

Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

RTI INTERNATIONAL METALS INC

Form 10-Q

November 08, 2002

-----  
-----  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
-----

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2002.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-14437

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

OHIO  
(State or other jurisdiction of  
incorporation or organization)

52-2115953  
(I.R.S. Employer  
Identification No.)

1000 WARREN AVENUE, NILES, OHIO 44446  
(Address of principal executive offices)

(330) 544-7700  
(Registrant's telephone number, including area code)

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  NO

At November 1, 2002, 20,775,983 shares of common stock of the registrant were outstanding.

-----  
-----  
RTI INTERNATIONAL METALS, INC.

Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

FORM 10-Q  
 QUARTER ENDED SEPTEMBER 30, 2002

INDEX

	PAGE
	----
PART I--FINANCIAL INFORMATION.....	2
Item 1. Consolidated Financial Statements:	
Consolidated Statement of Operations.....	2
Consolidated Balance Sheet.....	3
Consolidated Statement of Cash Flows.....	4
Consolidated Statement of Shareholders' Equity.....	5
Selected Notes to Consolidated Financial Statements....	6
Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.....	13
Item 3. Quantitative and Qualitative Disclosures about Market Risk.....	21
Item 4. Controls and Procedures.....	21
PART II--OTHER INFORMATION.....	22
Item 4. Submission of Matters to a Vote of Security Holders.....	22
Item 6. Exhibits and Reports on Form 8-K.....	22
Signatures.....	23

PART I -- FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS  
 (UNAUDITED)

(DOLLARS IN THOUSANDS)

	QUARTER ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001	2002	2001
	-----	-----	-----	-----
Sales.....	\$ 68,105	\$ 76,047	\$ 206,726	\$ 217,154
Operating costs:				
Cost of sales.....	55,945	64,067	166,280	185,475
Selling, general and administrative expenses.....	7,266	7,674	24,796	24,363

Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

Research, technical and product development expenses.....	288	454	997	1,354
Total operating costs.....	63,499	72,195	192,073	211,192
Operating income.....	4,606	3,852	14,653	5,962
Other income, net (Note 7).....	122	85	9,207	5,966
Interest expense.....	185	174	473	497
Income before income taxes.....	4,543	3,763	23,387	11,431
Provision for income taxes (Note 3).....	1,538	1,476	8,887	4,457
Income before cumulative effect of change in accounting principle.....	3,005	2,287	14,500	6,974
Cumulative effect of change in accounting principle (Note 9).....	--	--	--	(191)
Net income.....	\$ 3,005	\$ 2,287	\$ 14,500	\$ 6,783
Earnings per common share (Note 4)				
Income before cumulative effect of change in accounting principle:				
Basic.....	\$ 0.14	\$ 0.11	\$ 0.70	\$ 0.33
Diluted.....	\$ 0.14	\$ 0.11	\$ 0.69	\$ 0.33
Net income:				
Basic.....	\$ 0.14	\$ 0.11	\$ 0.70	\$ 0.32
Diluted.....	\$ 0.14	\$ 0.11	\$ 0.69	\$ 0.32
Weighted average shares used to compute earnings per share:				
Basic.....	20,767,348	20,879,036	20,772,092	20,888,470
Diluted.....	20,900,695	21,028,092	20,892,541	21,113,102

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

2

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED BALANCE SHEET  
(DOLLARS IN THOUSANDS)

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	-----	-----
	(UNAUDITED)	
ASSETS		
ASSETS:		
Cash and cash equivalents.....	\$ 25,662	\$ 8,036
Receivables--less allowance for doubtful accounts of \$1,139 and \$1,219.....	45,370	50,572
Inventories, net (Note 5).....	160,728	158,561

Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

Deferred income taxes.....	8,096	7,418
Other current assets.....	5,314	13,136
	-----	-----
Total current assets.....	245,170	237,723
Property, plant and equipment, net.....	93,119	98,375
Goodwill.....	34,133	34,133
Other noncurrent assets.....	17,078	17,520
	-----	-----
Total assets.....	\$389,500	\$387,751
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable.....	\$ 10,882	\$ 17,799
Accrued wages and other employee costs.....	7,795	7,494
Unearned revenue (Note 6).....	3,092	6,133
Income taxes payable.....	4,961	29
Other accrued liabilities.....	4,421	5,011
	-----	-----
Total current liabilities.....	31,151	36,466
Long-term debt.....	--	--
Accrued postretirement benefit cost.....	19,940	19,940
Deferred income taxes.....	1,296	1,296
Accrued pension cost.....	11,351	17,787
Other noncurrent liabilities.....	5,205	5,287
	-----	-----
Total liabilities.....	68,943	80,776
Commitments and contingencies (Note 7)		
SHAREHOLDERS' EQUITY:		
Common stock, \$0.01 par value, 50,000,000 shares authorized; 21,118,833 and 21,035,454 shares issued; 20,773,983 and 20,730,604 shares outstanding.....	211	210
Additional paid-in capital.....	242,331	241,579
Deferred compensation.....	(2,269)	(2,278)
Treasury stock, at cost; 344,850 and 304,850 shares.....	(3,032)	(2,612)
Accumulated other comprehensive (loss).....	(8,677)	(7,417)
Retained earnings.....	91,993	77,493
	-----	-----
Total shareholders' equity.....	320,557	306,975
	-----	-----
Total liabilities and shareholders' equity.....	\$389,500	\$387,751
	=====	=====

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

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

(DOLLARS IN THOUSANDS)

NINE MONTHS ENDED  
SEPTEMBER 30  
-----  
2002                      2001

Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income.....	\$14,500	\$ 6,783
Adjustment for items not affecting funds from operations:		
Depreciation and amortization.....	9,372	9,942
Deferred income taxes.....	(678)	(123)
Stock-based compensation and other.....	1,677	1,434
CHANGES IN ASSETS AND LIABILITIES (EXCLUDING CASH):		
Receivables.....	4,555	(11,077)
Inventories.....	(1,916)	3,433
Accounts payable.....	(6,917)	2,528
Other current liabilities.....	1,903	13,252
Other assets and liabilities.....	944	357
	-----	-----
Cash provided by operating activities.....	23,440	26,529
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures.....	(4,746)	(10,109)
	-----	-----
Cash used in investing activities.....	(4,746)	(10,109)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of employee stock options.....	87	309
Net borrowings and repayments under revolving credit agreement.....	--	(18,200)
Purchase of common stock held in treasury.....	(420)	(1,766)
Deferred charges related to credit facility.....	(735)	--
	-----	-----
Cash used in financing activities.....	(1,068)	(19,657)
	-----	-----
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	17,626	(3,237)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....	8,036	6,374
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD.....	\$25,662	\$ 3,137
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized.....	\$ 264	\$ 787
Cash paid for income taxes.....	\$ 3,961	\$ 2,287
NONCASH FINANCING ACTIVITIES:		
Issuance of common stock for restricted stock awards.....	\$ 666	\$ 731
Capital lease obligations incurred.....	\$ --	\$ 311

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

4

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)  
(UNAUDITED)

SHARES OUTSTANDING	COMMON STOCK	ADDT'L PAID-IN CAPITAL	DEFERRED COMPENSATION	TREASURY COMMON STOCK	RETAINED EARNING
-----------------------	-----------------	------------------------------	--------------------------	-----------------------------	---------------------

Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

Balance at December 31, 2001.....	20,730,604	\$210	\$241,579	\$ (2,278)	\$ (2,612)	\$77,493
Shares issued for directors' compensation.....	18,912	--	187	(187)	--	--
Shares issued for restricted stock award plans.....	50,000	1	478	(479)	--	--
Compensation expense recognized.....	--	--	--	675	--	--
Treasury common stock purchased at cost.....	(40,000)	--	--	--	(420)	--
Exercise of employee stock options including tax benefit.....	14,467	--	87	--	--	--
Net income.....	--	--	--	--	--	14,500
Realized gains on investments held for sale (net of tax).....	--	--	--	--	--	--
Comprehensive income.....						
Balance at September 30, 2002.....	20,773,983	\$211	\$242,331	\$ (2,269)	\$ (3,032)	\$91,993

COMPREHENSIVE INCOME

Balance at December 31, 2001.....	
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.....	\$14,500
Realized gains on investments held for sale (net of tax).....	(1,260)
Comprehensive income.....	\$13,240
Balance at September 30, 2002.....	

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

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

### SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### NOTE 1--ORGANIZATION AND BASIS OF PRESENTATION

The consolidated financial statements included herein have been prepared by RTI International Metals, Inc. (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated financial statements include the accounts of RTI International Metals, Inc. and its majority owned subsidiaries. All significant intercompany transactions have been eliminated. The financial information presented reflects all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The results for the interim periods are not necessarily indicative of the results to be expected for the year.

#### NOTE 2--ORGANIZATION

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.

#### NOTE 3--INCOME TAXES

In the nine months ended September 30, 2002, the Company recorded an income tax expense of \$8.9 million, or 38% of pre-tax income compared to an expense of \$4.5 million, or 39% for the nine months ended September 30, 2001. The effective tax rate for the three months ended September 30, 2002 was 34% as it reflected an adjustment to bring the effective tax rate for the nine months ended September 30, 2002 from 39% to 38%. The effective tax rate for the nine-month periods ended September 30, 2002 of 38% and September 30, 2001 of 39% exceeded the federal statutory rate of 35% primarily as a result of state income taxes. The effective tax rate for the nine-month period ended September 30, 2001 also exceeded the federal statutory rate of 35% due to non-deductible goodwill amortization.

6

#### 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

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

for the quarters and nine months ended September 30, 2002 and 2001 are as follows (in thousands except number of shares and per share amounts):

	QUARTER ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30		
	NET INCOME	SHARES	EARNINGS PER SHARE	NET INCOME	SHARES	EARNINGS PER SHARE
2002						
Basic EPS.....	\$3,005	20,767,348	\$0.14	\$14,500	20,772,092	\$0.14
Effect of potential common stock:						
Stock options.....	--	133,347	--	--	120,449	--
Diluted EPS.....	\$3,005	20,900,695	\$0.14	\$14,500	20,892,541	\$0.14
	=====	=====	=====	=====	=====	=====
2001						
Basic EPS.....	\$2,287	20,879,036	\$0.11	\$ 6,783	20,888,470	\$0.11
Effect of potential common stock:						
Stock options.....	--	149,056	--	--	224,632	--
Diluted EPS.....	\$2,287	21,028,092	\$0.11	\$ 6,783	21,113,102	\$0.11
	=====	=====	=====	=====	=====	=====

913,846 and 914,512 shares of common stock issuable upon exercise of employee stock options have been excluded from the calculation of diluted earnings per share for the quarters ended September 30, 2002 and 2001, respectively, and 914,066 and 736,328 have been excluded from the calculation of diluted earnings per share for the nine months ended September 30, 2002 and 2001, 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--INVENTORIES

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
Raw material and supplies.....	\$ 34,164	\$ 30,304
Work-in-process and finished goods.....	141,769	142,041
LIFO adjustment.....	(15,205)	(13,784)
Inventories, at LIFO cost.....	\$160,728	\$158,561
	=====	=====

### NOTE 6--UNEARNED REVENUE

The Company reported a liability for unearned revenue of \$3.1 million as of September 30, 2002 and \$6.1 million as of December 31, 2001. These amounts primarily represent payments, received in advance from energy market customers on long-term orders, which the Company has not recognized as revenues. The decrease reflects the Company fulfilling obligations and recognizing revenue relating to advanced payments that existed at year-end.

### NOTE 7--COMMITMENTS AND CONTINGENCIES



## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

Under a 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.

7

### 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 River Area of Concern. Given the status of the proceedings with respect to these sites, ultimate 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.

With regard to the Fields Brook Superfund Site, the Company and twelve other parties entered into an allocation agreement which assigns 9.44% of the cost to RMI. However, the actual percentage may be more or less based on contributions from other parties which are not currently participating in the allocation agreement. Cleanup began in 2000 and is expected to be completed in 2002. The current estimate of the remaining cost of remediation of the Fields Brook site is approximately \$8 million.

The Ashtabula River and Harbor has been designated as 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 remediate 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 complete. To fund the Detailed Design and Remedial Action, the Company has estimated the private contribution to the project could approximate \$14 million, of which roughly 10% to 15% 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 Brooks 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. The

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

Fields Brook PRP group has indicated to the Ashtabula River Partnership the group's willingness to participate in funding in exchange for a release from CERCLA liability.

At September 30, 2002, 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 (which does not include any amounts from insurers) which could equal from \$1.9 to \$2.3 million. 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 2000, RTI made a 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 treated as a gain contingency under Statements of Financial Accounting Standards No. 5, "Accounting for Contingencies" (FAS 5), deferring the realization of income until Boeing satisfied the claim.

8

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 the first quarter of 2001.

In 2001, RTI made a similar claim against Boeing Commercial Airplane Group for approximately \$7 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 5, deferring realization of income until Boeing satisfied the claim.

On March 6, 2002, Boeing satisfied the above-mentioned 2001 contractual claim for approximately \$7 million. The financial impact of this settlement was recorded in other income in the first quarter of 2002.

### 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 8--SEGMENT REPORTING

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

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

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.

9

Segment information for the three-month and nine-month periods ended September 30, 2002 and 2001 is as follows:

	QUARTER ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
	2002	2001	2002	2001
NET SALES:				
Titanium				
Trade.....	\$ 26,244	\$ 35,360	\$ 83,890	\$ 96,663
Intersegment.....	11,226	10,604	43,923	35,996
	-----	-----	-----	-----
	37,470	45,964	127,813	132,659
Fabrication and Distribution				
Trade.....	36,615	37,442	109,014	109,969
Intersegment.....	620	266	1,513	883
	-----	-----	-----	-----
	37,235	37,708	110,527	110,852
Other operations.....	5,246	3,245	13,822	10,522
Adjustments and eliminations.....	(11,846)	(10,870)	(45,436)	(36,879)
	-----	-----	-----	-----
Total net sales.....	\$ 68,105	\$ 76,047	\$206,726	\$217,154

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

	=====	=====	=====	=====
OPERATING INCOME (LOSS):				
Titanium.....	\$ 2,320	\$ 2,486	\$ 10,657	\$ 1,873
Fabrication and distribution.....	1,792	1,180	3,183	3,560
Other operations.....	494	186	813	529
	-----	-----	-----	-----
Total operating income.....	4,606	3,852	14,653	5,962
RECONCILIATION OF OPERATING INCOME TO REPORTED INCOME BEFORE TAXES:				
Other income (loss)--net.....	122	85	9,207	5,966
Interest expense.....	185	174	473	497
	-----	-----	-----	-----
Reported income before taxes.....	\$ 4,543	\$ 3,763	\$ 23,387	\$ 11,431
	=====	=====	=====	=====

### NOTE 9--CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE

The Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities" in June 1998. FAS 133 requires all derivatives to be recognized as either assets or liabilities on the balance sheet and to be measured at fair value. Changes in the fair value of derivatives will be recognized in income immediately if the derivatives are designated for purposes other than hedging or are deemed not effective as hedges.

The Company adopted FAS No. 133 on January 1, 2001. A charge of approximately \$0.2 million, net of a tax benefit of approximately \$0.1 million, was recorded as a cumulative effect of adoption of FAS No. 133 in the Company's results of operations for the first quarter of 2001. The charge represented the fair value of the net liability of a foreign currency forward purchase contract upon adoption.

### NOTE 10--NEW ACCOUNTING PRONOUNCEMENTS

On July 20, 2001, the Financial Accounting Standards Board (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 September 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 Accounting Principles Board Opinion No. 17 (APB 17), "Intangible Assets". FAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition (i.e., the

10

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 or completed

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

after September 30, 2001. FAS 142 must have been adopted as of January 1, 2002. The Company adopted FAS 142 in the first quarter of fiscal 2002 and discontinued the amortization of goodwill. Management has completed its initial evaluation of its existing goodwill for impairment in accordance with FAS 142. No impairment loss or transition adjustments were required. The following table sets forth the effect of discontinuing of goodwill amortization as required by FAS 142:

	QUARTER ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30		SEPTEMBER 30	
	2002	2001	2002	2001
Income before income taxes, as reported.....	\$4,543	\$3,763	\$23,387	\$11,431
Add back: Goodwill amortization.....	--	431	--	1,247
Income before income taxes, as adjusted.....	\$4,543	\$4,194	\$23,387	\$12,678
Net income, as reported.....	\$3,005	\$2,287	\$14,500	\$ 6,974
Add back: Effect of goodwill amortization.....	--	262	--	761
Net income, as adjusted.....	\$3,005	\$2,549	\$14,500	\$ 7,735
Basic earnings per share, as reported.....	\$ 0.14	\$ 0.11	\$ 0.70	\$ 0.32
Add back: Effect of goodwill amortization.....	--	0.01	--	0.04
Basic earnings per share, as adjusted.....	\$ 0.14	\$ 0.12	\$ 0.70	\$ 0.36
Diluted earnings per share, as reported.....	\$ 0.14	\$ 0.11	\$ 0.69	\$ 0.32
Add back: Effect of goodwill amortization.....	--	0.01	--	0.04
Diluted earnings per share, as adjusted.....	\$ 0.14	\$ 0.12	\$ 0.69	\$ 0.36

In August 2001, the FASB issued Statements of Financial Accounting Standards No. 143 (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 should 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 Statements of Financial Accounting Standards No. 144 (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 Statements of Financial Accounting Standards No. 121 (FAS 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 Accounting Principles Board Opinion No. 30 (APB 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

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

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 its 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 144 are: (1) the removal of goodwill from the scope of this standard; (2) the standard prescribes a probability-

11

weighted cash flow approach to measuring the future cash flows from the assets; and (3) the standard prescribes 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. The Company adopted FAS 144 in the first quarter of 2002 and there was not a material financial impact.

Statements of Financial Accounting Standards No. 146 (FAS 146), "Accounting for Exit or Disposal Activities" was issued in July of 2002. FAS 146 addresses significant issues regarding the recognition, measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities. The scope of FAS 146 includes (1) costs to terminate contracts that are not capital leases; (2) costs to consolidate facilities or relocate employees; and (3) termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The provisions of this Statement will be effective for disposal activities initiated after December 31, 2002, with early application encouraged. Management will adopt this standard on a prospective basis when necessary.

12

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

The following discussion should be read in connection with the information contained in the Consolidated Financial Statements and Selected 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 include, 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 cyclicity of the titanium and aerospace industries, uncertain 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, 2001 and the ongoing 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

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

the last 12 months, copies of which are available from the SEC or may be obtained upon request from the Company.

THREE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2001

### NET SALES

Net sales decreased to \$68.1 million for the three months ended September 30, 2002 compared to net sales of \$76.0 million in the corresponding 2001 period. Sales for the Company's Titanium Group amounted to \$31.5 million in the three months ended September 30, 2002 compared to \$38.6 million in the same period of 2001. Titanium Group net sales decreased as a result of a decrease in mill product shipments, partially offset by higher average realized prices as product mix shifted to higher value-added rolled products. Shipments of titanium mill products were 2.2 million pounds in the three months ended September 30, 2002, compared to 3.3 million pounds for the same period in 2001. Mill product shipments in the three months ended September 30, 2002 were lower than those in 2001 as demand for forged mill products for aerospace markets declined. Included in mill product shipments are intersegment shipments from the Titanium Group to the Fabrication and Distribution Group (F&D). Shipments to F&D increased marginally over the same period last year, reflecting the Company's intentional shift to higher value added products through F&D. Average realized prices on mill products for the three months ended September 30, 2002 increased to \$14.35 per pound from \$12.17 per pound in 2001. The increase in average realized prices for mill products resulted primarily from an increased mix of higher value-added rolled mill products when compared to 2001. Sales for the Company's Fabrication and Distribution Group amounted to \$36.6 million in the three months ended September 30, 2002, compared to \$37.4 million in the same period of 2001. This decrease reflects reduced demand in distribution sales in the United States and Europe, partially offset by an increase in energy market sales.

### GROSS PROFIT

Gross profit amounted to \$12.2 million, or 17.9% of sales for the three months ended September 30, 2002 compared to a gross profit of \$12.0 million or 15.8% for the comparable 2001 period. Gross margin improved as a result of continuing Titanium Group cost reduction efforts and increased sales in energy markets, partially offset by reduced volume in domestic and European distribution sales.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses amounted to \$7.3 million or 10.7% of sales for the three months ended September 30, 2002, compared to \$7.7 million or 10.1% of sales for the same period in 2001. The decrease in selling, general and administrative expenses reflects reductions in personnel and related benefit costs.

13

### RESEARCH, TECHNICAL AND PRODUCT DEVELOPMENT EXPENSES

Research, technical and product development expenses amounted to \$0.3 million in 2002 compared to \$0.5 million during the same period in 2001. The decrease reflects less research and development spending related to energy markets.

### OPERATING INCOME

Operating income for the three months ended September 30, 2002 amounted to

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

\$4.6 million, or 6.8% of sales compared to \$3.9 million, or 5.1% of sales, in the same period of 2001. This change consists of an increase in operating income from the Titanium Group of \$0.1 million primarily due to continuing cost reduction efforts. This increase also reflects an increase in operating income in the Fabrication and Distribution Group of \$0.6 million due to an increase in energy market sales partially offset by a decrease in demand in domestic and European distribution sales.

### OTHER INCOME

Other income for the three months ended September 30, 2002 and September 30, 2001 amounted to \$0.1 million.

### INTEREST EXPENSE

Interest expense for the three months ended September 30, 2002 and September 30, 2001 amounted to \$0.2 million. Interest expense for both periods are primarily the result of fees associated with the unused capacity on the Company's credit facility. The Company had no bank debt at September 30, 2002.

### INCOME TAXES

In the three months ended September 30, 2002, the Company recorded an income tax expense of \$1.5 million compared to a \$1.5 million expense recorded in the same period in 2001. The effective tax rates for the three months ended September 30 of 2002 and 2001 were approximately 34% and 39%, respectively. The effective tax rate of 34% for the three months ended September 30, 2002 reflects an adjustment to bring the effective tax rate for the nine months ending September 30, 2002 from 39% to 38%. The effective tax rate of 38% for the nine months ended September 30, 2002 was greater than the federal statutory rate of 35% primarily due to state income taxes. The effective tax rate of 39% for the three months ended September 30, 2001 was greater than the federal statutory rate of 35% primarily due to state income taxes and non-deductible goodwill amortization.

### NET INCOME

Net income for the three months ended September 30, 2002 amounted to \$3.0 million or 4.4% of sales, compared to \$2.3 million or 3.0% of sales in the comparable 2001 period. This change consists of an increase in operating income from the Titanium Group of \$0.1 million primarily due to continuing cost reduction, and an improvement in operating income in the Fabrication and Distribution Group of \$0.6 million. The increase in the Fabrication and Distribution Group was due to an increase in energy market sales partially offset by a decrease in demand in domestic and European distribution sales.

NINE MONTHS ENDED SEPTEMBER 30, 2002 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2001

### NET SALES

Net sales decreased to \$206.7 million for the nine months ended September 30, 2002 compared to net sales of \$217.2 million in the corresponding 2001 period. Sales for the Company's Titanium Group amounted to \$97.7 million in the nine months ended September 30, 2002 compared to \$107.2 million in the same period of 2001. Titanium Group net sales decreased primarily as a result of a decrease in mill product shipments, partially offset by higher average realized prices. Shipments of titanium mill products were 7.8 million pounds in the nine months ended September 30, 2002, compared to 8.7 million pounds for the same period in 2001. Mill product shipments in the nine months ended September 30, 2002 were less than those in 2001 as demand for forged mill



## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

products for aerospace declined. Included in mill product shipments are intersegment shipments from the Titanium Group to the Fabrication and Distribution Group (F&D). Shipments to F&D increased over the same period last year, reflecting the Company's intentional shift to higher value added products through F&D. Average realized prices on mill products for the nine months ended September 30, 2002 increased to \$14.17 per pound from \$13.47 per pound in 2001. The increase in average realized prices for mill products resulted primarily from an increased mix of higher value-added flat-rolled mill products when compared to 2001. Sales for the Company's Fabrication and Distribution Group amounted to \$109.0 million in the nine months ended September 30, 2002, compared to \$110.0 million in the same period of 2001. This decrease reflects reduced demand in distribution sales in the United States and Europe, partially offset by an increase in energy market sales.

### GROSS PROFIT

Gross profit amounted to \$40.4 million, or 19.6% of sales for the nine months ended September 30, 2002 compared to a gross profit of \$31.7 million or 14.6% for the comparable 2001 period. Gross margin improved as a result of continuing Titanium Group cost reduction efforts and increased sales in energy markets, partially offset by reduced volume in domestic and European distribution sales.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses amounted to \$24.8 million or 12.0% of sales for the nine months ended September 30, 2002, compared to \$24.4 million or 11.2% of sales for the same period in 2001. The increase in selling, general and administrative expenses reflects the impact of an increase in estimated accruals for employee related costs including benefits.

### RESEARCH, TECHNICAL AND PRODUCT DEVELOPMENT EXPENSES

Research, technical and product development expenses amounted to \$1.0 million for the nine months ended September 30, 2002, compared to \$1.4 million during the same period in 2001. The decrease primarily reflects reduced spending related to energy markets.

### OPERATING INCOME

Operating income for the nine months ended September 30, 2002 amounted to \$14.7 million, or 7.1% of sales, compared to \$6.0 million, or 2.7% of sales, in the same period of 2001. This change consists of an increase in operating income from the Titanium Group of \$9.1 million primarily due to continuing cost reduction efforts. This increase was partially offset by a decrease in operating income in the Fabrication and Distribution Group of \$0.4 million due to a decrease in demand in domestic and European distribution sales, partially offset by an increase in energy market sales.

### OTHER INCOME

Other income for the nine months ended September 30, 2002 amounted to \$9.2 million, compared to \$6.0 million in the same period of 2001. This increase primarily reflects an increase in the amount received from Boeing of \$0.8 million in settlement of contractually specified damages for failing to meet minimum order volumes when compared to a similar payment received in 2001. The increase also reflects the gain of \$2.1 million on the sale of shares in 2002, that were received by the Company in 2001 as a result of the demutualization of one of its insurance carriers in which it was a participant.

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

### INTEREST EXPENSE

Interest expense for the nine months ended September 30, 2002 and September 30, 2001 amounted to \$0.5 million. Interest expense for both periods are primarily the result of fees associated with the unused capacity on the Company's credit facility. The Company had no bank debt at September 30, 2002.

15

### INCOME TAXES

In the nine months ended September 30, 2002, the Company recorded an income tax expense of \$8.9 million compared to a \$4.5 million expense recorded in the same period in 2001. The effective tax rates for the nine months ended September 30, 2002 and 2001 were approximately 38% and 39%, respectively. The effective tax rate of 38% for the nine months ended September 30, 2002 was greater than the federal statutory rate of 35% primarily due to state income taxes. The effective tax rate of 39% for the nine months ended September 30, 2001 was 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 effect of change in accounting principle for the nine months ended September 30, 2001 of \$0.2 million, net of \$0.1 million in income taxes, resulted from the Company's adoption of Statements of Financial Accounting Standards No. 133 (FAS 133), "Accounting for Derivative Instruments and Hedging Activities". The gross charge of \$0.3 million represented 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 nine months ended September 30, 2002 amounted to \$14.5 million or 7.0% of sales, compared to \$6.8 million or 3.1% of sales in the comparable 2001 period. This change consists of an increase in operating income from the Titanium Group of \$9.1 million primarily due to continuing cost reduction efforts. This increase was partially offset by a decrease in operating income in the Fabrication and Distribution Group of \$0.4 million due to a decrease in demand in domestic and European distribution sales, partially offset by an increase in energy market sales. This increase also reflects an increase in the amount received from Boeing of \$0.5 million, net of tax, in settlement of contractually specified damages for failing to meet minimum order volumes when compared to similar amounts received in 2001; and the gain of \$1.3 million, net of tax, on the sale of shares received by the Company in 2001 as a result of the demutualization of one of its insurance carriers in which it was a participant.

### OUTLOOK

The terrorist attacks of September 11, 2001, and their effect on the general economy, are expected to have an adverse impact on airline and aircraft business conditions for at least the next couple of years.

### COMMERCIAL AEROSPACE MARKETS

The largest impact is likely to be on commercial aerospace markets, which historically provides approximately 35-40% of RTI's sales. Airline operators experienced a dramatic drop in travel immediately following September 11, which resulted 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

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

the expected change in demand. The most current information indicates a combined drop in commercial aircraft production by Boeing and Airbus of approximately 20% in 2002 and an additional 10% to 15% decrease in 2003. 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.

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. Consequently, increased demand for titanium mill products from commercial aerospace markets would typically precede actual increases in aircraft build rates.

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

16

Boeing and its family of commercial suppliers with up to 4.5 million pounds of titanium products annually. The agreement, which began in 1998, has a term of five years, and is subject to review by the parties prior to expiration in 2003. 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 1999, 2000, and 2001, Boeing settled claims of approximately \$6 million in both 2000 and 2001, and \$7 million in 2002.

On April 26, 2002, RTI, through its European subsidiary, RTI Europe Ltd., entered into a new contract with Europe's largest aerospace group, European Aeronautic Defense and Space Company ("EADS"), to supply value-added titanium products and parts through 2004, subject to extension. The products will be used in military aircraft, including the Eurofighter Typhoon and the Airbus family of civil aircraft. In addition to mill products, RTI will supply cut, shaped and machined items direct to EADS and Airbus manufacturing plants in France, Germany, Spain and the UK from its value-added processing facilities in Europe. The contract continues RTI's long-term involvement in these programs and is expected to make RTI the second largest titanium supplier to Airbus.

### DEFENSE MARKETS

The importance of military markets to RTI, which historically provides 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 Mirage, Rafale, Eurofighter and recently announced A-400M transport.

The Company was chosen by BAE Systems RO Defence UK to supply the hot-formed, extruded and machined titanium components for the new XM-777 lightweight 155 mm Howitzer. Delivery is expected to begin in 2003 and continue through 2010. Initial deliveries of the XM-777 will be to the U.S. Marine Corps,

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

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. Based on the design currently under consideration, RTI's sales under this contract could exceed \$50 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 10,000 to 15,000 pounds of titanium per airframe. 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, plate and machining billet for the design and development phase over the next five years. A definitive contract is currently being negotiated with conclusion expected in the fourth quarter of 2002.

### 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. Uncertainty about the general economy will reduce demand for some of the Company's industrial products, while others are expected to grow.

Revenues from oil and gas markets are expected to reach new highs for RTI in 2002, due to the increase in offshore, 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.

17

On April 1, 2002, RTI Energy Systems, Inc. (RTIES) was selected to produce production riser equipment in connection with Unocal's West Seno Project off the coast of Indonesia. RTIES began production of the system in the third quarter 2002. RTIES is providing the high-fatigue riser engineering design, in addition to the manufacture of components using a combination of titanium and steel. The system will incorporate RTIES proprietary high-fatigue connectors, keel and transition joints, as well as RTIES titanium tapered stress joints. The West Seno Project incorporates a number of unique design requirements and is well suited for RTIES engineered products and capabilities in the application of both steel and titanium within the same riser system. The contract value will be in excess of \$14 million.

### BACKLOG

The Company's order backlog for all market segments decreased to \$129.1 million as of September 30, 2002, from \$143 million at December 31, 2001, principally due to a reduction in demand for titanium mill products from commercial aerospace markets. However, the order backlog increased from the amount reported as of June 30, 2002 of \$113 million primarily due to increased demand for titanium mill products from military and commercial aerospace markets.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash flows from operating activities totaled \$23.4 million in the first nine months of 2002 compared to \$26.5 million in the first nine months of 2001. The change in net cash flows from operating activities for the nine months ended September 30, 2002, compared to the same period in 2001, primarily reflects decreases in other current liabilities and accounts payable and an increase in inventory, partially offset by an increase in net income, and a decrease in

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

accounts receivable. In 2002, \$1.4 million was used as working capital increased, and in 2001, \$1.5 million was generated through a reduction in working capital and other balance sheet line items. The Company's working capital ratio was 7.9 to 1 at September 30, 2002.

During the first nine months of 2002 and 2001, 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 the balance of 2002 with funds generated by operations.

At September 30, 2002, the Company maintained a credit agreement which provided up to a maximum of \$100 million of borrowing capacity. At September 30, 2002, there were no borrowings under this facility.

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.

### CREDIT AGREEMENT

At September 30, 2002, the Company maintained a credit agreement entered into on April 26, 2002, which provides a \$100 million three-year unsecured revolving credit facility. This agreement replaced the previously existing \$100 million five-year unsecured revolving credit facility entered into September 30, 1998. 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 1.0% to 2.25%) determined by the ratio of the Company's consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization. At September 30, 2002, there were no borrowings outstanding under the facility and the Company had a borrowing capacity equal to the total amount of the agreement.

18

### 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 September 30, 2002, 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) which could equal from \$1.9 to \$2.3 million. 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

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

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.

### CAPITAL EXPENDITURES

Gross capital expenditures for the first nine months of 2002 and 2001 amounted to \$4.7 and \$10.1 million, respectively. The Company has anticipated total capital spending for 2002 of approximately \$8.0 million. Based upon a number of factors, including profitability, demand for the Company's products and conditions in the commercial aerospace industry, the amount and/or timing of capital spending could be affected.

### NEW ACCOUNTING STANDARDS

On July 20, 2001, the Financial Accounting Standards Board (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 September 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 Accounting Principles Board Opinion No. 17 (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 or completed after September 30, 2001. FAS 142 must have been adopted as of January 1, 2002. The Company adopted FAS 142 in the first quarter of fiscal 2002 and discontinued the amortization of goodwill. Management has completed its initial evaluation of its existing goodwill for impairment in accordance with FAS 142. No impairment loss or transition adjustments were

19

required. The following table sets forth the effect of discontinuing of goodwill amortization as required by FAS 142:

QUARTER ENDED SEPTEMBER 30		NINE MONTHS ENDED SEPTEMBER 30	
2002	2001	2002	2001
-----	-----	-----	-----

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

Income before income taxes, as reported.....	\$4,543	\$3,763	\$23,387	\$11,431
Add back: Goodwill amortization.....	--	431	--	1,247
	-----	-----	-----	-----
Income before income taxes, as adjusted.....	\$4,543	\$4,194	\$23,387	\$12,678
	=====	=====	=====	=====
Net income, as reported.....	\$3,005	\$2,287	\$14,500	\$ 6,974
Add back: Effect of goodwill amortization.....	--	262	--	761
	-----	-----	-----	-----
Net income, as adjusted.....	\$3,005	\$2,549	\$14,500	\$ 7,735
	=====	=====	=====	=====
Basic earnings per share, as reported.....	\$ 0.14	\$ 0.11	\$ 0.70	\$ 0.32
Add back: Effect of goodwill amortization.....	--	0.01	--	0.04
	-----	-----	-----	-----
Basic earnings per share, as adjusted.....	\$ 0.14	\$ 0.12	\$ 0.70	\$ 0.36
	=====	=====	=====	=====
Diluted earnings per share, as reported.....	\$ 0.14	\$ 0.11	\$ 0.69	\$ 0.32
Add back: Effect of goodwill amortization.....	--	0.01	--	0.04
	-----	-----	-----	-----
Diluted earnings per share, as adjusted.....	\$ 0.14	\$ 0.12	\$ 0.69	\$ 0.36
	=====	=====	=====	=====

In August 2001, the FASB issued Statements of Financial Accounting Standards No. 143 (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 should 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 Statements of Financial Accounting Standards No. 144 (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 Statements of Financial Accounting Standards No. 121 (FAS 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 Accounting Principles Board Opinion No. 30 (APB 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 its 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 144 are: (1) the removal of goodwill from the scope of this standard; (2) the standard prescribes a probability-weighted cash flow approach to measuring the future cash flows from the assets; and (3) the standard prescribes a "primary asset" approach to grouping assets for purposes of testing for impairment. This standard is required to be adopted

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

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. The Company adopted FAS 144 in the first quarter of 2002 and there was not a material financial impact.

Statements of Financial Accounting Standards No. 146 (FAS 146), "Accounting for Exit or Disposal Activities" was issued in July of 2002. FAS 146 addresses significant issues regarding the recognition,

20

measurement, and reporting of costs that are associated with exit and disposal activities, including restructuring activities. The scope of FAS 146 includes (1) costs to terminate contracts that are not capital leases; (2) costs to consolidate facilities or relocate employees; and (3) termination benefits provided to employees who are involuntarily terminated under the terms of a one-time benefit arrangement that is not an ongoing benefit arrangement or an individual deferred-compensation contract. The provisions of this Statement will be effective for disposal activities initiated after December 31, 2002, with early application encouraged. Management will adopt this standard on a prospective basis when necessary.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to the Company's exposure to market risk since the Company filed its Form 10-K on March 14, 2002.

### ITEM 4. CONTROLS AND PROCEDURES

RTI management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

21

## PART II--OTHER INFORMATION

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

None.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number -----	Description -----
99.3	Certification pursuant to 18 U.S.C. Section 1350, as adopted



## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

99.4 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  
Certification pursuant to 18 U.S.C. Section 1350, as adopted  
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K dated August 14, 2002, to report the certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by written statement of the Chief Executive Officer and Chief Financial Officer.

22

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RTI INTERNATIONAL METALS, INC.

-----  
(Registrant)

Date: November 8, 2002

By: /s/ L. W. JACOBS

-----  
L. W. Jacobs  
Vice President & Chief Financial  
Officer

23

### CERTIFICATIONS PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

#### CERTIFICATION

I, Timothy G. Rupert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RTI International Metals, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ TIMOTHY G. RUPERT

-----  
Timothy G. Rupert  
Chief Executive Officer

24

### CERTIFICATION

I, Lawrence W. Jacobs, certify that:

1. I have reviewed this quarterly report on Form 10-Q of RTI International Metals, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

## Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 7, 2002

/s/ LAWRENCE W. JACOBS

-----  
Lawrence W. Jacobs  
Chief Financial Officer