily of businesses engaged in the fabrication and distribution of titanium and other ferrous and nonferrous metals such as stainless steel and nickel-based alloys. Fabricated products include pipe, engineered tubular products, hot-formed and superplastically formed parts, cut shapes, and various specialized cut-to-size programs. The Fabrication unit extrudes numerous shapes and sizes of specialty metals for use in aerospace and nonaerospace applications. The Energy unit fabricates components such as connectors, subsea manifolds and riser systems which are used in offshore oil and gas production. The Energy unit also designs and markets offshore riser systems, stress joints and drill pipe. The Distribution unit operates a number of domestic metal distribution facilities, which stock and deliver cut-to-size titanium products, as well as other nonferrous and ferrous metals. The RTI Europe business unit operates distribution facilities in Europe which stock and deliver cut to size titanium products and other specialty metals.

The amount of sales and the percentage of the Company's consolidated sales represented by each Group during each of the years beginning in 1999 were as follows (dollars in millions):

| | 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % |
| Titanium Group | $126.9 | 44% | $124.2 | 50% | $125.1 | 51% |
| Fabrication and Distribution Group | 144.9 | 51 | 108.4 | 43 | 100.2 | 41 |
| Other (1) | 14.1 | 5 | 16.8 | 7 | 18.0 | 8 |
| Total | $285.9 | 100% | $249.4 | 100% | $243.3 | 100% |

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(1) Includes United States Department of Energy ("DOE") remediation and restoration contract.

Operating profit (loss) and the percentage of consolidated operating profit contributed by each Group during each of the years beginning in 1999 was as follows (dollars in millions):

| | 2001 | | 2000 | | 1999 | |
|---|---|---|---|---|---|---|
| | $ | % | $ | % | $ | % |
| Titanium Group | $4.0 | 41% | $5.6 | 84% | $9.2 | 192% |
| Fabrication and Distribution Group | 4.7 | 48% | -- | -- | (6.4) | (134) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other (1) | 1.1 | 11 | 1.1 | 16 | 2.0 | 42 |
| Total | $9.8 | 100% | $6.7 | 100% | $4.8 | 100% |

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(1) Includes DOE remediation and restoration contract.



The amount of the Company's consolidated assets identified with each Group for each of the years ended December 31 were as follows (dollars in millions):

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Titanium Group | $218.0 | $225.9 | $256.3 |
| Fabrication and Distribution Group | 157.2 | 149.5 | 134.7 |
| General Corporate (1) | 12.6 | 8.4 | 9.2 |
| Total | $387.8 | $383.8 | $400.2 |

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(1) Consists primarily of unallocated cash, short-term investments and deferred tax assets.

TITANIUM GROUP

The Titanium Group produces a full range of titanium mill products which are used in both the aerospace and nonaerospace markets.

Commercial Aerospace. Approximately 55% of the Group's 2001 mill product sales were commercial aerospace-related compared with approximately 58% in 2000 and 1999. The Group's products are certified and approved for use by all major domestic and most international manufacturers of commercial aircraft and jet engines. Products such as sheet, plate, strip, bar, billet and ingot, are fabricated into parts and are utilized in aircraft structural sections such as landing gear parts, fasteners, tail sections, wing support and carry-through structures and various engine components including rotor blades, vanes, discs, rings and engine cases.

According to The Airline Monitor, at December 31, 2001, the leading manufacturers of commercial aircraft, Boeing Company and Airbus Industrie, reported an aggregate of 2,919 aircraft under firm order which represents a 9.5% decrease when compared to the backlog at December 31, 2000 of 3,224 aircraft. The backlog for wide body aircraft, such as the Airbus A300, A310, A330, A340 and A380 and the Boeing 767 and 777, which typically consume more titanium per aircraft than their narrow body counterparts, at December 31, 2001, was 739 aircraft which represents a 10.0% increase when compared to the backlog of 672 aircraft at December 31, 2000.

While the total backlog has declined, it remains at a level in excess of 2,900 units which at today's production rate equates to over 4 years of production for Boeing and Airbus. There can be no assurance that it will remain at this level, but a significant production backlog is expected to be in place over the next few years. The long term outlook for this segment over the next 20 years is that approximately 18,000 new and replacement aircraft will be required to support the demand of increased passenger travel.

Defense. Approximately 25% of the Group's mill product sales were defense related, compared with approximately 25% in 2000 and 1999. The Company's products are certified and approved for use by all major and most international manufacturers of military aircraft and jet engines. The various mill products are fabricated into parts and are utilized in aircraft structural sections, wing skins, fasteners, wing carry-through structures and various engine components including rotor blades, vanes, discs, rings and engine cases, and armor for military vehicles. Product from this segment is utilized in programs such as the C-17 military transport, fighter aircraft such as the F-18, F-15, F-16, F-22, and the recently approved Joint Strike Fighter (F-35). Internationally it is used on the European fighters such as the Tornado, Mirage, Eurofighter, and the recently launched A-400 transport.

Industrial and Consumer. Principal mill products for these markets include commercially pure (unalloyed) strip, welded tube and plate used for chemical processing and pulp and paper equipment. The Group is also a supplier of commercially pure titanium plate and strip, which offers superior corrosion resistance and ductility for critical forming and metal expansion required in applications such as heat exchangers and anodes for the chlorine industry. Nonaerospace sales accounted for 20% of the Group's mill product sales in 2001, 16% in 2000 and 17% in 1999.

Other. The Company has a long-term agreement with the DOE covering the remediation and restoration of certain of the Company's closed facilities in Ashtabula, Ohio, for which the DOE is responsible as a result of work performed there by the Company for the U.S. government. The Company is serving as the prime contractor during the remediation and restoration period. Year-to-year revenues and the time of completion of the project



will depend on DOE funding. In 2001, the Company recognized $14.1 million in revenues under this program compared to $16.8 million in 2000 and $18.0 million in 1999. As the prime contractor, the Company provides management services necessary to complete assessment, clean-up and remediation activities.

FABRICATION AND DISTRIBUTION GROUP

Fabricated products include value added activity, seamless pipe, engineered tubular products and extrusions for oil and gas exploration and production and geothermal energy production industries. Fabricated products also include hot-formed and superplastically formed parts and cut shapes and extrusions for aerospace (commercial and defense) applications.

The Company owns and operates a number of distribution facilities, both foreign and domestic. These centers stock titanium as well as other nonferrous and ferrous metals to fill customer needs for smaller quantity, quick delivery orders. These centers also provide cutting and light fabrication services. In addition, three locations, one near St. Louis, Missouri, one near Birmingham, England, and one near Paris, France operate significant stocking and cut-to-size programs designed to meet the needs of commercial aerospace, defense, and industrial and consumer product customers for multi-year requirements.

The Fabrication and Distribution Group was the largest customer for RTI's Titanium Group's mill products in 2001, utilizing approximately 25% of its shipments, and this is likely to increase in the future.

In an effort to expand the fabrication and distribution business, the Company made two strategic acquisitions during the fourth quarter of 1998. On October 1, RTI acquired NCM of Solon, Ohio. NCM manufactured and distributed high temperature and corrosion resistant alloys such as titanium, stainless steel and nickel to the aerospace, chemical processing, oil exploration and production, and power generation industries. In addition to the manufacturing facilities acquired as part of the NCM capital stock acquisition, the Company built and installed a 5,000 ton press in leased space in Houston, Texas in late 2001. All manufacturing facilities operate as part of the Fabrication unit of the Fabrication and Distribution Group. NCM also operated four distribution facilities which operate as part of the Distribution unit of the Fabrication and Distribution Group. Additionally, in order to enhance and further expand its already significant efforts to develop new markets for titanium in the oil and gas exploration and production and geothermal energy production industries, RTI acquired the assets of Weld-Tech of Houston, Texas on October 1, 1998. RTI Energy Systems (Weld-Tech), operating as part of the Energy unit of the Fabrication and Distribution Group, provides engineering and fabrication services to the oil and gas industry, including weld design, fabrication and repair, as well as materials engineering and testing services. RTI increased its investment in RTI Energy Systems with the addition of a machining center. This addition expanded capabilities and provided additional fabrication services to its expanding customer base in titanium and other specialty metals, as well as various steels. RTI Energy Systems specializes in the design, engineering and marketing of offshore riser systems, connectors, stress joints and drill pipe from titanium and other metals.

The Company continues to work closely with a number of oil companies and engineering concerns to develop other titanium projects and applications in the oil and gas and geothermal energy production industries. Customer funded programs and continued research is an ongoing activity to support new growth expected in this market in years to come.

EXPORTS

The majority of the Company's exports consist of titanium mill products and extrusions used in aerospace markets. Other exports include slab, commercially pure strip, plate and welded tubing used in nonaerospace markets. The Company's export sales were 20% of sales in 2001, 23% in 2000 and 21% in 1999. Such sales were made primarily to the European market, where the Company is a leader in supplying flat-rolled titanium alloy mill products. Most of the Company's export sales are denominated in U.S. dollars, which minimizes exposure to foreign currency fluctuations.

The Company supplies flat-rolled titanium alloy mill products to the European market, through RTI Europe, the Company's network of European distribution companies, which secures contracts to furnish mill products to the major European aerospace manufacturers. In order to enhance its presence in the European market, in 1992 the Company acquired a 40% ownership interest in its French distributor, Reamet. In 2000, RTI purchased the

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remaining 60% of Reamet. In addition, the Company expanded its operations in the United Kingdom to include a distribution and service center facility in Birmingham, England. Operations at the facility commenced during the second quarter of 1995, and have exhibited steady growth since that time. In January, 1998 RTI, through its French subsidiary, Reamet, was chosen by Aerospatiale as a major supplier of the titanium flat rolled products required for its Airbus programs beginning in 1999 and extending through 2001. A new multi-year supply agreement is currently being finalized with European Aerospace and Defense

Systems ("EADS"), which owns 80% of Airbus, to cover 2002-2004 with an option for an additional two years on alloy flat rolled products. In 2001, the Company added additional distribution locations in Italy and Germany. As a result, the Company has significant export sales to customers in France, the United Kingdom, Italy, Spain, and Germany.

BACKLOG

The Company's order backlog for all market segments increased to $142.6 million as of December 31, 2001, from $132.1 million at December 31, 2000, principally due to new business from energy markets.

RAW MATERIALS

The principal raw materials used in the production of titanium mill products are titanium sponge, a porous metallic material; titanium scrap; and alloying agents. RTI acquires its raw materials from a number of domestic and foreign suppliers, under long-term contracts and other negotiated transactions. Requirements for sponge and scrap vary depending upon the volume and mix of final products. The addition of the Company's cold hearth melting facility permits the Company to consume significantly more scrap in its primary melting facility, thus reducing the need for purchased titanium sponge. Based on the current levels of customer demand, current production schedules, and the level of inventory on hand, the Company estimates its purchases of sponge and scrap will decrease during 2002.

The Company has entered into two long-term sponge supply agreements. One of the agreements is with a Japanese supplier and permits the Company to purchase up to four million pounds of sponge per year through 2005, either at market price or the price in effect under the contract plus changes in certain of the supplier's costs. In addition, this contract permits the Company to purchase up to an additional four million pounds of sponge at negotiated prices. During 2001, the Company entered into a new long-term supply agreement with a supplier from Kazakhstan. This agreement commences in 2002 and permits the Company to purchase up to eight million pounds of sponge annually for a period of five years.

In addition, the Company makes spot purchases of raw materials from other sources.

Companies in the Fabrication and Distribution group obtain the majority of their titanium mill product requirements from the Titanium Group. These transactions are priced at amounts approximating arm's length prices. Metallic requirements are generally sourced from the best available producer at competitive market prices.

The Company believes it has adequate sources of supply for titanium sponge, scrap, alloying agents and other raw materials.

COMPETITION AND OTHER MARKET FACTORS

The titanium metals industry is highly competitive on a worldwide basis. Titanium competes with other metals such as stainless steel and nickel-based high temperature and corrosion resistant alloys. A metal manufacturing company with rolling and finishing facilities could participate in the mill product segment of the titanium industry. However, entry into the titanium industry as an integrated producer would require a significant investment of capital and extensive technical expertise.

The aerospace consumers of titanium products tend to be highly concentrated. The Boeing Company and Airbus, through direct purchase and their families of subcontractors, consume most of the aerospace products. Shipments of aerospace products represented approximately 80% of RMI's mill product shipments in 2001, 30% of which were used in defense applications. Producers of titanium mill products are located primarily in the U.S., Japan, Russia, Europe and China.



Imports of titanium mill products from countries that receive the normal trade relations ("NTR") tariff rate are subject to a 15% tariff. The tariff rate applicable to imports from countries that do not receive NTR treatment is 45%. However, under the Trade Act of 1974, as amended, certain countries may be designated for tariff preferences under the Generalized System of Preferences program ("GSP"). The U.S. Trade Representative ("USTR") administers the GSP program and makes recommendations to the President through an interagency committee that conducts annual reviews of petitions by interested parties, and by self initiated actions, to add or remove GSP eligibility for individual products or countries. Effective October 18, 1993, the USTR extended the benefits of GSP treatment to Russia. Consequently, certain wrought titanium products from Russia, including sheet and plate, were granted duty free access into the U.S. markets, up to a Competitive Needs Limit ("CNL"), which effectively restricts the volume of imports of these products. Unwrought products from Russia, such as sponge and ingot, were not granted GSP status.

In the fall of 1997, VSMPO, an integrated Russian titanium manufacturer, petitioned the USTR for a waiver of the CNL on the wrought products, and also filed a petition seeking to have unwrought products granted GSP status. The CNL was actually exceeded by this producer in 1997, 1998, 1999, 2000, and 2001. In July of 1998, the USTR granted the waiver of the CNL on the wrought products, allowing unlimited imports of Russian mill products into the domestic market. The petition on the unwrought products remains in a "pending" status.

On June 13, 2001, Titanium Metals Corporation ("Timet"), an integrated domestic producer of titanium, petitioned the USTR for removal of GSP status for the Russian wrought products and/or a reinstatement of the CNL. RTI is actively supporting this petition. In addition, a sponge manufacturer from the Commonwealth of Independent States also filed a petition, seeking GSP status of unwrought titanium products from Kazakhstan. RTI likewise supports the granting of this petition. Both of these petitions are filed and awaiting review by the GSP committee. The Company believes that the increase in duty-free imports of titanium mill products from Russia has increased competition in the domestic titanium industry, and without the benefit of similar treatment for needed imported sponge, has negatively impacted the domestic producers.

Competition in the Fabrication and Distribution Group is primarily on the basis of price, quality, timely delivery and customer service. RTI Energy Systems competes with a number of other fabricators, some of which are significantly larger, in the offshore oil and gas exploration and production industry. The Company believes the businesses that are part of the Fabrication and Distribution group are well positioned to remain competitive and grow in size due to the range of goods and services offered and the increasing synergy with RMI Titanium for product and technical support.

MARKETING AND DISTRIBUTION

RTI markets its titanium mill products and related products and services worldwide. The majority of the Company's sales are made through its own sales force and lesser amounts through independent distributors. RTI's domestic sales force has offices in Niles, Ohio; Houston, Texas; Brea, California; Washington, Missouri; and Salt Lake City, Utah. Technical marketing personnel are available to service these offices and to assist in new product applications and development. In addition, the Company's Customer Technical Service and Research and Development departments, both located in Niles, Ohio, provide extensive customer support. Sales of products and services provided by companies in the Fabrication and Distribution Group are made by personnel at each plant location. Fabrication and Distribution Group locations include: Solon, Ohio; Los Angeles, California; Houston, Texas; Sullivan and Washington, Missouri; Birmingham, England; Villette, France; Dusseldorf, Germany; and Milan, Italy. Major U.S. distribution centers are located in California, Texas, Missouri, and Connecticut.

RESEARCH, TECHNICAL AND PRODUCT DEVELOPMENT

The Company conducts research, technical and product development activities at its facilities in Niles, Ohio. The principal goals of the Company's research program are maintaining technical expertise in the production of titanium mill and fabricated products and providing technical support in the development of new markets and products. Research, technical and product development costs totaled $1.7 million in 2001, $1.3 million in 2000 and $4.0 million in 1999. The decrease in research, technical and product development expenses from 1999 to 2000 and 2001, reflects a change in classification of expenses reported as research, technical and product



development in 1999 to selling, general and administrative in 2000 and 2001, as the energy business evolved into a stand alone commercial enterprise.

PATENTS AND TRADEMARKS

The Company possesses a substantial body of technical know-how and trade secrets and owns a number of U.S. patents applicable primarily to product formulations and uses. The Company considers its know-how, trade secrets and patents important to conduct its business, although no individual item is considered to be material to the Company's current business.

EMPLOYEES

As of December 31, 2001, the Company and its subsidiaries employed 1,170 persons, 488 of whom were classified as administrative and sales personnel. 835 of the total number of employees were in the Titanium Group, while 335 were employed in the Fabrication and Distribution Group.

The United Steelworkers of America represents 406 of the hourly clerical and technical employees at RMI's plant in Niles, Ohio and 17 hourly employees at Earthline Technologies in Ashtabula, Ohio. No other Company employees are represented by a union.

In 1999 the Company and the United Steel Workers of America, after a strike, agreed to a forty-two month contract which expires in October, 2003. The contract for the hourly employees at the facilities in Ashtabula expires in January, 2006.

EXECUTIVE OFFICERS OF THE REGISTRANT

Listed below are the executive officers of the Company, together with their ages and titles as of December 31, 2001.

| NAME | AGE | TITLE |
| --- | --- | --- |

| | | |
|---|---|---|
| Timothy G. Rupert........................ | 55 | President and Chief Executive Officer |
| John H. Odle............................. | 59 | Executive Vice President |
| Lawrence W. Jacobs....................... | 46 | Vice President, Chief Financial Officer, and Treasurer |
| Dawne S. Hickton......................... | 44 | Vice President and General Counsel |
| Gordon L. Berkstresser................... | 54 | Vice President and Controller |

Mr. Rupert was elected President and Chief Executive Officer in July 1999 and had served as Executive Vice President and Chief Financial Officer since June of 1996 and Vice President and Chief Financial Officer since September 1991. He is also a Director of the Company.

Mr. Odle was elected Executive Vice President in June 1996. He previously was Senior Vice President-Commercial of RMI and its predecessor since 1989 and served as Vice President-Commercial from 1978 until 1989. Prior to that, Mr. Odle served as General Manager-Sales. He is also a Director of the Company.

Mr. Jacobs was elected Vice President, Chief Financial Officer, and Treasurer in July 1999, having served as Vice President and Treasurer since March 1998. Mr. Jacobs had been Senior Vice President of PNC Bank, N.A. in Pittsburgh, Pennsylvania, where he was the segment executive for the bank's metal industry clients.

Mrs. Hickton was elected Vice President and General Counsel in June 1997. Mrs. Hickton had been an Assistant Professor of Law at The University of Pittsburgh School of Law and was associated with the Pittsburgh law firm of Burns, White and Hickton.

Mr. Berkstresser was elected Vice President and Controller in October 1999. Mr. Berkstresser joined RTI in February 1999 as Group Controller of the Fabrication and Distribution Group. Prior to that, he was Senior Vice President Finance and Administration of ERI Services Inc., a wholly owned subsidiary of Equitable Resources Inc. Formerly, he worked for Aristech Chemical Corporation, Pittsburgh, Pennsylvania. Mr. Berkstresser is a Certified Public Accountant.

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ITEM 2. PROPERTIES

MANUFACTURING FACILITIES

The Company has approximately 1.2 million square feet of manufacturing facilities, exclusive of office space. The Company's principal manufacturing plants, the principal products produced at such plants and their aggregate capacities are set forth below.

MANUFACTURING FACILITIES

| LOCATION | PRODUCTS | ANNUAL RAT CAPACITY |
|---|---|---|
| TITANIUM GROUP | | |
| Niles, OH | Ingot (million pounds)............................ | 36.0 |
| Niles, OH | Mill products (million pounds).................... | 22.0 |
| Hermitage, PA | Tube (million pounds)............................. | 0.8 |
| Salt Lake City, UT | Powders (million pounds).......................... | 1.5 |
| Canton, OH | Ferro titanium and specialty alloys (million | |

| | | |
|---|---|---|
| | pounds) | 16.0 |
| FABRICATION AND DISTRIBUTION GROUP | | |
| Washington, MO | Hot-formed and superplastically formed components (thousand press hours) | 50.0 |
| Sullivan, MO | Cut parts (thousand man hours) | 23.0 |
| Solon, OH | Extruded products (million pounds) | -0- |
| Houston, TX | Extruded products (million pounds) | 1.8 |
| Houston, TX | Machining & fabrication oil and gas products (thousand man hours) | 246.0 |
| Birmingham, England | Cut parts and components (thousand man hours) | 21.0 |
| Villette, France | Cut parts and components (thousand man hours) | 9.0 |

The Company leases the facilities in Solon, Ohio; Sullivan, Missouri; Houston, Texas; Birmingham, England and certain buildings and property at Washington, Missouri and Canton, Ohio. All other facilities are owned. The plants have been constructed at various times over a long period, many of the buildings have been remodeled or expanded and additional buildings have been constructed from time to time. The Company idled the fabricating facility in Solon, Ohio in the fourth quarter 2001. The lease expires in 2002. The production was assumed by the Houston, Texas fabricating facility which completed the installation of a new 5,000 ton press in the fall of 2001.

CONVERSION SERVICES

The Company utilizes third-party converters to melt and/or finish approximately 30% of its mill products. The use of these converters raises the Company's effective processing capacity. Certain mill products, such as hot band and cold rolled strip and oversized plate, are produced entirely by such converters using semi-finished titanium mill products supplied by the Company. However, the Company is responsible for inspecting and delivering these products to customers. The Company maintains long-term relationships with many of these conversion companies. The Company believes that, if necessary, it could provide these products by utilization of other methods and sources of conversion.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. Given the critical nature of many of the aerospace end uses for the Company's products, including specifically their use in critical rotating parts of gas turbine engines, the Company maintains aircraft products liability insurance of $350 million, which includes grounding liability. There are currently no material pending or threatened claims against the Company, other than the environmental matters discussed below.



ENVIRONMENTAL

The Company is subject to federal, state and local laws and regulations concerning environmental matters. During 2001, 2000, and 1999, the Company spent approximately $1.6 million, $1.2 million and $1.4 million, respectively, for environmental remediation, compliance, and related services. The Company estimates environmental-related expenditures, including capital items and compliance costs, will total approximately $1.5 million annually for 2002 and 2003.

In connection with the 1990 Reorganization, the Company assumed all responsibility for environmental matters relating to RMI Company and its immediate predecessor, Reactive Metals, Inc., which commenced business on April 1, 1964, and agreed to indemnify Quantum and USX against any liability relating to such environmental matters. Quantum initially acquired the Company's now closed Ashtabula facilities in 1950, which it owned until 1964, when they were acquired by Reactive Metals, Inc. Although the Company believes it may have claims with respect to possible remediation and other costs against Quantum for the pre-1964 period, ultimate apportionment of any liability between the Company and Quantum has not been finally agreed upon.

Active Investigative or Cleanup Sites. The Company is involved in investigative or cleanup projects at certain waste disposal sites, including those discussed below.

Fields Brook Superfund Site. The Company is involved in a superfund site known as Fields Brook in Ashtabula, Ohio. Cleanup began in 2000, and is expected to be completed in 2002. The Company estimates its share of the remaining work to cost $0.3 million. The Company has accrued an amount for this matter. See Note 14 to the consolidated financial statements.

Resource Conservation and Recovery Act of 1976 ("RCRA") Proceedings-Ashtabula Sodium Plant. The Company, through its independent environmental consultant, has identified and reported to the EPA the presence of metals resulting from RMI operations.

A Corrective Measures Study report prepared for the Company by the consultant states that the presence of metals would not be expected to have an adverse impact on humans or the environment, and, after conducting a detailed analysis of cleanup alternatives, the study recommended that metals contaminated material be consolidated at the Fields Brook Superfund site landfill. That work was completed in 2000. It is possible that the EPA will require additional work. See Note 14 to the consolidated financial statements.

Ashtabula River. The Ashtabula River and Harbor has been designated one of 43 Areas of Concern on the Great Lakes by the International Joint Commission. Fields Brook empties into the Ashtabula River, which in turn flows into Lake Erie. The State of Ohio has appropriated $7 million in state funds to the Ashtabula River dredging project to assist in securing federal funds needed to conduct the dredging.

The Company believes it is most appropriate to use public funds to cleanup a site with regional environmental and economic development implications such as the Ashtabula River and Harbor. The Ashtabula River Partnership ("ARP"), a voluntary group of public and private entities including, among others, the Company, the EPA, and the Ohio EPA, was formed in July 1994 to bring about the remediation of the river. The ARP is working both to design a cost-effective remedy and to secure public funding. Phase 1, the Comprehensive Management Plan, is nearly complete and Phase 2, the Detailed Design, is underway. To fund Phase 3, the Remedial Action, and to resolve Natural Resource Damages, the Company has estimated the private contribution to the project could approximate $15 million, of which roughly 10% is allocated to the Company (before contributions from third parties). It is possible that the EPA could determine that the Ashtabula River and Harbor should be designated as an extension of the Fields Brook Superfund site, or, alternatively, as a separate Superfund site. The Company has accrued an amount for this matter based on its best estimate of its share of the currently proposed remediation plan. See Note 14 to the consolidated financial statements.

Given the status of the proceedings at certain of these sites, and the evolving nature of environmental laws, regulations, and remediation techniques, the Company's ultimate obligation for investigative and remediation costs cannot be predicted. It is the Company's policy to recognize environmental costs in its financial statements when an obligation becomes probable and a reasonable estimate of exposure can be determined. At December 31, 2001, the amount accrued for future environmental-related costs was $1.7 million. Based on available information, RMI believes that its share of potential environmental-related costs, before expected contributions



from third parties, is in a range from $2.8 to $6.5 million in the aggregate. The amount accrued is net of expected contributions from third parties (which does not include any amounts from insurers) in a range of approximately $1.9 to $2.3 million which the Company believes are probable. The Company has been receiving contributions from such third parties for a number of years as partial reimbursement for costs incurred by the Company. As these proceedings continue toward final resolution, amounts in excess of those already provided may be necessary to discharge the Company from its obligations for these sites.

The ultimate resolution of the foregoing contingencies could, individually or in the aggregate, be material to the consolidated financial statements. However, management believes that RMI will remain a viable and competitive enterprise even though it is possible these matters could be resolved unfavorably.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.



PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

COMMON STOCK DATA:

Principal market for common stock: New York Stock Exchange

Holders of record of common stock at January 31, 2002: 883

RANGE OF COMMON STOCK PRICES AND DIVIDENDS FOR 2001

| QUARTER | HIGH | LOW |
|---|---|---|
| First | $17.75 | $11.87 |
| Second | 16.20 | 12.05 |
| Third | 15.27 | 5.60 |
| Fourth | 10.95 | 7.60 |
| Year | $17.75 | $ 5.60 |

RANGE OF COMMON STOCK PRICES AND DIVIDENDS FOR 2000

| QUARTER | HIGH | LOW |
|---|---|---|

| | | |
|---|---|---|
| First | $ 9.44 | $ 6.19 |
| Second | 13.94 | 8.38 |
| Third | 14.88 | 11.56 |
| Fourth | 14.94 | 12.31 |
| Year | $14.94 | $ 6.19 |

The Company has not paid dividends on its Common Stock since the second quarter of 1991. The declaration of dividends is at the discretion of the Board of Directors of the Company. The declaration and payment of future dividends and the amount thereof will be dependent upon the Company's results of operations, financial condition, cash requirements for its business, future prospects and other factors deemed relevant by the Board of Directors.

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ITEM 6. SELECTED FINANCIAL DATA

| | YEARS ENDED DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| | (DOLLARS IN THOUSANDS EXCEPT FOR PER SHARE DATA) | | | | |
| INCOME STATEMENT DATA: | | | | | |
| Sales | $285,900 | $249,382 | $243,309 | $337,476 | $318,530 |
| Operating income | 9,781 | 6,741 | 4,769 | 67,996 | 56,315 |
| Income before income taxes | 20,112(1) | 11,409(2) | 3,527 | 70,101 | 57,317 |
| Net income | 12,078 | 6,731 | 2,223 | 68,143(3) | 60,085(3) |
| NET INCOME PER COMMON SHARE: | | | | | |
| Basic | $ 0.58 | $ 0.32 | $ 0.11 | $ 3.31 | $ 2.94 |
| Diluted | $ 0.57 | $ 0.32 | $ 0.11 | $ 3.29 | $ 2.92 |

| | AS OF DECEMBER 31, | | | | |
|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 1998 | 1997 |
| | (DOLLARS IN THOUSANDS) | | | | |
| BALANCE SHEET DATA: | | | | | |
| Working capital | $201,257 | $208,388 | $209,174 | $196,225 | $184,824 |
| Total assets | 387,751 | 386,279 | 400,243 | 396,020 | 291,309 |
| Long-term debt | -- | 19,800 | 36,200 | 20,080 | -- |
| Total shareholders' equity | 306,975 | 301,859 | 295,604 | 292,765 | 221,173 |

---------------

(1) Includes the effect of a $6.3 million gain from the settlement of a contractual claim and a $5.2 million gain related to a stock distribution to the Company in connection with the demutualization of one of its insurance carriers in which it was a participant.

(2) Includes the effect of a $6.0 million gain from the settlement of a contractual claim.

(3) Includes a $22.8 million and a $21.2 million income tax benefit relating to NOL utilization and the reduction in the deferred tax valuation allowance in 1998 and 1997, respectively.

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

The following discussion should be read in connection with the information contained in the Consolidated Financial Statements and Notes to Consolidated Financial Statements. The following information contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and are subject to the safe harbor created by that Act. Such forward-looking statements may be identified by their use of words like "expects," "anticipates," "intends," "projects," or other words of similar meaning. Forward-looking statements are based on expectations and assumptions regarding future events. The Company cannot guarantee that these assumptions are accurate. In addition to factors discussed throughout this report, the following factors and risks should be considered, including, without limitation, statements regarding the future availability and prices of raw materials, competition in the titanium industry, demand for the Company's products, the historic cyclicality of the titanium and aerospace industries, increased defense spending, long-term supply agreements, the ultimate determination of pending trade petitions, global economic conditions, the Company's order backlog and the conversion of that backlog into revenue, labor relations, the long-term impact of the events of September 11, and the continuing war on terrorism, and other statements contained herein that are not historical facts. Because such forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These and other risk factors are set forth below in the "Outlook" section, as well as in the Company's other filings with the Securities and Exchange Commission ("SEC") over the last 12 months, copies of which are available from the SEC or may be obtained upon request from the Company.



OVERVIEW

Historically, a majority of the U.S. titanium industry's output has been used in aerospace applications. The cyclical nature of the aerospace industry has been the principal cause of the fluctuations in performance of companies engaged in the titanium industry. Over the past 20 years, titanium mill products shipments registered a cyclical peak of 65 million pounds in 1997 and a low of 32 million pounds in 1983.

In the 1995-1997 period, most major commercial airlines reported stronger operating profits and, during this same period, aircraft manufacturers increased build rates. From a peak in 1997, demand was reduced in 1998 and again in 1999 primarily due to excess inventory within the supply network. In 2000, demand was modestly improved compared to 1999 and improved again in 2001 as supply and demand reached an equilibrium. Build rates were forecast to continue to improve throughout 2001, however, because of the terrorist events of September 11, 2001, and airline financial difficulties leading up to the events, the outlook changed suddenly and dramatically. The effect will change demand and production downward for 2002 and likely 2003, as highlighted in the Outlook section. The latest figures on the airline industry according to The Airline Monitor, at December 31, 2001, indicate that the leading manufacturers of commercial aircraft, Boeing Company and Airbus Industrie, reported an aggregate of 2,919 aircraft under firm order, which represents a 9.5% decrease when compared to the backlog at December 31, 2000 of 3,224 aircraft. The backlog for wide body aircraft, such as the

Airbus A300, A310, A330, A340 and A380, and the Boeing 767 and 777, which typically consume more titanium per aircraft than their narrow body counterparts, at December 31, 2001, was 739 aircraft, which represents a 10.0% increase when compared to the backlog of 672 aircraft at December 31, 2000. While the total backlog has declined, it remains at a level in excess of 2,900 units which at today's production rate equates to over 4 years of production for Boeing Company and Airbus Industrie. There can be no assurance that it will remain at this level, but a significant production backlog is expected to be in place over the next few years. The long term outlook for this segment over the next 20 years is that approximately 18,000 new and replacement aircraft will be required to support the demand of increased passenger travel, effectively doubling the current fleet of commercial aircraft. Demand from military aerospace markets in recent years has stabilized at reduced build rate levels but given recent events, growth is anticipated for the foreseeable future.

The Company estimates that total industry shipments of titanium mill products in 2001 increased to approximately 53-55 pounds million pounds, from 52 million pounds in 2000.

In recent years, the Company has devoted significant resources to developing new markets for titanium in the oil and gas and geothermal energy production industries. In addition to designing and fabricating the world's first all titanium high pressure drilling riser in 1995, the Company has also produced significant quantities of seamless titanium pipe for use in geothermal energy applications. The Company also supplied titanium stress joints for use in a production riser system located in the Gulf of Mexico. The Company conducts its operations for oil and gas and geothermal energy from its Houston, Texas facility under the name RTI Energy Systems, Inc. RTI Energy Systems also engineers, designs and markets offshore riser systems, stress joints, drill pipe and components.

On December 14, 2000, the Company purchased the remaining 60% of the outstanding shares of Reamet. Since 1992, the Company had owned 40% of the outstanding shares of Reamet. Reamet, located in Villette, France, is a premier distributor of titanium products to the French market, serving aerospace, military and industrial customers. Its largest customer is Aerospatiale, French partner to the Airbus consortium, with which it has a contract to supply titanium, principally in the form of cut plate. Reamet now operates as part of the Fabrication and Distribution Group.

RTI's strategy is to build on its leading position in the worldwide titanium industry while maintaining a strong financial condition and stringent quality, safety and environmental standards. RTI is emphasizing higher margin products in its traditional markets, while continuing to develop new markets and products such as seamless tubulars and fabricated systems for oil and gas exploration and production.



RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Net Sales

Net sales increased 14.6% to $285.9 million for the year ended December 31, 2001 compared to net sales of $249.4 million in 2000. Sales for the Company's Titanium Group and Other operations amounted to $141.0 million for the year ended December 31, 2001 compared to $141.0 million in 2000. Shipments of titanium mill products were 11.6 million pounds in the year ended December 31, 2001, compared to 9.4 million pounds in 2000, a 23.4% increase. Mill product shipments in the year ended December 31, 2001 were higher than those in 2000 as aerospace demand for forged mill products improved. Average realized prices on mill products for the year ended December 31, 2001 decreased 17.7% to $13.37 per pound from $15.73 per pound in 2000. The decrease in average realized prices for mill products resulted primarily from an increased mix of lower value-added forged mill products when compared to 2000. Sales for the Company's Fabrication and Distribution Group amounted to $144.9 million in the year ended December 31, 2001, compared to $108.4 million in 2000 an increase of $36.5 million, or 33.7%. This increase reflects the acquisition of Reamet, improvements in energy market sales, and continued improvements in distribution sales in the United States and Europe, partially offset by a reduction in sales of fabricated products due to the delayed startup of the new extrusion facility in Houston.

Gross Profit

Gross profit amounted to $43.4 million, or 15.2% of sales for the year ended December 31, 2001 compared to a gross profit of $36.0 million or 14.4% of sales in 2000. This increase in gross margin of $7.4, or 20.6%, is primarily due to the acquisition of Reamet, increased sales in energy markets, and improvements in demand for distribution products, partially offset by the impact of a reduction in sales of fabricated products due to the delayed implementation of the new extrusion facility in Houston.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to $32.0 million or 11.2% of sales for the year ended December 31, 2001, compared to $28.0 million or 11.2% of sales in 2000. The increase in selling, general and administrative expenses of $4.0 million, or 14.3%, reflects the impact of the Reamet acquisition, higher than anticipated startup and relocation costs associated with the installation of a new extrusion press in Houston, as well as increased expenses in the distribution businesses as a result of increased sales volume.

Research, Technical and Product Development Expenses

Research, technical and product development expenses amounted to $1.7 million in 2001 compared to $1.3 million in 2000. This increase of $0.4 million, or 30.8%, primarily reflects amounts spent on research and development on products for the energy market.

Operating Income

Operating income for the year ended December 31, 2001 amounted to $9.8 million, or 3.4% of sales compared to $6.7 million, or 2.7% of sales, in 2000. This increase of $3.1 million, or 46.3%, consists of a decrease in operating income from the Titanium Group of $1.6 million primarily due to a decrease in realized prices as a result of an increased mix of lower value-added forged mill products. This decrease was more than offset by an increase in operating income in the Fabrication and Distribution Group of $4.7 million due to the acquisition of Reamet and improved distribution and energy market sales, offset by higher than expected startup costs and a reduction in revenues due to the delayed implementation of the new extrusion facility in Houston.

Other Income

Other income for the year ended December 31, 2001 amounted to $11.0 million, compared to $6.5 million in 2000. This increase primarily reflects a gain of $5.2 million from a stock distribution to the Company as a result of the demutualization of one of its insurance carriers in which it was a participant, partially offset by the absence of a gain on sale of a portion of RMI's now closed Ashtabula, Ohio facilities which was recorded in 2000.

Interest Expense

Interest expense for the year ended December 31, 2001 amounted to $0.7 million compared to $1.9 million in 2000. The decrease is primarily the result of reduced borrowing levels. At December 31, 2001, the Company had no debt.

Income Taxes

In the year ended December 31, 2001, the Company recorded an income tax expense of $7.8 million compared to a $4.7 million expense recorded in 2000. The effective tax rates for the year ended December 31 of 2001 and 2000 were approximately 39% and 41%, respectively. The effective tax rates of 39% and 41% were greater than the federal statutory rate of 35% primarily due to state income taxes and non-deductible goodwill amortization.

Cumulative Effect of Change in Accounting Principle

The cumulative loss effect of a change in accounting principle for the year ended December 31, 2001 of $0.2 million, net of $0.1 million in income taxes, results from the Company's adoption of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The gross charge of $0.3 million represents the recognition of the net liability for the fair value of a foreign currency forward purchase contract upon adoption.

Net Income

Net income for the year ended December 31, 2001 amounted to $12.1 million or 4.2% of sales, compared to $6.7 million or 2.7% of sales in the comparable 2000 period. This increase reflects the acquisition of Reamet, improved distribution and energy market sales, a reduction in interest expense, and the gain resulting from a distribution of stock to the Company from one of its insurance carriers. This was partially offset by higher than expected startup costs and a reduction in operating margin due to the delayed implementation of the new extrusion facility in Houston.

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Net Sales

Net sales for the year ended December 31, 2000 increased to $249.4 from $243.3 million in 1999, an increase of $6.1 million, or 3%. Titanium Group sales to third parties decreased $0.9 million, or 0.1%, to $124.2 million in 2000 from $125.1 million in 1999. Mill product shipments for 2000 amounted to 9.4 million pounds compared to 8.9 million pounds in 1999. The increase in 2000 mill product shipments compared to 1999 is primarily due to increased shipments to companies in the Fabrication and Distribution Group (intercompany). Average realized selling prices for mill products decreased to $15.73 per pound in 2000 compared to $16.06 per pound in 1999 primarily as a result of an increase in product mix of lower value-added forged products. Fabrication and Distribution Group sales increased $8.2 million, or 8.2%, to $108.4 million in 2000 from $100.2 in 1999 due to greater demand for fabricated products by the energy sector and increased shipments of the Company's distribution products in the United States and Europe. The Segment also benefited from the acquisition of Reamet on December 14, 2000.

Gross Profit

Gross profit for the year ended December 31, 2000 amounted to $36.0 million, or 14.4% of sales compared to $33.6 million, or 13.8% of sales in 1999.

This increase of $2.4 million, or 7.1%, was primarily a result of increased sales in the Fabrication and Distribution Group enhanced by improved gross profit percentages at the Company's Distribution locations. The improvement also reflects a $1.9 million charge related to new market development in 1999.

Selling, General and Administrative Expenses

Selling, general and administrative expenses amounted to $27.9 million in 2000 compared to $24.8 million in 1999. This increase of $3.1 million, or 12.5%, reflects a change in classification of expenses reported as



research, technical, and product development in 1999 to selling, general and administrative in 2000, as the energy business evolved into a stand-alone commercial enterprise.

Research, Technical and Product Development Expenses

Research, technical and product development costs amounted to $1.3 million in 2000 and $4.0 million in 1999. The decrease reflects a change in classification of expenses reported as research, technical, and product development in 1999 to selling, general and administrative in 2000, as the energy business evolved into a stand-alone commercial enterprise.

Operating Income

Operating income for the year ended December 31, 2000 amounted to $6.7 million, or 2.7% of sales compared to $4.8 million, or 2.0% of sales in 1999. The improvement in operating income of $1.9 million, or 39.6%, reflects the $6.4 million improvement to the Fabrication and Distribution Group's results primarily due to greater demand for fabricated products by the energy sector and increased shipments of distribution products in the United States and Europe. The improvement also reflects a $1.9 million charge related to new market development in 1999. This is partially offset by a reduction in operating income in the Titanium Group due to an adverse change in product mix.

Other Income

Other income in 2000 amounted to $6.5 million compared to $1.3 million in 1999. This increase results primarily from the settlement of a contractual claim with the Boeing Company, whereby the Boeing Company paid the Company contractually specified liquidated damages for failing to meet minimum order volumes.

Interest Expense

Interest expense in 2000 amounted to $1.9 million compared to $2.6 million in 1999. This decrease results primarily from increased capitalization of interest during 2000 compared to 1999.

Income Taxes

For the year ended December 31, 2000, the Company recorded a provision for income taxes of $4.7 million compared to $1.3 million in 1999. The effective tax rate for the year ended December 31, 2000 was approximately 41% compared to 37% in 1999. The difference between the statutory tax rate of 35% and the effective rate for the years ended December 31, 2000 and 1999 is primarily due to state income taxes, non-deductible goodwill amortization and prior year tax adjustments.

Net Income

Net income for year ended December 31, 2000 amounted to $6.7 million, or 2.7% of sales compared to $2.2 million, or 0.9% of sales in 1999. This increase is due primarily to improved results in the Company's Fabrication and Distribution Segment, and the settlement with Boeing Company.

OUTLOOK

The terrorist attacks of September 11, 2001, and their effect on the general economy, will have a significant influence on business conditions for several years.

Commercial Aerospace Markets

The largest impact is likely to be on commercial aerospace markets, which provides approximately 40% of RTI's sales. Airline operators experienced a dramatic drop in travel immediately following September 11, which is expected to result in significant losses within their industry causing a reduced demand for new aircraft. The primary builders of large commercial aircraft, Boeing and Airbus, have adjusted their build rates beginning in 2002 downward to reflect the expected change in demand. The most current information indicates a drop in commercial aircraft production next year of about 30-40% at Boeing and about 20-25% at Airbus, or a total



combined reduction of approximately 30-35%. Neither aircraft producer has, as yet, issued build schedules beyond 2002, and all build schedules are subject to change, and are highly dependent on airline passenger travel and airline profitability. Therefore, the exact magnitude of the downturn on commercial aerospace remains uncertain for 2002.

Titanium mill products that are ordered by the prime aircraft producers and their subcontractors are generally ordered in advance of final aircraft production by 6 to 18 months. This is due to the time it takes to produce a final assembly or part that is ready for installation in an airframe or jet engine. Discussions are currently being held with RTI's customers concerning their requirements for the commercial aircraft business over the next twelve months. It is expected that shipments from RTI to this segment will be reduced substantially in 2002. The impact on the Company could include order cancellations or delays or both.

The near-term effect of the reduction in commercial aircraft demand on RTI will be mitigated somewhat by the long-term agreement RMI entered into with Boeing on January 28, 1998. Under this agreement, RMI supplies Boeing and its family of commercial suppliers with up to 4.5 million pounds of titanium products annually. The agreement, which began in 1999, has an initial term of five years and, is subject to review by the parties prior to expiration in 2004. Under the accord, Boeing receives firm prices in exchange for RMI receiving a minimum volume commitment of 3.25 million pounds per year. If volumes fall short of the minimum commitment, the contract contains provisions for financial compensation. In accordance with the agreement, and as a result of volume shortfalls in both 1999 and 2000, Boeing settled claims of approximately $6 million in both 2000 and 2001, respectively. The claim for 2001 will be settled during the 1st quarter 2002, and is expected to be approximately $7 million.

RMI, through its French subsidiary, Reamet, was chosen by Aerospatiale, now part of EADS, as the major supplier of the titanium flat rolled products required for Aerospatiale's Airbus programs which began in 1999 and extended through 2001. Requirements are principally for flat rolled products, including value added cut-to-size shapes. Negotiations are in progress with EADS to continue the supply of similar items over the next several years, and are expected to be finalized in early 2002.

Defense Markets

The importance of military markets to RTI, approximately 30% of revenues, is expected to rise in 2002 and beyond due to increased defense budgets, and increased hardware purchases by the U.S. Government, partially brought about by the events of September 11, 2001. It is estimated that overall titanium consumption will be increased within this segment in 2002 globally, but it is not expected to offset the total decline in the market caused by the drop in the commercial aerospace sector. RTI believes it is well positioned to provide mill products and fabrications to this segment if increased consumption is required to support defense needs. RTI supplies titanium and other materials to most military aerospace programs, including the F-22, C-17, F/A-18, F-15, and in Europe, the Tornado, Mirage, and Eurofighter.

The Company was chosen by BAE Systems RO Defence UK to supply the titanium components for the new XM-777 lightweight 155 mm Howitzer. Delivery is expected to begin in 2003 and continue through 2010. Initial deliveries will be to the U.S. Marine Corps, followed by deliveries to the U.S. Army and the Italian and British armed forces. It is anticipated that over 800 guns may be produced. Sales under this contract could potentially exceed $100 million.

Lockheed Martin, a major customer of the Company, was awarded the largest military contract ever on October 26, 2001, for the military's $200 billion Joint Strike Fighter program. The aircraft, which will be used by all branches of the military, is expected to consume 25,000 to 30,000 pounds of titanium per airplane. Timing and order patterns, which are likely to extend well into the future for this program, have not been quantified, but may be as many as 3,000 to 6,000 planes over the next 30 to 40 years. The Company has been notified that it has been selected as the supplier of titanium sheet and plate for the design and development phase over the next five years.

Industrial and Consumer Markets

The remaining 30% of RTI's sales are generated in various industrial markets, where business conditions are expected to be mixed over the next year or two.



Revenues from Oil and Gas markets are expected to reach new highs for RTI in 2002, and increase again in 2003, due to the increase in deep water projects predicted over the next several years. Despite the weak economy, the Company believes that oil and gas exploration will continue at an accelerated pace for the next several years.

On October 1, 2001, RTI Energy Systems, Inc., was selected by Atlantia Offshore Limited to provide engineering, procurement, and manufacturing of the production riser systems for their Matterhorn Project in the Gulf of Mexico. Atlantia selected the RTI production riser system design, which includes high fatigue performance RTI produced connectors. RTI will also supply critical riser tensioning equipment and structural components. The initial purchase order exceeds $6 million.

If the general economy declines, demand from consumer market customers, such as chemical processing companies, may decrease.

Backlog

The Company's order backlog for all market segments increased to $142.6 million as of December 31, 2001, from $132.1 million at December 31, 2000, principally due to new business from energy markets.

LIQUIDITY AND CAPITAL RESOURCES

Net cash flows from operating activities totaled $35.1 million in 2001 compared to $32.3 million in 2000. The change in net cash flows from operating activities for the year ended December 31, 2001, compared to 2000, primarily reflects an increase in net income and an increase in other current liabilities, offset by an increase in accounts receivable and significantly greater reductions in inventory in 2000 than in 2001. In 2001 and 2000, $8.8 million and $10.1 million, respectively, was generated through a reduction in working capital and other balance sheet line items. The Company's working capital ratio was 6.5 to 1 at December 31, 2001.

During 2001 and 2000, the Company's cash flow requirements for capital expenditures were funded with cash provided by operations. The Company anticipates that it will be able to fund its capital expenditure requirements for 2002 with funds generated by operations.

At December 31, 2001, the Company had a borrowing capacity equal to the total amount of its existing credit agreement.

On September 9, 1999, RTI filed a universal shelf registration with the Securities and Exchange Commission. This registration permits RTI to issue up to $100 million of debt and/or equity securities at an unspecified future date. The proceeds of any such issuance could be utilized to finance acquisitions, capital investments or other general purposes; however, RTI has not issued any securities to date and has no immediate plans to do so.

CAPITAL EXPENDITURES

Gross capital expenditures for the years ended December 31, 2001 and 2000 amounted to $12.2 million and $11.6 million, respectively. Included in 2001 spending was $4.5 million related to a new 5,000 ton press and site preparation at a Fabrication and Distribution location in Houston. In 2000, $5.5 million was spent related to this project. In 2000, $2.7 million was spent for capital improvements to the production processes in Niles, Ohio.

The Company continued to install its Enterprise Resource Planning (ERP) software system at additional operating locations throughout the year, and in 2001 spent $1.4 million compared to $2.5 million spent on the system in 2000. RTI anticipates that current capital spending plans can be funded using cash provided from internally generated sources. Capital spending for 2002 is budgeted at approximately $11.0 million.

CREDIT AGREEMENT

The Company maintains a credit agreement, entered into on September 30, 1998, which provides a $100 million five-year unsecured revolving credit facility. The Company can borrow up to the lesser of $100 million or a borrowing base equal to the sum of 85% of qualifying accounts receivable and 60% of qualifying inventory.



Under the terms of the facility, the Company, at its option, will be able to borrow at (a) a base rate (which is the higher of PNC Bank's prime rate or the Federal Funds Effective Rate plus 0.5% per annum), or (b) LIBOR plus a spread (ranging from .75% to 1.75%) determined by the ratio of the Company's consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization. At December 31, 2001, there were no borrowings outstanding under the facility. At December 31, 2001, the Company had a borrowing capacity equal to the total amount of this agreement.

ENVIRONMENTAL MATTERS

The Company is subject to environmental laws and regulations as well as various health and safety laws and regulations that are subject to frequent modifications and revisions. While the costs of compliance for these matters have not had a material adverse impact on the Company in the past, it is impossible to predict accurately the ultimate effect these changing laws and regulations may have on the Company in the future.

At December 31, 2001, the amount accrued for future environment-related costs was $1.7 million. Based on available information, RMI believes its share of potential environmental-related costs, before expected contributions from third parties, is in a range from $2.8 million to $6.5 million, in the aggregate. The amount accrued is net of expected contributions from third parties (which does not include any amounts from insurers) in a range of approximately $1.9 to $2.3 million, which the Company believes are probable. The Company has received contributions from such third parties for a number of years as partial reimbursement for costs incurred by the Company. As these proceedings continue toward final resolution, amounts in excess of those already provided may be necessary to discharge the Company from its obligations for these projects.

The ultimate resolution of these environmental matters could, individually or in the aggregate, be material to the consolidated financial statements. However, management believes that the Company will remain a viable and competitive enterprise even though it is possible that these matters could be resolved unfavorably.

NEW ACCOUNTING STANDARDS

In July 2001, the FASB issued Statements of Financial Accounting Standards No. 141 (FAS 141), "Business Combinations", and No. 142 (FAS 142), "Goodwill and Other Intangible Assets".

FAS 141 supersedes Accounting Principles Board Opinion No. 16 (APB 16), "Business Combinations". The most significant changes made by FAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001; (2) establishing specific criteria for the recognition of intangible assets separately from goodwill; and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

FAS 142 supersedes APB 17, "Intangible Assets". FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting). The most significant changes made by FAS 142 are: (1) goodwill and indefinite lived intangible assets will no longer be amortized; (2) goodwill will be tested for impairment at least annually at the reporting unit level; (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually; and (4) the amortization period of intangible assets with finite lives will no longer be limited to forty years.

FAS 141 must be applied to all business combinations initiated after June 30, 2001. FAS 142 must be adopted as of January 1, 2002. All of the Company's acquisitions in recent years have been accounted for under purchase accounting. At adoption of FAS 142, an evaluation of goodwill and intangible assets will be required and any impairment of goodwill or intangible assets at that time will be recognized as a cumulative effect of adoption. Management has completed a preliminary evaluation of the impact of adoption of FAS 142. This change in accounting will increase 2002 net income by approximately $1.0 million or 4.8 cents per share because goodwill amortization will cease. The standard also requires a reassessment of intangibles and goodwill for impairment. The Company expects to finalize its reassessment by the end of the second quarter 2002, but does not believe the new standard will have a material impact.

In August 2001, the FASB issued FAS 143, "Accounting for Asset Retirement Obligations." FAS 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including: (1) the timing of liability recognition; (2) initial measurement of the liability; (3) allocation of the cost of the obligation



to expense; (4) measurement and recognition of subsequent changes to the liability; and (5) financial statement disclosures. FAS 143 requires that an asset retirement cost be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The standard is required to be adopted in fiscal years beginning after June 15, 2002. At adoption, any transition adjustment required will be reported as a cumulative effect of a change in accounting principle. Management has not yet completed its evaluation of the impact of the adoption of this standard.

In September 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). This standard prescribes a single accounting model for long-lived assets to be disposed of by sale, and also prescribes the accounting for the impairment of long-lived assets to be held and used and for assets to be disposed of by other than sale (e.g., abandonment). Under this standard, long-lived assets to be disposed of by sale should be carried at the lower of their carrying amount or fair value less cost to sell and depreciation (amortization) should cease. Discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. For long-lived assets to be held and used, the significant changes under FAS 143 are: (1) the removal of goodwill from the scope of this standard; (2) the use of a probability-weighted cash flow approach to measuring the future cash flows from the assets; and (3) the use of a "primary asset" approach to grouping assets for purposes of testing for impairment. This standard is required to be adopted in fiscal years beginning after December 15, 2001; early adoption is permitted. The requirements of this standard are to be applied prospectively from adoption with no cumulative effect of change in accounting principle reported. Management has completed a preliminary evaluation and does not expect a material financial impact from the adoption of this standard.

ACQUISITIONS

On October 1, 1998, RTI acquired all of the capital stock of NCM for $35 million and the payment by RTI of certain bank debt amounting to $8.9 million. The $35 million purchase price consisted of $16 million in cash, a $16 million note, payable January 4, 1999, bearing interest at 5.81% per annum, and $3 million of the Company's common stock valued at $19.2875 per share. NCM is a manufacturer and distributor of high temperature and corrosion resistant alloys such as titanium, stainless steel and nickel, in long bar form, to the aerospace, chemical processing, oil and gas exploration and production, and power generation industries. In addition to the manufacturing facilities, NCM operated four distribution centers in the United States and one in England.

Also on October 1, 1998, RTI acquired all of the assets of Weld-Tech, for $11.3 million in cash and the payment of a $1.4 million note owed by Weld-Tech to a corporation, the shareholders of which were also partners of Weld-Tech. Weld-Tech, based in Houston, Texas, now operates under the name RTI Energy Systems. Weld-Tech provides engineering and fabrication services for the oil and gas industry, including weld design, fabrication and repair, as well as materials engineering and testing services.

On December 14, 2000, RTI acquired the remaining outstanding shares of Reamet of Villette, France for $4.3 million. Net of cash acquired, the Company's additional investment equaled $1.3 million. Reamet is a premier distributor of titanium products to the French market, serving aerospace, military and industrial customers. Its largest customer is Aerospatiale, French partner to the Airbus consortium, with which it has a contract to supply titanium, principally in the form of cut plate.

RTI is in the process of evaluating other potential acquisition candidates to determine if they are likely to increase the Company's earnings and value. RTI evaluates such potential acquisitions on the basis of their ability to enhance or improve the Company's existing operations or capabilities, as well as the ability to provide access to new markets and/or customers for its products. RTI may make acquisitions using its available cash resources, borrowings under its existing credit facility, new debt financing, the Company's common stock, joint venture/partnership arrangements or any combination of the above.



CRITICAL ACCOUNTING POLICIES

The preparation of RTI's financial statements are prepared in accordance with generally accepted accounting principles accepted in the United States of America. These principles require management to make estimates and assumptions that have a material impact on the amounts recorded for assets and liabilities and resultant revenue and expenses. Management estimates are based on historical evidence and other available information, which in management's opinion provide the most reasonable and likely result under the current facts and circumstances. Under different facts and circumstances expected results may differ materially from the facts and circumstances applied by management.

Of the accounting policies described in note 2 and others not expressly stated but adopted by management as the most appropriate and accurate under the current facts and circumstances, the policy of goodwill and asset valuation, deferred taxes and pensions and other postretirement benefits would be most critical if management estimates were incorrect.

In the case of goodwill and property plant and equipment, if future product demand or market conditions reduce management's expectation of future cash flows from these assets a write-down of the carrying value of goodwill or property plant and equipment may be required.

In the case of deferred tax assets, management has provided under current facts and circumstances what it believes to be adequate allowances for reduced value. Similarly to goodwill and property, plant and equipment, should the future benefit of deferred tax assets become impaired because of the possibility of reduced utilization, an increase to the valuation allowance and corresponding charge to expense may be required.

In the case of pensions and other postretirement benefits, assumptions made including discount rate, estimated returns on assets, salary increases and mortality rates may materially affect the Company's liabilities and expenses. Changes in these estimates based on facts and circumstances at the time have routinely resulted in both increases and decreases in the expenses associated to these liabilities from year to year.

ITEM 7(A). QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the Company is exposed to market risk and price fluctuations related to the purchases of certain materials and supplies used in its manufacturing operations. The Company obtains competitive prices for materials and supplies when available. The majority of the Company's raw material purchases for titanium sponge are made under long-term contracts with negotiated prices.

The Company's long-term credit arrangement is based on rates that float with LIBOR based rates or bank prime rates and the carrying value approximates fair value. At December 31, 2001, the Company had no outstanding obligations under this credit arrangement.

The Company is subject to foreign currency exchange exposure for purchases of materials, equipment and services, including wages, which are denominated in currencies other than the U.S. dollar, as well as non-dollar denominated sales. From time to time the Company may use forward exchange contracts to manage these risks, although they are generally considered to be minimal. The majority of the Company's sales are made in U.S. dollars, which minimizes exposure to foreign currency fluctuation.

As of December 31, 2001, the Company had an outstanding purchase commitment of 288 thousand Euros due at various times through 2002. At year-end, this purchase commitment was equivalent to $256 thousand. The Company also had forward contracts for the purchase of 287.5 thousand Euros at a contractual rate of 1.104 Euros per U.S. dollar.



ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.



REPORT OF MANAGEMENT

RTI International Metals, Inc., has prepared and is responsible for the consolidated financial statements and other financial information included in this Annual Report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and necessarily include some amounts based on the best judgments and estimates of management. Financial information displayed in other sections of this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains a comprehensive formalized system of internal accounting controls. Management believes that the internal accounting controls provide reasonable assurance that transactions are executed and recorded in accordance with Company policy and procedures and that the accounting records may be relied on as a basis for preparation of the consolidated financial statements and other financial information. In addition, as part of their audit of the consolidated financial statements, the Company's independent accountants, who are elected by the shareholders, review and test the internal accounting controls selectively to establish a basis of reliance thereon in determining the nature, extent and timing of audit tests to be applied.

The Audit Committee of the Board of Directors, composed entirely of directors who are not employees of the Company, meets regularly with the independent accountants, management and internal auditors to discuss the adequacy of internal accounting controls and the quality of financial reporting. Both the independent accountants and internal auditors have full and free access to the Audit Committee.

/s/ T. G. Rupert
T. G. Rupert
President and
Chief Executive Officer

/s/ Lawrence W. Jacobs
Lawrence W. Jacobs
Vice President,
Chief Financial Officer and Treasurer

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF RTI INTERNATIONAL METALS, INC.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of RTI International Metals, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
January 25, 2002



RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF INCOME

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

| | YEAR ENDED DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Sales | $ 285,900 | $ 249,382 | $ 243,309 |
| Operating costs: | | | |
| Cost of sales | 242,476 | 213,432 | 209,703 |
| Selling, general and administrative expenses | 31,971 | 27,935 | 24,794 |
| Research, technical and product development expenses | 1,672 | 1,274 | 4,043 |
| Total operating costs | 276,119 | 242,641 | 238,540 |
| Operating income | 9,781 | 6,741 | 4,769 |
| Other income--net | 11,000 | 6,540 | 1,319 |
| Interest expense | (669) | (1,872) | (2,561) |
| Income before income taxes | 20,112 | 11,409 | 3,527 |
| Provision for income taxes | 7,843 | 4,678 | 1,304 |
| Income before cumulative effect of change in accounting principle | 12,269 | 6,731 | 2,223 |
| Cumulative effect of change in accounting principle (Note 2) | (191) | -- | -- |
| Net income | $ 12,078 | $ 6,731 | $ 2,223 |
| Earnings per common share (Note 4) | | | |
| Income before cumulative effect of change in accounting principle: | | | |
| Basic | $ 0.58 | $ 0.32 | $ 0.11 |

| | | | |
|---|---|---|---|
| Diluted | $ 0.57 | $ 0.32 | $ 0.11 |
| Net income: | | | |
| Basic | $ 0.58 | $ 0.32 | $ 0.11 |
| Diluted | $ 0.57 | $ 0.32 | $ 0.11 |
| Weighted average shares used to compute earnings per share: | | | |
| Basic | 20,848,056 | 20,848,783 | 20,776,200 |
| Diluted | 21,032,736 | 21,024,991 | 20,870,883 |

The accompanying notes are an integral part of these Consolidated Financial Statements.



RTI INTERNATIONAL METALS, INC.

CONSOLIDATED BALANCE SHEET

(DOLLARS IN THOUSANDS)

| | 2001 | 2000 |
|---|---|---|
| ASSETS | | |
| ASSETS: | | |
| Cash and cash equivalents | $ 8,036 | $ 6,374 |
| Receivables, less allowance for doubtful accounts of $1,219 and $926 (Note 5) | 50,572 | 46,417 |
| Inventories, net (Note 6) | 158,561 | 165,210 |
| Deferred income taxes (Note 8) | 7,418 | 9,146 |
| Other current assets (Note 10) | 13,136 | 10,235 |
| Total current assets | 237,723 | 237,382 |
| Property, plant and equipment, net (Note 7) | 98,375 | 97,989 |
| Goodwill | 34,133 | 35,736 |
| Other noncurrent assets (Note 10) | 17,520 | 15,172 |
| Total assets | $387,751 | $386,279 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Accounts payable | $ 17,799 | $ 18,199 |
| Accrued wages and other employee costs | 7,494 | 5,646 |
| Other accrued liabilities | 11,173 | 5,149 |
| Total current liabilities | 36,466 | 28,994 |
| Long-term debt (Note 9) | -- | 19,800 |
| Accrued postretirement benefit cost (Note 10) | 19,940 | 19,986 |
| Deferred income taxes (Note 8) | 1,296 | 2,555 |
| Noncurrent pension liability (Note 10) | 17,787 | 7,106 |
| Other noncurrent liabilities | 5,287 | 5,979 |

| | | |
|---|---|---|
| Total liabilities | 80,776 | 84,420 |
| Commitments and Contingencies (Note 14) | | |
| SHAREHOLDERS' EQUITY: | | |
| Common stock, $0.01 par value; 50,000,000 shares authorized; 21,035,454 and 20,946,712 shares issued; and 20,730,604 and 20,851,962 shares outstanding | 210 | 208 |
| Additional paid-in capital | 241,579 | 240,527 |
| Deferred compensation | (2,278) | (2,187) |
| Treasury stock, at cost; 304,850 and 94,750 shares | (2,612) | (846) |
| Accumulated other comprehensive income | (7,417) | (1,258) |
| Retained earnings | 77,493 | 65,415 |
| Total shareholders' equity | 306,975 | 301,859 |
| Total liabilities and shareholders' equity | $387,751 | $386,279 |

The accompanying notes are an integral part of these Consolidated Financial Statements.



RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

(DOLLARS IN THOUSANDS)

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $12,078 | $ 6,731 | $ 2,223 |
| Adjustment for non-cash items included in net income: | | | |
| Depreciation and amortization | 13,585 | 11,941 | 9,338 |
| Deferred income taxes | 3,786 | 2,447 | 6,894 |
| Stock-based compensation and other | 2,049 | 1,030 | 1,016 |
| Gain on receipt of common stock (Note 2) | (5,177) | -- | -- |
| Changes in assets and liabilities (net of effects of businesses acquired): | | | |
| Receivables | (4,975) | 12,375 | 7,027 |
| Inventories | 6,649 | 14,418 | (8,948) |
| Accounts payable | (400) | (6,369) | 3,992 |
| Other current liabilities | 7,509 | (12,567) | (3,103) |
| Other assets and liabilities | (30) | 2,271 | 1,609 |
| Cash provided by operating activities | 35,074 | 32,277 | 20,048 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Investments in subsidiaries, net of cash acquired | -- | (1,325) | (16,000) |
| Capital expenditures | (12,167) | (11,594) | (27,179) |
| Cash used in investing activities | (12,167) | (12,919) | (43,179) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Proceeds from exercise of employee stock options | 321 | 158 | 40 |

| | | | |
|---|---|---|---|
| Net borrowings (repayments) under revolving credit agreements | (19,800) | (16,400) | 16,120 |
| Purchase of common stock held in treasury | (1,766) | (406) | (440) |
| Cash provided by (used in) financing activities | (21,245) | (16,648) | 15,720 |
| Increase (decrease) in cash and cash equivalents | 1,662 | 2,710 | (7,411) |
| Cash and cash equivalents at beginning of period | 6,374 | 3,664 | 11,075 |
| Cash and cash equivalents at end of period | $ 8,036 | $ 6,374 | $ 3,664 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | | |
| Cash paid for interest (net of amounts capitalized) | $ 877 | $ 2,108 | $ 2,218 |
| Cash paid for income taxes | $ 4,288 | $ 2,143 | $ 712 |
| NON-CASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Issuance of common stock for restricted stock awards | $ 544 | $ 391 | $ 1,502 |
| Capital lease obligations incurred | $ 388 | $ -- | $ -- |

The accompanying notes are an integral part of these Consolidated Financial Statements.



RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

| | SHARES OUTSTANDING | COMMON STOCK | ADDT'L. PAID-IN CAPITAL | DEFERRED COMPENSATION | TREASURY COMMON STOCK | RETAI EARNI |
|---|---|---|---|---|---|---|
| Balance at December 31, 1998 | 20,719,758 | $207 | $238,109 | $(2,012) | $ -- | $56,4 |
| Shares issued for directors' compensation | 12,841 | -- | 162 | -- | -- | |
| Shares issued for restricted stock award plans | 118,250 | 1 | 1,501 | (1,502) | -- | |
| Compensation expense recognized | -- | -- | -- | 854 | -- | |
| Treasury common stock purchased at cost | (62,300) | -- | -- | -- | (440) | |
| Exercise of employee stock options including tax benefit | 9,750 | -- | 40 | -- | -- | |
| Net income | -- | -- | -- | -- | -- | 2,2 |
| Comprehensive income | | | | | | |
| Balance at December 31, 1999 | 20,798,299 | $208 | $239,812 | $(2,660) | $ (440) | $58,6 |
| Shares issued for directors' compensation | 12,110 | -- | 166 | -- | -- | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Shares issued for restricted stock award plans........... | 53,500 | -- | 391 | (391) | -- | |
| Compensation expense recognized.................. | -- | -- | -- | 864 | -- | |
| Treasury common stock purchased at cost........... | (32,450) | -- | -- | -- | (406) | |
| Exercise of employee stock options including tax benefit..................... | 20,503 | -- | 158 | -- | -- | |
| Net income.................... | -- | -- | -- | -- | -- | 6,7 |
| Adjustment to excess minimum pension liability........... | -- | -- | -- | -- | -- | |
| Comprehensive income.......... | | | | | | |
| Balance at December 31, 2000........................ | 20,851,962 | $208 | $240,527 | $(2,187) | $ (846) | $65,4 |
| Shares issued for directors' compensation................ | 14,619 | -- | 187 | (187) | -- | |
| Shares issued for restricted stock award plans........... | 34,500 | -- | 544 | (544) | -- | |
| Compensation expense recognized.................. | -- | -- | -- | 640 | -- | |
| Treasury common stock purchased at cost........... | (210,100) | -- | -- | -- | (1,766) | |
| Exercise of employee stock options including tax benefit..................... | 39,623 | 2 | 321 | -- | -- | |
| Net income.................... | -- | -- | -- | -- | -- | 12,0 |
| Adjustment to excess minimum pension liability........... | -- | -- | -- | -- | -- | |
| Unrealized gains on investments held for sale... | -- | -- | -- | -- | -- | |
| Comprehensive income.......... | | | | | | |
| Balance at December 31, 2001........................ | 20,730,604 | $210 | $241,579 | $(2,278) | $(2,612) | $77,4 |

| | COMPREHENSIVE INCOME |
|---|---|
| Balance at December 31, 1998........................ | |
| Shares issued for directors' compensation................ | |
| Shares issued for restricted stock award plans........... | |
| Compensation expense recognized.................. | |
| Treasury common stock purchased at cost........... | |
| Exercise of employee stock options including tax benefit..................... | |
| Net income.................... | $ 2,223 |
| Comprehensive income.......... | $ 2,223 |
| Balance at December 31, | |

| | |
|---|---|
| 1999....................... | |
| Shares issued for directors' compensation................ | |
| Shares issued for restricted stock award plans........... | |
| Compensation expense recognized.................. | |
| Treasury common stock purchased at cost........... | |
| Exercise of employee stock options including tax benefit.................... | |
| Net income................... | $ 6,731 |
| Adjustment to excess minimum pension liability........... | (1,258) |
| Comprehensive income.......... | $ 5,473 |
| Balance at December 31, 2000....................... | |
| Shares issued for directors' compensation................ | |
| Shares issued for restricted stock award plans........... | |
| Compensation expense recognized.................. | |
| Treasury common stock purchased at cost........... | |
| Exercise of employee stock options including tax benefit.................... | |
| Net income................... | $12,078 |
| Adjustment to excess minimum pension liability........... | (7,419) |
| Unrealized gains on investments held for sale... | 1,260 |
| Comprehensive income.......... | $ 5,919 |
| Balance at December 31, 2001....................... | |

The accompanying notes are an integral part of these Consolidated Financial Statements.



RTI INTERNATIONAL METALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS, UNLESS OTHERWISE NOTED)

NOTE 1-- ORGANIZATION AND OPERATIONS:

The Company is a successor to entities that have been operating in the titanium industry since 1951. The Company is engaged in the manufacture of titanium mill products and the fabrication and distribution of titanium and other specialty metal products for use in the aerospace, oil and gas exploration and production, geo-thermal energy production, chemical processing, and other industries.

The consolidated financial statements of RTI International Metals, Inc. (the "Company") include the financial position and results of operations for the Company and its subsidiaries.

NOTE 2-- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation:

The consolidated financial statements include the accounts of RTI International Metals, Inc. and its majority owned and wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated.

Use of estimates:

Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

Inventories:

Inventories are valued at cost as determined by the last-in, first-out (LIFO) method for approximately 60% of the Company's inventories. The remaining inventories are valued at cost determined by a combination of the first-in, first-out (FIFO) and weighted average cost methods. Inventory costs generally include materials, labor costs and manufacturing overhead (including depreciation). When market conditions indicate an excess of carrying cost over market value, a lower-of-cost-or-market provision is recorded.

Property, plant and equipment:

In general, depreciation and amortization of properties is determined using the straight-line method over the estimated useful lives of the various classes of assets. For financial accounting purposes, depreciation and amortization are provided over the following useful lives:

| | |
|---|---|
| Building and improvements................................. | 20-25 years |
| Machinery and equipment................................... | 10-14 years |
| Furniture and fixtures.................................... | 3-10 years |
| Computer hardware and software............................ | 3-10 years |

The cost of properties retired or otherwise disposed of, together with the accumulated depreciation provided thereon, is eliminated from the accounts. The net gain or loss is recognized in other income and expense.

Routine maintenance, repairs and replacements are charged to operations. Expenditures that materially increase values, change capacities or extend useful lives are capitalized.

The cost of property, plant and equipment includes all direct costs of acquisition and capital improvements. Applicable amounts of interest on borrowings outstanding during the construction or acquisition period for major capital projects are capitalized.

Under the provisions of SOP 98-1, the Company capitalizes costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and management has authorized



further funding for the project which it deems probable will be completed and used to perform the function intended. Capitalized costs include only (1) external direct costs of materials and services consumed in developing or obtaining internal-use software, (2) payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software project, and (3) internal costs incurred, when material, while developing internal-use software. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose.

Goodwill:

Goodwill arising from business acquisitions, which represents the excess of the purchase price over the fair value of the assets acquired is generally amortized over the life of assets acquired, not to exceed 25 years.

The carrying amount of goodwill is reviewed if facts and circumstances suggest that it may be impaired. If this review indicates that the carrying amount of goodwill will not be recoverable, as determined based on the estimated undiscounted cash flows of the acquired entity to which the goodwill relates over the remaining amortization period, the carrying amount of the goodwill is reduced by the estimated shortfall of discounted cash flows. In addition, goodwill associated with assets acquired in a purchase business combination are included in impairment evaluations when events or circumstances exist that indicate the carrying amount of those assets may not be recoverable.

Environmental:

The Company expenses environmental expenditures related to existing conditions from which no future benefit is determinable. Expenditures that enhance or extend the life of the assets are capitalized. The Company determines its liability for remediation on a site by site basis and records a liability at the time when it is probable and can be reasonably estimated. The Company's estimated liability is reduced to reflect the anticipated participation of other potentially responsible parties in those instances where it is probable that such parties are legally responsible and financially capable of paying their respective shares of the relevant costs. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers.

Revenue and cost recognition:

Revenues from the sale of commercial products are recognized upon passage of title and risk of ownership to the customer, which in most cases coincides with shipment. Revenues from long-term, fixed-price contracts are recognized on the percentage-of-completion method, measured based on the achievement of certain milestones in the production and fabrication process. Such milestones have been weighted based on the critical nature of the operation performed, which management believes is the best available measure of progress on these contracts. Revenues related to cost-plus-fee contracts are recognized on the basis of costs incurred during the period plus the fee earned.

Contract costs comprise all direct material and labor costs, including outside processing fees, and those indirect costs related to contract performance. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Contract costs and estimated earnings on uncompleted contracts, net of progress billings, are included in the consolidated balance sheet under "Inventories."

Pensions:

The Company and its subsidiaries have a number of pension plans which cover substantially all employees. Most employees in the Titanium Group are covered by defined benefit plans in which benefits are based on years of service and annual compensation. Contributions to the defined benefit plans, as determined by an independent actuary in accordance with applicable regulations, provide not only for benefits attributed to date but also for those expected to be earned in the future. The Company's policy is to fund pension costs at amounts equal to the minimum funding requirements of ERISA plus additional amounts as may be approved from time to time.



The majority of employees in the Fabrication and Distribution Group participate in defined contribution or money purchase plans. Employees of Tradco, Inc., a company which operates as part of the Fabrication and Distribution Group, except those employees assigned to the Titanium Group, participate in a defined benefit plan.

Postretirement benefits:

The Company provides health care benefits and life insurance coverage for certain of its employees and their dependents. Under the Company's current plans, certain of the Company's employees will become eligible for those benefits if they reach retirement age while working with the Company. In general, employees of the Titanium Group are covered by postretirement health care and life insurance benefits.

The Company does not prefund postretirement benefit costs, but rather pays claims as presented.

Income taxes:

In connection with the 1990 Reorganization and Initial Public Offering, the tax basis of RMI Titanium Company's assets at that time reflected the fair market value of the common stock then issued by RMI. The new tax basis was allocated to all assets of RMI based on federal income tax rules and regulations, and the results of an independent appraisal. For financial statement purposes, these assets are carried at historical cost. As a result, the tax basis of a significant portion of RMI's assets exceeds the related book values and depreciation and amortization for tax purposes exceeds the corresponding financial statement amounts.

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities multiplied by the enacted tax rates which will be in effect when these differences are expected to reverse. In addition, deferred tax assets may arise from net operating losses ("NOL") which can be carried forward to offset future taxable income, as well as tax credits which can be carried forward to offset future cash tax liabilities.

Statement of Financial Accounting Standards No. 109 (SFAS No. 109), "Accounting for Income Taxes," requires a valuation allowance when it is "more likely than not" that some portion or all of the deferred tax assets will not be realized. The Company continually evaluates the available evidence supporting the realization of deferred tax assets and adjusts the valuation allowance accordingly.

Foreign currencies:

For foreign subsidiaries whose functional currency is the U.S. dollar, monetary assets and liabilities are remeasured at current rates, non-monetary assets and liabilities are remeasured at historical rates, and revenues and expenses are translated at average rates on a monthly basis throughout the period. Resulting differences from the remeasurement process are recognized in income in the respective category of revenue or cost.

Transactions and balances denominated in currencies other than the functional currency of the transacting entity are remeasured at current rates when the transaction occurs and at each balance sheet date.

Derivative financial instruments:

The Company may enter into derivative financial instruments only for hedging purposes. Prior to the adoption of SFAS No. 133 in January of 2001, gains or losses arising on the derivative instrument were deferred when changes in the value of the derivative effectively reduced the underlying exposure. If a derivative instrument failed to meet the criteria as an effective hedge, gains and losses were recognized currently in income.

SFAS No. 133 requires all derivatives to be recognized as either assets or liabilities on the balance sheet and be measured at fair value. Changes in such fair value will be recognized in income immediately if the derivatives are designated for purposes other than hedging or are deemed not to be effective hedges. The Company adopted SFAS No. 133 on January 1, 2001. A net charge of $0.2 million is reflected as a cumulative effect of adoption of SFAS No. 133 in the Company's results of operations for 2001.



Stock-based compensation:

As permitted by the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), the Company has elected to measure stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and to adopt the disclosure-only alternative described in SFAS No. 123. For restricted stock awards, the Company records deferred stock-based compensation based on the fair market value of common stock on the date of the award. Such deferred stock-based compensation is amortized over the vesting period of each individual award.

Cash equivalents:

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Other income -- net:

During 2001, the Company received a common stock distribution in connection with the demutualization of one of its insurance carriers. The fair market value of the common stock on the date of distribution of $5.2 million was recorded in other income. At December 31, 2001 an unrealized gain of $1.2 million, net of tax, was recorded in other comprehensive income and the total carrying value was reflected in other current assets.

New accounting standards:

On July 20, 2001, the FASB issued Statements of Financial Accounting

Standards No. 141 (FAS 141), "Business Combinations", and No. 142 (FAS 142), "Goodwill and Other Intangible Assets".

FAS 141 supersedes Accounting Principles Board Opinion No. 16 (APB 16), "Business Combinations". The most significant changes made by FAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001; (2) establishing specific criteria for the recognition of intangible assets separately from goodwill; and (3) requiring unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

FAS 142 supersedes APB 17, "Intangible Assets". FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the post-acquisition accounting). The most significant changes made by FAS 142 are: (1) goodwill and indefinite lived intangible assets will no longer be amortized; (2) goodwill will be tested for impairment at least annually at the reporting unit level; (3) intangible assets deemed to have an indefinite life will be tested for impairment at least annually; and (4) the amortization period of intangible assets with finite lives will no longer be limited to forty years.

FAS 141 must be applied to all business combinations initiated after June 30, 2001. FAS 142 must be adopted as of January 1, 2002. All of the Company's acquisitions in recent years have been accounted for under purchase accounting. At adoption of FAS 142, an evaluation of goodwill and intangible assets will be required and any impairment of goodwill or intangible assets at that time will be recognized as a cumulative effect of adoption. Management has completed a preliminary evaluation of the impact of adoption of FAS 142. This change in accounting will increase 2002 net income by approximately $1.0 million or 4.8 cents per share because goodwill amortization will cease. The standard also requires a reassessment of intangibles and goodwill for impairment. The Company expects to finalize its reassessment by the end of the second quarter 2002, but does not believe the new standard will have a material impact.

In August 2001, the FASB issued FAS 143, "Accounting for Asset Retirement Obligations." FAS 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including: (1) the timing of liability recognition; (2) initial measurement of the liability; (3) allocation of the cost of the obligation to expense; (4) measurement and recognition of subsequent changes to the liability; and (5) financial statement disclosures. FAS 143 requires that an asset retirement cost be capitalized as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The standard is required to be adopted in fiscal years beginning after June 15, 2002. At adoption, any transition adjustment required will be reported as a cumulative effect of a change in accounting principle. Management has not yet completed its evaluation of the impact of the adoption of this standard.



In September 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." FAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). This standard prescribes a single accounting model for long-lived assets to be disposed of by sale, and also prescribes the accounting for the impairment of long-lived assets to be held and used and for assets to be disposed of by other than sale (e.g., abandonment). Under this standard, long-lived assets to be disposed of by sale should be carried at the lower of their carrying amount or fair value less cost to sell and depreciation (amortization) should cease. Discontinued operations are no longer measured on a net realizable value basis, and future operating losses are no longer recognized before they occur. For long-lived assets to be held and used, the significant changes under FAS 143 are: (1) the removal of goodwill from the scope of this standard; (2) the use of probability-weighted cash flow approach to measuring the future cash flows from the assets; and (3) the use of a "primary asset" approach to grouping assets for purposes of testing for impairment. This standard is required to be adopted in fiscal years beginning after December 15, 2001; early adoption is permitted. The requirements of this standard are to be applied prospectively from adoption with no cumulative effect of change in accounting principle reported. Management has completed a preliminary evaluation and does not expect a material financial impact from the adoption of this standard.

NOTE 3-- ACQUISITIONS:

Reamet

Pursuant to a Stock Purchase Agreement dated December 14, 2000, RTI acquired the remaining 70,000 shares of Reamet of Villette, France for cash of $4.0 million. This acquisition was accounted for using the purchase method of accounting.

Reamet is a premier distributor of titanium products to the French market. Reamet was previously accounted for under the cost basis of accounting, despite the Company's 40% interest due to the practical inability of RTI to exercise significant influence.

The accompanying financial statements include the results of operations of Reamet from the date of acquisition on December 14, 2000. The following unaudited pro forma income statement data presents a summary of the results of operations of RTI and Reamet on a combined basis as if the acquisition had occurred on January 1, 1999 and January 1, 2000. This pro forma combined data is presented for informational purposes only and may not necessarily reflect the results of operations of the Company had the acquisition occurred on January 1, 1999 or January 1, 2000.

| | YEAR ENDED DECEMBER 31, | |
| --- | --- | --- |
| | PRO FORMA 2000 | PRO FORMA 1999 |
| | (UNAUDITED) | (UNAUDITED) |
| Net sales | $253,304 | $249,023 |
| Net income | $ 8,596 | $ 3,343 |
| Net income per common share | | |
| Basic | $ 0.41 | $ 0.16 |
| Diluted | $ 0.41 | $ 0.16 |

The purchase price of $4.9 million, consisting of cash paid of $4.0 million, acquisition costs of $0.3 million, and the Company's original cost of the minority interest it held in Reamet prior to the acquisition of $0.6 million, has been allocated to the assets acquired and liabilities assumed.



NOTE 4-- EARNINGS PER SHARE:

A reconciliation of the income and weighted average number of outstanding common shares used in the calculation of basic and diluted earnings per share for each of the years ended December 31, 2001, 2000, and 1999, follows (in thousands except number of shares and per share amounts):

| | NET INCOME | SHARES | EARNINGS PER SHARE |
|---|---|---|---|
| For the year ended December 31, 2001 | | | |
| Basic EPS | $12,078 | 20,848,056 | $0.58 |
| Effect of potential common stock: | | | |
| Stock options | -- | 184,680 | (0.01) |
| Diluted EPS | $12,078 | 21,032,736 | $0.57 |
| For the year ended December 31, 2000 | | | |
| Basic EPS | $ 6,731 | 20,848,783 | $0.32 |
| Effect of potential common stock: | | | |
| Stock options | -- | 176,208 | -- |
| Diluted EPS | $ 6,731 | 21,024,991 | $0.32 |
| For the year ended December 31, 1999 | | | |
| Basic EPS | $ 2,223 | 20,776,200 | $0.11 |
| Effect of potential common stock: | | | |
| Stock options | -- | 94,683 | -- |
| Diluted EPS | $ 2,223 | 20,870,883 | $0.11 |

735,978, 780,600, and 772,177 shares of common stock issuable upon exercise of employee stock options have been excluded from the calculation of diluted earnings per share in 2001, 2000 and 1999, respectively, because the exercise price of the options exceeded the weighted average market price of the Company's common stock during those periods.

NOTE 5-- ACCOUNTS RECEIVABLE:

| | DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| Trade and commercial customers | $50,581 | $44,425 |
| U.S. Government--Department of Energy | 1,210 | 2,918 |

| | | |
|---|---|---|
| | 51,791 | 47,343 |
| Less--Allowance for doubtful accounts | (1,219) | (926) |
| | $50,572 | $46,417 |

NOTE 6--INVENTORIES:

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| Raw materials and supplies | $ 30,304 | $ 35,323 |
| Work-in-process and finished goods | 142,041 | 141,084 |
| Adjustment to LIFO values | (13,784) | (11,197) |
| | $158,561 | $165,210 |



NOTE 7-- PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment is stated at cost and consists of the following:

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 |
|---|---|---|
| Land | $ 1,162 | $ 1,162 |
| Buildings and improvements | 43,803 | 42,767 |
| Machinery and equipment | 142,578 | 132,304 |
| Computer hardware and software, furniture and fixtures, and other | 44,272 | 39,858 |
| Construction in progress | 2,410 | 11,310 |
| | 234,225 | 227,401 |
| Less--Accumulated depreciation | (135,850) | (129,412) |
| | $ 98,375 | $ 97,989 |

NOTE 8--INCOME TAXES:

The "Provision for income taxes" caption in the Consolidated Statement of Income includes the following income tax expense (benefit):

| | DECEMBER 31, 2001 | DECEMBER 31, 2000 | DECEMBER |
|---|---|---|---|

| | CURRENT | DEFERRED | TOTAL | CURRENT | DEFERRED | TOTAL | CURRENT | DEFE |
|---|---|---|---|---|---|---|---|---|
| Federal.............. | $3,053 | $3,190 | $6,243 | $1,390 | $2,806 | $4,196 | $(4,227) | $5, |
| State................ | 294 | 449 | 743 | 184 | 503 | 687 | 36 | |
| Foreign.............. | 700 | 157 | 857 | (19) | (186) | (205) | (42) | |
| Total.............. | $4,047 | $3,796 | $7,843 | $1,555 | $3,123 | $4,678 | $(4,233) | $5, |

A reconciliation of the expected tax at the federal statutory tax rate to the actual provision follows:

| | DECEMBER 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| Statutory rate of 35% applied to income before income taxes.................................................. | $7,037 | $3,993 | $1,234 |
| Effects of net operating loss carryforwards and valuation allowance adjustments.................................. | -- | -- | 312 |
| State income taxes, net of federal benefit................ | 483 | 450 | 559 |
| Adjustments of prior year's tax........................... | 374 | (82) | (844) |
| Effects of foreign operations............................. | (415) | (148) | (530) |
| Nondeductible expenses.................................... | 364 | 465 | 573 |
| Total provision.......................................... | $7,843 | $4,678 | $1,304 |



Deferred tax assets and liabilities resulted from the following:

| | DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| Deferred tax assets | | |
| Inventories............................................ | $ 4,925 | $ 5,003 |
| Intangible assets...................................... | -- | 1,460 |
| Postretirement benefit costs........................... | 7,615 | 7,632 |
| Employment costs....................................... | 2,382 | 2,325 |
| Tax credits............................................ | 1,807 | 2,012 |
| Environmental related costs............................ | 638 | 697 |
| Pension costs.......................................... | 72 | -- |
| Other.................................................. | 1,052 | 1,213 |
| Total deferred tax assets............................ | 18,491 | 20,342 |
| Deferred tax liabilities | | |
| Pension costs.......................................... | -- | (4,638) |
| Property, plant and equipment.......................... | (10,236) | (9,113) |
| Anthem disposition..................................... | (1,977) | -- |
| Intangible assets...................................... | (156) | -- |

| | | |
|---|---|---|
| Total deferred tax liabilities | (12,369) | (13,751) |
| Net deferred tax asset | $ 6,122 | $ 6,591 |

Alternative minimum tax credits as of December 31, 2001 amounted to $1.8 million and have no expiration date. The valuation allowance of $0.3 million as of December 31, 1999 was taken to income during 2000 due to the expiration of a deferred tax asset related to a capital loss carry forward.

NOTE 9-- LONG-TERM DEBT:

The Company maintains a credit agreement, entered into on September 30, 1998, which provides a $100 million five-year unsecured revolving credit facility. The Company can borrow up to the lesser of $100 million or a borrowing base equal to the sum of 85% of qualifying accounts receivable and 60% of qualifying inventory.

Under the terms of the facility, the Company, at its option, will be able to borrow at (a) a base rate (which is the higher of PNC Bank's prime rate or the Federal Funds Effective Rate plus 0.5% per annum), or (b) LIBOR plus a spread (ranging from .75% to 1.75%) determined by the ratio of the Company's consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization. At December 31, 2001, there were no borrowings outstanding under the facility. At December 31, 2001, the Company was in compliance with all covenants under this agreement, and under the leverage covenant, had a borrowing capacity equal to the total amount of the agreement.

| | DECEMBER 31, | |
|---|---|---|
| | 2001 | 2000 |
| Revolving credit facility maturing September 29, 2003 bearing interest at 7.67% at December 31, 2000 | $ -- | $ 19,800 |



NOTE 10-- EMPLOYEE BENEFIT PLANS:

The following table provides reconciliations of the changes in the Company's pension and other postemployment benefit plan obligations and the values of plan assets for the years ended December 31, 2001 and 2000, and a statement of the funded status as of December 31, 2001 and 2000.

| | PENSION BENEFIT PLANS | | OTHER POSTRETIREMENT BENEFIT PLANS | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| CHANGE IN BENEFIT OBLIGATION: | | | | |
| Benefit obligation January 1 | $ 91,278 | $ 84,839 | $ 19,228 | $ 16,629 |

| | | | | |
|---|---|---|---|---|
| Service cost | 1,890 | 1,757 | 251 | 223 |
| Interest cost | 6,380 | 6,329 | 1,340 | 1,396 |
| Plan amendments | -- | -- | -- | 2,118 |
| Actuarial (gain) loss | 2,771 | 4,993 | 904 | 6 |
| Benefits paid | (6,774) | (6,640) | (1,758) | (1,144) |
| Benefit obligation December 31 | $ 95,545 | $ 91,278 | $ 19,965 | $ 19,228 |
| CHANGE IN PLAN ASSETS: | | | | |
| Fair value of plan assets January 1 | $ 90,533 | $ 94,115 | | |
| Actual return on plan assets | 1,352 | 2,995 | | |
| Employer contributions | 67 | 63 | | |
| Benefits paid | (6,774) | (6,640) | | |
| Fair value of plan assets December 31 | $ 85,178 | $ 90,533 | | |

As of December 31, 2001, approximately 54.3% of the plans' assets are invested in equity securities, 22.1% in government debt instruments, and the balance in cash equivalents or debt securities. Included in the aggregate disclosures above are four plans for which the projected benefit obligation exceeds the fair value of plan assets at December 31, 2001 by $10.4 million. As of December 31, 2000, the projected benefit obligation exceeded the fair value of plan assets in three plans.

| | PENSION BENEFIT PLANS | | OTHER POSTRETIREMENT BENEFIT PLANS | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| FUNDED STATUS: | | | | |
| Funded status December 31 | $(10,367) | $ (745) | $(19,965) | $(19,228) |
| Unrecognized (gain) loss | 18,500 | 9,273 | (1,725) | (2,683) |
| Unrecognized prior service cost | 4,388 | 5,179 | 1,750 | 1,925 |
| Net amount recognized | $ 12,521 | $ 13,707 | $(19,940) | $(19,986) |

Amounts recognized in the Consolidated Balance Sheet at December 31 consist of the following:

| | PENSION BENEFIT PLANS | | OTHER POSTRETIREMENT BENEFIT PLANS | |
|---|---|---|---|---|
| | 2001 | 2000 | 2001 | 2000 |
| Prepaid benefit cost | $ 12,521 | $ 13,707 | $ -- | $ -- |
| Intangible asset | 4,438 | 5,171 | -- | -- |
| Accrued benefit liability | -- | -- | (19,940) | (19,986) |
| Additional minimum liability | (17,787) | (7,106) | -- | -- |
| Accumulated other comprehensive income | 13,349 | 1,935 | -- | -- |
| | $ 12,521 | $ 13,707 | $(19,940) | $(19,986) |

Net periodic benefit costs as determined by independent actuaries, include the following components:

| | PENSION BENEFIT PLANS | | | OTHER POSTRETIREMENT BENEFIT PLANS | | |
|---|---|---|---|---|---|---|
| | 2001 | 2000 | 1999 | 2001 | 2000 | 1999 |
| Service cost | $ 1,890 | $ 1,757 | $ 1,801 | $ 251 | $ 223 | $ 197 |
| Interest cost | 6,380 | 6,329 | 5,461 | 1,340 | 1,396 | 1,211 |
| Expected return on assets | (7,908) | (7,640) | (7,183) | -- | -- | -- |
| Prior service cost amortization | 791 | 791 | 791 | 175 | 193 | -- |
| Amortization of actuarial loss | 100 | 2 | 175 | -- | -- | -- |
| Amortization of transition obligation | -- | 256 | 307 | -- | -- | -- |
| Net periodic benefit cost | $ 1,253 | $ 1,495 | $ 1,352 | $ 1,766 | $ 1,812 | $ 1,408 |

Assumptions used in the determination of the benefit obligations include the following:

| | 2001 | 2000 |
|---|---|---|
| Discount rate | 7.00% | 7.25% |
| Rate of increase in compensation | 4.8% | 4.8% |
| Expected return on plan assets | 9.0% | 9.0% |

The ultimate costs of certain of the Company's retiree health care plans are capped at predetermined out-of-pocket spending limits. The annual rate of increase in the per capita costs for these plans is limited to the predetermined spending cap. As of December 31, 2001, the predetermined limits had been reached and, as a result, increases in claim cost rates will have no impact on the reported accumulated postretirement benefit obligation or net periodic expense.

As identified under Management's Discussion and Analysis of Financial Condition and Results of Operations, the Company acquired stock under the demutualization of one of its insurance carriers in 2001. The Company subsequently sold all of the stock for $7.2 million and immediately contributed the amount to each of its four defined benefit pension plans in January of 2002.

NOTE 11-- LEASES:

The Company and its subsidiaries have entered into various operating and capital leases for the use of certain equipment, principally office equipment and vehicles. The operating leases generally contain renewal options and provide that the lessee pay insurance and maintenance costs. The total rental expense under operating leases amounted to $2.7 million in 2001, $3.7 million in 2000 and $3.6 million in 1999.

The Company's future minimum commitments under operating and capital leases for years after 2001 are as follows (in thousands):

| | OPERATING | CAPITAL |
|---|---|---|
| 2002 | $2,726 | $ 807 |
| 2003 | 1,908 | 246 |
| 2004 | 1,356 | 169 |
| 2005 | 989 | 128 |
| 2006 | 896 | 35 |
| Thereafter | 1,847 | 22 |
| Total lease payments | $9,722 | 1,407 |
| Less interest portion | | (131) |
| Amount recognized as capital lease obligations | | $1,276 |



NOTE 12-- TRANSACTIONS WITH RELATED PARTIES:

The Company, in the ordinary course of business, purchases goods and services from USX, which was deemed a related party until March 31, 1999. On that date, USX's right to approximately 27% ownership of the Company was irrevocably transferred. In 1999, the Company purchased goods and services equal to $0.8 million.

The United States Steel and Carnegie Pension Fund (the "Pension Fund") is the trustee of the Company's pension plans. The Pension Fund is a registered investment advisor under the Investment Advisors Act of 1940, and receives a negotiated fee for such services. The Company paid the Pension Fund $131,000 in 1999. For the years 2000 and 2001, the Pension Fund was not considered a related party.

Mr. Richard Burkhart, an officer of the Company prior to his resignation in February, 2000, received, as a 50% owner of XXI, LLC, the benefit of rent paid for a building in Solon, Ohio amounting to $199,445 in 2000 and $159,566 in 1999. On January 6, 1999, RTI paid $16,247,443 to Mr. Burkhart as part of the purchase of NCM. Mr. Burkhart was 50% owner of NCM.

NOTE 13-- SEGMENT REPORTING:

The Company's reportable operating segments are the Titanium Group and the Fabrication and Distribution Group.

The Titanium Group manufactures and sells a wide range of titanium mill products to a customer base consisting primarily of manufacturing and fabrication companies in the aerospace and nonaerospace markets. Titanium mill products consist of basic mill shapes such as ingot, slab, bloom, billet, bar, plate, sheet, strip and welded tube. Titanium mill products are sold primarily to customers such as metal fabricators, forge shops and, to a lesser extent, metal distribution companies. Titanium mill products are usually raw or starting material for these customers, who then form, fabricate or further process mill products into finished or semi-finished components or parts.

The Fabrication and Distribution Group is engaged primarily in the fabrication of titanium, specialty metals and steel products, including pipe and engineered tubular products, for use in the oil and gas and geo-thermal energy industries; hot and superplastically formed parts; and cut, forged, extruded and rolled shapes for aerospace and nonaerospace applications. This segment also provides warehousing, distribution, finishing, cut-to-size and just-in-time delivery services of titanium, steel and other metal products.

Other Operations is comprised of certain small businesses and operations dissimilar to either the Titanium Group or the Fabrication and Distribution Group, and primarily consists of the Company's Environmental Services Division located in Ashtabula, Ohio. While the Environmental Services Division is structurally a part of the Titanium Group, the aggregation rules of generally accepted accounting principles do not permit combination with that group for this footnote disclosure.

Intersegment sales are accounted for at prices which are generally established by reference to similar transactions with unaffiliated customers. Reportable segments are measured based on segment operating income after an allocation of certain corporate items such as general corporate overhead and expenses. Assets of general corporate activities include unallocated cash and short-term investments, and deferred taxes.

Segment information for the three years ended December 31, 2001 is as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| NET SALES: | | | |
| Titanium | | | |
| Trade | $126,889 | $124,149 | $125,079 |
| Intersegment | 48,389 | 45,806 | 40,680 |
| | 175,278 | 169,955 | 165,759 |
| Fabrication and distribution | | | |
| Trade | 144,916 | 108,423 | 100,195 |
| Intersegment | 1,605 | 318 | 2,238 |
| | 146,521 | 108,741 | 102,433 |
| Other operations | 14,095 | 16,810 | 18,035 |
| Eliminations | (49,994) | (46,124) | (42,918) |
| Total net sales | $285,900 | $249,382 | $243,309 |



| | 2001 | 2000 | 1999 |
|---|---|---|---|
| OPERATING INCOME (LOSS): | | | |
| Titanium | $ 4,045 | $ 5,608 | $ 9,153 |
| Fabrication and distribution | 4,685 | (17) | (6,356) |
| Other operations | 1,051 | 1,150 | 1,972 |

| | | | |
|---|---|---|---|
| Total | $ 9,781 | $ 6,741 | $ 4,769 |
| Allocated corporate items included in segment operating income (1): | | | |
| Titanium | $ (5,757) | $ (4,051) | $ (6,500) |
| Fabrication and distribution | (2,886) | (2,238) | (3,633) |
| | $ (8,643) | $ (6,289) | $(10,133) |

---------------

(1) Allocated on a three factor formula based on sales, assets and payrolls.

| | | | |
|---|---|---|---|
| ASSETS: | | | |
| Titanium | $216,179 | $227,883 | $255,825 |
| Fabrication and distribution | 157,162 | 149,536 | 134,695 |
| Other operations | 1,787 | 462 | 505 |
| General corporate assets | 12,623 | 8,398 | 9,218 |
| Total consolidated assets | $387,751 | $386,279 | $400,243 |
| CAPITAL EXPENDITURES: | | | |
| Titanium | $ 6,008 | $ 5,564 | $ 20,071 |
| Fabrication and distribution | 6,159 | 5,958 | 6,995 |
| Other operations | -- | 72 | 113 |
| Total capital spending | $ 12,167 | $ 11,594 | $ 27,179 |
| DEPRECIATION AND AMORTIZATION: | | | |
| Titanium | $ 9,917 | $ 8,962 | $ 6,425 |
| Fabrication and distribution | 3,651 | 2,957 | 2,898 |
| Other operations | 17 | 22 | 15 |
| Total depreciation and amortization | $ 13,585 | $ 11,941 | $ 9,338 |



| | | | |
|---|---|---|---|
| REVENUE BY MARKET INFORMATION: | | | |
| Titanium | | | |
| Aerospace | $125,595 | $123,594 | $112,380 |
| Nonaerospace | 49,683 | 46,361 | 53,379 |
| Total | $175,278 | $169,955 | $165,759 |
| Fabrication and distribution | | | |
| Aerospace | $ 92,907 | $ 76,386 | $ 75,163 |
| Nonaerospace | 53,614 | 32,355 | 27,270 |
| Total | $146,521 | $108,741 | $102,433 |
| Other operations | | | |
| Nonaerospace | $ 14,095 | $ 16,810 | $ 18,035 |
| Eliminations | (49,994) | (46,124) | (42,918) |

| | | | |
|---|---|---|---|
| Total net sales | $285,900 | $249,382 | $243,309 |

The following geographic area information includes trade sales based on product shipment destination, and property, plant and equipment based on physical location.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Geographic location of trade sales: | | | |
| United States | $229,345 | $192,058 | $192,434 |
| England | 17,223 | 14,624 | 18,775 |
| France | 14,873 | 17,833 | 13,269 |
| Rest of world | 24,459 | 24,867 | 18,831 |
| Total | $285,900 | $249,382 | $243,309 |
| Gross property, plant and equipment: | | | |
| United States | $231,955 | $225,243 | $213,929 |
| England | 2,058 | 1,976 | 1,944 |
| France | 212 | 182 | -- |
| Total | $234,225 | $227,401 | $215,873 |

In 2001, no single customer accounted for more than 10% of consolidated revenues. In the years ended December 31, 2001, 2000 and 1999, export sales were $56.6 million, $57.3 million, and $50.9 million, respectively, principally to customers in Western Europe.

Substantially all of the Company's sales and operating revenues are generated from its U.S. and European operations. A significant portion of the Company's sales are made to customers in the aerospace industry. The concentration of aerospace customers may expose the Company to cyclical, credit and other risks generally associated with the aerospace industry. In the three years ended December 31, 2001, no single customer accounted for as much as 10% of consolidated sales, although Boeing Company, Airbus Industrie and their subcontractors together consume in excess of 10% of the Company's sales. Trade accounts receivable are generally not secured or collateralized.

NOTE 14-- CONTINGENCIES:

In connection with the 1990 Reorganization, the Company agreed to indemnify USX and Quantum against liabilities related to their ownership of RMI and its immediate predecessor, Reactive Metals, Inc., which was formed by USX and Quantum in 1964.

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. Given the critical nature of many of the aerospace end uses for the Company's



products, including specifically their use in critical rotating parts of gas turbine engines, the Company maintains aircraft products liability insurance of

$250 million, which includes grounding liability.

Environmental Matters

In the ordinary course of business, the Company is subject to environmental laws and regulations concerning the production, handling, storage, transportation, emission, and disposal of waste materials and is also subject to other federal and state laws and regulations regarding health and safety matters. These laws and regulations are constantly evolving, and it is not currently possible to predict accurately the ultimate effect these laws and regulations will have on the Company in the future.

The Company is involved in investigative or cleanup projects under federal or state environmental laws at a number of waste disposal sites, including the Fields Brook Superfund Site and the Ashtabula Area of Concern. Given the status of the proceedings with respect to these sites, ultimate investigative and remediation costs cannot presently be accurately predicted, but could, in the aggregate be material. Based on the information available regarding the current ranges of estimated remediation costs at currently active sites, and what the Company believes will be its ultimate share of such costs, provisions for environmental-related costs have been recorded. These provisions are in addition to amounts which have previously been accrued for the Company's share of environmental study costs.

At December 31, 2001, the amount accrued for future environmental-related costs was $1.7 million. Based on available information, RMI believes its share of potential environmental-related costs, before expected contributions from third parties, is in a range from $2.8 million to $6.5 million, in the aggregate. The amount accrued is net of expected contributions from third parties (other than insurers) of approximately $1.9 to $2.3 million, which the Company believes are probable. The Company has been receiving contributions from such third parties for a number of years as partial reimbursement for costs incurred by the Company. As these proceedings continue toward final resolution, amounts in excess of those already provided may be necessary to discharge the Company from its obligations for these projects.

Gain Contingency

In 1999, RTI made a claim against Boeing Commercial Airplane Group for approximately $7 million for contractual amounts due in connection with the terms of their long-term supply agreement. Under the terms of the contract, Boeing was required to order a minimum of 3.25 million pounds of titanium during 1999. Actual shipments were less than one million pounds. This claim was treated as a gain contingency under SFAS No. 5, "Accounting for Contingencies" (FAS 5), deferring the realization of income until Boeing satisfied the claim.

On April 26, 2000, Boeing satisfied the above-mentioned contractual claim for approximately $6 million. The financial impact of this settlement was recorded in other income in 2000.

In 2000, RTI made a similar claim against Boeing Commercial Airplane Group for approximately $6 million for contractual amounts due in connection with the terms of their long-term supply agreement. Under the terms of the contract, Boeing was required to order a minimum of 3.25 million pounds of titanium during 2000. Actual shipments were approximately 1.1 million pounds. This claim was also treated as a gain contingency under FAS 5, deferring the realization of income until Boeing satisfied the claim.

On March 19, 2001, Boeing satisfied the above-mentioned 2000 contractual claim for approximately $6 million. The financial impact of this settlement was recorded in other income in 2001.

In 2001 RTI made a similar claim against Boeing Commercial Airplane Group for approximately $7.1 million in connection with the terms of their long-term supply agreement. Under the terms of the contract, Boeing was required to order a minimum of 3.25 million pounds of titanium during 2001. Actual shipments were approximately 0.9 million pounds. This claim was also treated as a gain contingency under FAS No 5, deferring realization of income until Boeing satisfies the claim.



Other

The Company is also the subject of, or a party to, a number of other pending or threatened legal actions involving a variety of matters incidental to its business.

The ultimate resolution of these foregoing contingencies could, individually or in the aggregate, be material to the consolidated financial statements. However, management believes that the Company will remain a viable and competitive enterprise even though it is possible that these matters could be resolved unfavorably.

NOTE 15-- STOCK OPTION AND RESTRICTED STOCK AWARD PLANS:

1989 STOCK OPTION INCENTIVE PLAN:

The 1989 Stock Option Incentive Plan authorized the granting of options to purchase up to 775,500 shares of Common Stock to eligible officers and key management employees at not less than the market value on the date the options are granted. Awards under the plan could include stock appreciation rights. The exercise period of the options may be up to ten years from the date of the grant. During 1995 substantially all option holders voluntarily relinquished their stock appreciation rights. No further grants can be made under the plan. There are still stock options outstanding under the 1989 Plan at December 31, 2001.

1995 STOCK PLAN

The 1995 Stock Plan, which was approved by a vote of the Company's shareholders at the 1995 Annual Meeting of Shareholders, replaced both the 1989 Stock Option Incentive Plan and the 1989 Employee Restricted Stock Award Plan. The Plan permits the grant of any or all of the following types of awards in any combination: a) stock options; b) stock appreciation rights; and c) restricted stock. The plan does not permit the granting of options with exercise prices that are less than the market value on the date the options are granted. A committee appointed by the Board of Directors administers the Plan, and determines the type or types of grants to be made under the Plan and sets forth in each such Grant the terms, conditions and limitations applicable to it, including, in certain cases, provisions relating to a possible change in control of the Company.

During 2001, 160,500 option shares were granted at an exercise price of $15.7813. In 2000, 179,000 option shares were granted at an exercise price of $7.313. In 1999, 184,500 option shares were granted at a price of $12.438 and 198,000 option shares were granted at a price of $9.59375. All option exercise prices were equal to the common stock's fair market value on the date of the grant. Options are for a term of ten years from the date of the grant, and vest ratably over the three-year period beginning with the date of the grant. All 2001 grants were outstanding at December 31, 2001.

During 2001, 2000 and 1999, 49,119 shares, 65,610 shares and 53,500 shares, respectively, of restricted stock were granted under the 1995 Stock Plan. Compensation expense equal to the fair market value on the date of the grant is recognized ratably over the vesting period of each grant which is typically five years.



The following table presents a summary of stock option activity under the plans described above for the years ended December 31, 1999 through 2001:

| | SHARES | WEIGHTED AVERAGE EXERCISE PRICE |
|---|---|---|
| Balance January 1, 1999 | 769,219 | $17.21 |
| Granted | 382,500 | $10.97 |
| Exercised | (9,750) | $ 4.06 |
| Balance December 31, 1999 | 1,141,969 | $15.23 |
| Granted | 179,000 | $ 7.31 |
| Exercised | (20,503) | $ 7.81 |
| Expired | (19,891) | $13.32 |
| Balance December 31, 2000 | 1,280,575 | $14.27 |
| Granted | 160,500 | $15.78 |
| Exercised | (39,623) | $ 8.11 |
| Expired | (1,332) | $20.19 |
| Balance December 31, 2001 | 1,400,120 | $14.62 |

At December 31, 2001 the weighted average exercise price and weighted average remaining contractual life for all outstanding options are reflected in the following tables:

OPTIONS OUTSTANDING

| RANGE OF EXERCISE PRICE | NUMBER | WEIGHTED-AVERAGE REMAINING LIFE | WEIGHTED-AVERAGE EXERCISE PRICE |
|---|---|---|---|
| $4.06 | 80,050 | 2.8 | $ 4.06 |
| $7.31 - $9.59 | 360,632 | 7.7 | $ 8.47 |
| $12.44 - $15.78 | 507,336 | 7.7 | $13.94 |
| $20.19 - $25.56 | 452,102 | 5.0 | $22.16 |
| | 1,400,120 | 6.5 | $14.62 |

OPTIONS EXERCISABLE

| RANGE OF EXERCISE PRICE | NUMBER | WEIGHTED-AVERAGE REMAINING LIFE | WEIGHTED-AVERAGE EXERCISE PRICE |
|---|---|---|---|

| | | | |
|---|---|---|---|
| $4.06 | 80,050 | 2.8 | $ 4.06 |
| $7.31 - $9.59 | 181,337 | 7.5 | $ 8.85 |
| $12.44 - $15.78 | 287,670 | 7.0 | $13.23 |
| $20.19 - $25.56 | 452,102 | 5.0 | $22.16 |
| | 1,001,159 | 5.9 | $15.74 |

Fair values of options at grant date were estimated using a Black-Scholes model and the assumptions listed below.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Expected life (years) | 5 | 5 | 5 |
| Risk-free interest rate | 5.0% | 5.0% | 5.5% |
| Volatility | 40.0% | 57.5% | 58.8% |
| Dividend yield | 0% | 0% | 0% |
| Weighted average fair value of options granted during the year | $6.75 | $3.98 | $6.13 |



If compensation expense for the Company's stock options granted had been determined based on the fair value at the grant date for the awards in accordance with SFAS No. 123, the effect on the Company's net income and earnings per share for the three years ended December 31, 2001 would have been as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Net income | | | |
| As reported | $12,078 | $6,731 | $2,223 |
| Pro forma | 11,381 | 5,870 | 760 |
| Basic earnings per share | | | |
| As reported | $ 0.58 | $ 0.32 | $ 0.11 |
| Pro forma | $ 0.55 | $ 0.28 | $ 0.04 |
| Diluted earnings per share | | | |
| As reported | $ 0.57 | $ 0.32 | $ 0.11 |
| Pro forma | $ 0.54 | $ 0.28 | $ 0.04 |

NOTE 16-- SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED):

The following table sets forth selected quarterly financial data for 2001 and 2000.

| 2001 | 1ST QUARTER(1) | 2ND QUARTER | 3RD QUARTER | 4TH QUARTER(2) |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Sales | $66,239 | $74,868 | $76,047 | $68,746 |
| Gross profit | 9,511 | 10,188 | 11,980 | 11,745 |
| Operating income | 800 | 1,310 | 3,852 | 3,819 |
| Net income | 3,867 | 629 | 2,287 | 5,295 |
| Net income per share: | | | | |
| Basic | $ 0.19 | $ 0.03 | $ 0.11 | $ 0.26 |
| Diluted | $ 0.18 | $ 0.03 | $ 0.11 | $ 0.25 |

| 2000 | 1ST QUARTER | 2ND QUARTER(1) | 3RD QUARTER | 4TH QUARTER |
|---|---|---|---|---|
| Sales | $70,508 | $63,345 | $61,723 | $53,806 |
| Gross profit | 10,760 | 8,926 | 8,634 | 7,630 |
| Operating income | 3,223 | 1,779 | 1,697 | 42 |
| Net income | 1,585 | 4,835 | 398 | (87) |
| Net income per share: | | | | |
| Basic | $ 0.08 | $ 0.23 | $ 0.02 | $ -- |
| Diluted | $ 0.08 | $ 0.23 | $ 0.02 | $ -- |

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(1) Net income was favorably affected by the financial settlements from Boeing related to its failure to meet 2000 and 1999 minimum order requirements under terms of a long-term agreement between RTI and Boeing.

(2) Net income was favorably affected by the receipt of a Common Stock distribution in connection with the demutualization of one of the Company's insurance carriers.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

In addition to the information set forth under the caption "Executive Officers of the Registrant" in Part I, Item 1 of this report, information concerning the directors of the Company is incorporated by reference to "Election of Directors" in the 2001 Proxy Statement, to be filed at a later date.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to "The Board of Directors--Compensation of Directors" and "Executive Compensation" in the 2001 Proxy Statement, to be filed at a later date.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is incorporated by reference to "Other

Information--Security Ownership" in the 2001 Proxy Statement, to be filed at a later date.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is incorporated by reference to "Certain Relationships and Related Transactions" in the 2001 Proxy Statement, to be filed at a later date.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A)(1) AND (2) FINANCIAL STATEMENTS

See "Financial Statements."

(3) See Index to Exhibits.

(B) REPORT ON FORM 8-K FILED IN THE FOURTH QUARTER OF 2001

On December 26, 2001, the Company filed a report on Form 8-K reporting Item 5., announcing receipt of common stock valued at $6.6 million

(C) EXHIBITS

The exhibits listed on the Index to Exhibits are filed herewith or are incorporated by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RTI INTERNATIONAL METALS, INC.

By /s/ LAWRENCE W. JACOBS

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Lawrence W. Jacobs
Vice President,
Chief Financial Officer & Treasurer

Dated: March 14, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE AND TITLE | DATE |
| --- | --- |
| CRAIG R. ANDERSSON, Director; | |
| NEIL A. ARMSTRONG, Director; | |

DANIEL I. BOOKER, Director;

RONALD L. GALLATIN, Director;

CHARLES C. GEDEON, Director;

ROBERT M. HERNANDEZ, Director;

EDITH E. HOLIDAY, Director;

JOHN H. ODLE, Director;

WESLEY W. VON SCHACK, Director

/s/ TIMOTHY G. RUPERT March 14, 2002

T. G. Rupert
Attorney-in-Fact

/s/ TIMOTHY G. RUPERT March 14, 2002

T. G. Rupert
Director and President and Chief Executive Officer
(Principal Executive Officer)

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INDEX TO EXHIBITS

| EXHIBIT NO. | DESCRIPTION | SEQUENTIAL PAGE NUMBER |
|---|---|---|
| 2.0 | Amended and Restated Reorganization Agreement, incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 No. 33-30667 Amendment No. 1 | |
| 2.1 | Stock Purchase Agreement, dated as of October 1, 1998, by and among RTI International Metals, Inc., New Century Metals, Inc., Richard R. Burkhart and Joseph H. Rice, incorporated by reference to Exhibit 2.1 and 2.2 to the Company's Current Report on Form 8-K dated October 15, 1998 | |
| 2.2 | Asset Purchase Agreement, dated October 1, 1998, by and among Weld-Tech Engineering Services, L.P. and Weld-Tech Engineering, L.P., incorporated by reference to Exhibit 2.1 and 2.2 to the Company's Current Report on Form 8-K dated October 15, 1998 | |
| 3.1 | Amended and Restated Articles of Incorporation of the Company, effective April 29, 1999, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 | |
| 3.2 | Amended Code of Regulations of the Company, incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-4 No. 333-61935 | |
| 4.1 | Credit Agreement between RTI International Metals, Inc. and PNC Bank, National Association, as agent; Mellon Bank, National Association of Pennsylvania and Bank One, National | |

| | |
|---|---|
| | Association as co-agents, dated as of September 30, 1998, incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1998 |
| 4.2 | Amendment to Credit Agreement between RTI International Metals, Inc. and PNC Bank, National Association, as agent: Mellon Bank, National Association of Pennsylvania and Bank One, National Association, as co-agents, dated May 11, 2000, incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 |
| 10.1 | RMI Company Annual Incentive Compensation Plan, incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 No. 33-30667 Amendment No. 2 |
| 10.2 | RMI Titanium Company 1989 Stock Option Incentive Plan, incorporated by reference to exhibit 10.4 to the Company's Registration Statement on Form S-1 No. 33-30667 Amendment No. 2. |
| 10.3 | RTI International Metals, Inc. Supplemental Pension Plan effective August 1, 1987, and amended as of January 28, 2000, incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 |
| 10.4 | RTI International Metals, Inc. Excess Benefits Plan effective July 18, 1991, as amended January 28, 2000, incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 |
| 10.5 | RTI International Metals, Inc., 1995 Stock Plan incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 |
| 10.6 | Employment agreement, dated August 1, 1999, between the Company and John H. Odle, incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 |
| 10.7 | Employment agreement, dated August 1, 1999, between the Company and T. G. Rupert, incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 |
| 10.8 | Employment agreement, dated August 1, 1999 between the Company and Dawne S. Hickton, incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 |



| EXHIBIT NO. | DESCRIPTION | SEQUENTIAL PAGE NUMBER |
|---|---|---|
| 10.9 | Employment agreement, dated August 1, 1999 between the Company and Lawrence W. Jacobs, incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 | |
| 10.10 | Employment agreement, dated November 1, 1999, between the Company and Gordon L. Berkstresser, incorporated by reference to Exhibit 10.14 to the Company's Annual Report on | |

| | |
|---|---|
| | Form 10-K for the year ended December 31, 1999 |
| 21 | Subsidiaries of the Company |
| 23.1 | Consent of PricewaterhouseCoopers LLP |
| 24 | Powers of Attorney |
| 99.1 | Financial Statements of The RMI Employee Savings and Investment Plan for the year ended December 31, 2001 (to be filed by amendment) |
| 99.2 | Financial Statements of The RMI Bargaining Unit Employee Savings and Investment Plan for the year ended December 31, 2001 (to be filed by amendment) |

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
RTI International Metals, Inc.

Our audits of the consolidated financial statements referred to in our report dated January 25, 2002, appearing in this Annual Report on Form 10-K of RTI International Metals, Inc. also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in connection with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Pittsburgh, Pennsylvania
January 25, 2002

S-1

RTI INTERNATIONAL METALS, INC.

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS)

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | (CHARGED) CREDITED TO COSTS AND EXPENSES | WRITEOFFS AGAINST ALLOWANCE | OTHER | BA AT OF |
|---|---|---|---|---|---|
| Year ended December 31, 2001: | | | | | |
| Allowance for doubtful accounts.......... | $ (926) | $(820) | $527 | $ -- | $( |
| Valuation allowance for deferred income taxes................................ | $ -- | $ -- | $ -- | $ -- | $ |
| Year ended December 31, 2000: | | | | | |
| Allowance for doubtful accounts.......... | $(1,454) | $ 197 | $331 | $ -- | $ |
| Valuation allowance for deferred income taxes................................ | $ (312) | $ -- | $312 | $ -- | $ |

| | | | | | |
|---|---|---|---|---|---|
| Year ended December 31, 1999: | | | | | |
| Allowance for doubtful accounts.......... | $(1,067) | $(256) | $ -- | $ (131)(a) | |
| Valuation allowance for deferred income taxes................................ | $ -- | $(312) | $ -- | $ -- | $ |

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(a) Allowance for doubtful accounts recorded in final opening balance sheet of subsidiaries acquired in fourth quarter of 1998.