

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

RTI INTERNATIONAL METALS INC  
Form 10-Q  
May 13, 2003

-----  
-----  
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 MARCH 31, 2003.

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

At May 1, 2003, 20,834,165 shares of common stock of the registrant were outstanding.

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

RTI INTERNATIONAL METALS, INC.

FORM 10-Q  
 QUARTER ENDED MARCH 31, 2003

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<br>Operations and Financial Condition..... | 12    |
| Item 3. Quantitative and Qualitative Disclosures about<br>Market Risk.....                            | 18    |
| Item 4. Controls and Procedures.....  | 18    |
| PART II--OTHER INFORMATION.....   | 19    |
| Item 4. Submission of Matters to a Vote of Security<br>Holders.....                                   | 19    |
| Item 6. Exhibits and Reports on Form 8-K.....   | 19    |
| Signatures.....   | 20    |

PART I -- FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS  
 (UNAUDITED)

(DOLLARS IN THOUSANDS)

|                  | QUARTER ENDED<br>MARCH 31 |               |
|------------------|---------------------------|---------------|
|                  | -----<br>2003             | -----<br>2002 |
|                  | -----                     | -----         |
| Sales.....       | \$ 58,532                 | \$ 65,678     |
| Operating costs: |                           |               |

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

|   |            |            |
|---|------------|------------|
| Cost of sales.....  | 52,135     | 51,882     |
| Selling, general and administrative expenses.....           | 7,631      | 9,060      |
| Research, technical and product development expenses.....   | 387        | 360        |
|   | -----      | -----      |
| Total operating costs.....                                  | 60,153     | 61,302     |
| Operating income (loss).....                                | (1,621)    | 4,376      |
| Other income, net (Note 8).....                             | 8,777      | 8,936      |
| Interest expense.....                                       | (168)      | (147)      |
|   | -----      | -----      |
| Income before income taxes.....                             | 6,988      | 13,165     |
| Provision for income taxes (Note 4).....                    | 2,655      | 5,134      |
|   | -----      | -----      |
| Net income.....   | \$ 4,333   | \$ 8,031   |
|   | =====      | =====      |
| Earnings per common share (Note 5)                          |            |            |
| Net income:   |            |            |
| Basic.....  | \$ 0.21    | \$ 0.39    |
|   | =====      | =====      |
| Diluted.....  | \$ 0.21    | \$ 0.38    |
|   | =====      | =====      |
| Weighted average shares used to compute earnings per share: |            |            |
| Basic.....  | 20,811,856 | 20,767,586 |
|   | =====      | =====      |
| Diluted.....  | 20,902,590 | 20,898,346 |
|   | =====      | =====      |

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

2

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED BALANCE SHEET  
(UNAUDITED)

(DOLLARS IN THOUSANDS)

|  | MARCH 31,<br>2003 | DECEMBER 31,<br>2002 |
|--|-------------------|----------------------|
|  | -----             | -----                |
| ASSETS   |                   |                      |
| ASSETS:  |                   |                      |
| Cash and cash equivalents.....   | \$ 46,829         | \$ 40,666            |
| Receivables--less allowance for doubtful accounts of<br>\$1,170 and \$1,205..... | 42,199            | 38,830               |
| Inventories, net (Note 6).....   | 149,875           | 154,159              |
| Deferred income taxes.....   | 2,356             | 2,356                |
| Other current assets.....  | 4,871             | 5,934                |
|  | -----             | -----                |
| Total current assets.....  | 246,130           | 241,945              |
| Property, plant and equipment, net.....  | 90,722            | 92,554               |
| Goodwill.....  | 34,133            | 34,133               |
| Noncurrent deferred income tax asset.....  | 4,271             | 4,271                |
| Other noncurrent assets.....   | 23,537            | 23,317               |
|  | -----             | -----                |
| Total assets.....  | \$398,793         | \$396,220            |

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

|  | =====     | =====     |
|--|-----------|-----------|
| LIABILITIES AND SHAREHOLDERS' EQUITY   |           |           |
| LIABILITIES:   |           |           |
| Accounts payable.....  | \$ 12,154 | \$ 14,711 |
| Accrued wages and other employee costs.....  | 6,904     | 6,983     |
| Billings in excess of costs and estimated revenues (Note 7).....   | 2,509     | 2,388     |
| Other accrued liabilities.....   | 2,567     | 1,647     |
|  | -----     | -----     |
| Total current liabilities.....   | 24,134    | 25,729    |
| Long-term debt.....  | --        | --        |
| Accrued postretirement benefit cost.....   | 19,942    | 19,873    |
| Accrued pension cost.....  | 33,543    | 33,021    |
| Other noncurrent liabilities.....  | 5,658     | 6,424     |
|  | -----     | -----     |
| Total liabilities.....   | 83,277    | 85,047    |
|  | -----     | -----     |
| Commitments and contingencies (Note 8)   |           |           |
| SHAREHOLDERS' EQUITY:  |           |           |
| Common stock, \$0.01 par value, 50,000,000 shares authorized; 21,196,887 and 21,120,833 shares issued; 20,830,165 and 20,775,983 shares outstanding..... | 212       | 211       |
| Additional paid-in capital.....  | 243,147   | 242,373   |
| Deferred compensation.....   | (2,523)   | (1,982)   |
| Treasury stock, at cost; 366,722 and 344,850 shares.....   | (3,256)   | (3,032)   |
| Accumulated other comprehensive loss.....  | (19,015)  | (19,015)  |
| Retained earnings.....   | 96,951    | 92,618    |
|  | -----     | -----     |
| Total shareholders' equity.....  | 315,516   | 311,173   |
|  | -----     | -----     |
| Total liabilities and shareholders' equity.....  | \$398,793 | \$396,220 |
|  | =====     | =====     |

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

3

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

(DOLLARS IN THOUSANDS)

|   | THREE MONTHS ENDED<br>MARCH 31 |          |
|---|--------------------------------|----------|
|   | -----                          | -----    |
|   | 2003                           | 2002     |
|   | -----                          | -----    |
| CASH FLOWS FROM OPERATING ACTIVITIES:                     |                                |          |
| Net income.....   | \$ 4,333                       | \$ 8,031 |
| Adjustment for items not affecting funds from operations: |                                |          |
| Depreciation and amortization.....                        | 3,057                          | 3,143    |
| Deferred income taxes.....                                | --                             | (678)    |
| Stock-based compensation and other.....                   | 306                            | 1,000    |
| CHANGES IN ASSETS AND LIABILITIES (EXCLUDING CASH):       |                                |          |

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

|   |          |          |
|---|----------|----------|
| Receivables.....  | (3,417)  | (8,522)  |
| Inventories.....  | 4,284    | (7,682)  |
| Accounts payable.....                                     | (2,557)  | 239      |
| Other current liabilities.....                            | 962      | 13,103   |
| Other assets and liabilities.....                         | 668      | (1,042)  |
|   | -----    | -----    |
| Cash provided by operating activities.....                | 7,636    | 7,592    |
| CASH FLOWS FROM INVESTING ACTIVITIES:                     |          |          |
| Capital expenditures.....                                 | (1,255)  | (1,464)  |
|   | -----    | -----    |
| Cash used in investing activities.....                    | (1,255)  | (1,464)  |
| CASH FLOWS FROM FINANCING ACTIVITIES:                     |          |          |
| Exercise of employee stock options.....                   | 6        | 18       |
| Purchase of common stock held in treasury.....            | (224)    | --       |
|   | -----    | -----    |
| Cash provided by (used in) financing activities.....      | (218)    | 18       |
|   | -----    | -----    |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....     | 6,163    | 6,146    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....     | 40,666   | 8,036    |
|   | -----    | -----    |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD.....           | \$46,829 | \$14,182 |
|   | =====    | =====    |
| SUPPLEMENTAL CASH FLOW INFORMATION:                       |          |          |
| Cash paid for interest, net of amounts capitalized.....   | \$ 101   | \$ 79    |
|   | =====    | =====    |
| Cash paid for income taxes.....                           | \$ 2,554 | \$ 365   |
|   | =====    | =====    |
| NONCASH FINANCING ACTIVITIES:                             |          |          |
| Issuance of common stock for restricted stock awards..... | \$ 769   | \$ 479   |
|   | =====    | =====    |
| Capital lease obligations incurred.....                   | \$ 6     | \$ --    |
|   | =====    | =====    |

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

4

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(UNAUDITED)

(DOLLARS IN THOUSANDS)

|  | SHARES<br>OUTSTANDING | COMMON<br>STOCK | ADDT'L<br>PAID-IN<br>CAPITAL | DEFERRED<br>COMPENSATION | TREASURY<br>COMMON<br>STOCK | RETAINED<br>EARNING |
|--|-----------------------|-----------------|------------------------------|--------------------------|-----------------------------|---------------------|
|  | -----                 | -----           | -----                        | -----                    | -----                       | -----               |
| Balance at December 31,<br>2002.....                   | 20,775,983            | \$211           | \$242,373                    | \$ (1,982)               | \$ (3,032)                  | \$92,618            |
| Shares issued for restricted<br>stock award plans..... | 75,220                | 1               | 768                          | (769)                    | --                          | --                  |
| Compensation expense<br>Recognized.....                | --                    | --              | --                           | 228                      | --                          | --                  |
| Treasury common stock<br>purchased at cost.....        | (21,872)              | --              | --                           | --                       | (224)                       | --                  |

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

|   |            |       |           |           |           |          |
|---|------------|-------|-----------|-----------|-----------|----------|
| Exercise of employee stock options including tax benefit..... | 834        | --    | 6         | --        | --        | --       |
| Net income.....   | --         | --    | --        | --        | --        | 4,333    |
| Comprehensive income.....                                     |            |       |           |           |           |          |
| Balance at March 31, 2003...                                  | 20,830,165 | \$212 | \$243,147 | \$(2,523) | \$(3,256) | \$96,951 |
|   | =====      | ===== | =====     | =====     | =====     | =====    |

COMPREHENSIVE INCOME

|   |         |
|---|---------|
| Balance at December 31, 2002.....                             |         |
| 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.....   | 4,333   |
|   | -----   |
| Comprehensive income.....                                     | \$4,333 |
|   | =====   |
| Balance at March 31, 2003...                                  |         |

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

RTI INTERNATIONAL METALS, INC.

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.

Beginning with the first quarter of 2003, RTI changed its segment reporting structure to represent its current method of marketing and selling products. Segment information for the prior period contained in these financial statements has been reclassified to conform to the current period presentation.

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

### NOTE 2--ORGANIZATION

RTI International Metals, Inc. is a leading U.S. producer of titanium mill products and fabricated metal parts for the global market. The Company conducts business in two segments: the Titanium Group and the Fabrication and Distribution Group. The Titanium Group melts and produces a complete range of titanium mill products, which are further processed by its customers for use in a variety of commercial, aerospace, defense, and industrial applications. The Fabrication and Distribution Group is comprised of companies that process and distribute titanium and other specialty metals. Its products, many of which are engineered parts and assemblies, serve aerospace, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets.

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 5,483,600 of RTI common stock to the note holders in exchange for the Notes terminating USX's ownership interest in RTI.

### NOTE 3--STOCK OPTION AND RESTRICTED STOCK AWARD PLANS

#### 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

6

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 the first quarter of 2003, 207,750 option shares were granted at an exercise price of \$10.22. 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. 207,750 of the option shares

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

granted in 2003 were outstanding at March 31, 2003.

During the first quarter of 2003, 75,220 shares 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.

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.

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 quarter ended March 31, 2003 would have been as follows:

|                              | QUARTER ENDED<br>MARCH 31 |         |
|------------------------------|---------------------------|---------|
|                              | 2003                      | 2002    |
| Net income                   |                           |         |
| As reported.....             | \$4,333                   | \$8,031 |
| Effect of stock options..... | (137)                     | (144)   |
|                              | -----                     | -----   |
| Pro forma.....               | \$4,196                   | \$7,887 |
|                              | =====                     | =====   |
| Basic earnings per share     |                           |         |
| As reported.....             | \$ 0.21                   | \$ 0.39 |
| Pro forma.....               | \$ 0.20                   | \$ 0.38 |
| Diluted earnings per share   |                           |         |
| As reported.....             | \$ 0.21                   | \$ 0.38 |
| Pro forma.....               | \$ 0.20                   | \$ 0.38 |

Included in the Company's income for the quarters ended March 31, 2003 and 2002 is stock-based compensation expense amounting to \$228 and \$240, respectively.

### NOTE 4--INCOME TAXES

In the three months ended March 31, 2003, the Company recorded an income tax expense of \$2.7 million, or 38% of pre-tax income compared to an expense of \$5.1 million, or 39% for the three months ended March 31, 2002. The first quarter 2003 rate of 38% reflects the effective tax rate for all of 2002. The effective tax rate for the three-month periods ended March 31, 2003 of 38% and March 31, 2002 of 39% exceeded the federal statutory rate of 35% primarily as a result of state income taxes.

### NOTE 5--EARNINGS PER SHARE



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

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 the quarters ended March 31, 2003 and 2002 are as follows (in thousands except number of shares and per share amounts):

|                                   | QUARTER ENDED MARCH 31 |            |                       |
|-----------------------------------|------------------------|------------|-----------------------|
|                                   | NET<br>INCOME          | SHARES     | EARNINGS<br>PER SHARE |
| 2003                              |                        |            |                       |
| Basic EPS.....                    | \$4,333                | 20,811,856 | \$ 0.21               |
| Effect of potential common stock: |                        |            |                       |
| Stock options.....                | --                     | 90,734     | --                    |
| Diluted EPS.....                  | \$4,333                | 20,902,590 | \$ 0.21               |
|                                   | =====                  | =====      | =====                 |
| 2002                              |                        |            |                       |
| Basic EPS.....                    | \$8,031                | 20,767,586 | \$ 0.39               |
| Effect of potential common stock: |                        |            |                       |
| Stock options.....                | --                     | 130,760    | (0.01)                |
| Diluted EPS.....                  | \$8,031                | 20,898,346 | \$ 0.38               |
|                                   | =====                  | =====      | =====                 |

1,095,571 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 March 31, 2003 and 2002, respectively, because the exercise price of the options exceeded the weighted average market price of the Company's common stock during those periods.

### NOTE 6--INVENTORIES

|   | MARCH 31, 2003 | DECEMBER 31, 2002 |
|---|----------------|-------------------|
| Raw material and supplies.....          | \$ 45,531      | \$ 39,370         |
| Work-in-process and finished goods..... | 122,831        | 131,516           |
| Adjustment to LIFO values.....          | (18,487)       | (16,727)          |
| Inventories, at LIFO cost.....          | \$149,875      | \$154,159         |
|   | =====          | =====             |

### NOTE 7--BILLINGS IN EXCESS OF COSTS AND ESTIMATED REVENUES

The Company reported a liability for billings in excess of costs and estimated revenues of \$2.5 million as of March 31, 2003 and \$2.4 million as of December 31, 2002. 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 increase reflects the Company fulfilling obligations and recognizing revenue relating to advanced payments.

### NOTE 8--COMMITMENTS AND CONTINGENCIES

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

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.

8

### 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. The Company continues to evaluate its obligations for environmental related costs on a quarterly basis and makes adjustments in accordance with provisions of Statement of Position No. 96-1, "Environmental Remediation Liabilities".

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.

At March 31, 2003 and December 31, 2002, the amount accrued for future environmental-related costs was \$1.7 million. Of the total amount accrued at December 31, 2002, \$0.3 million is expected to be paid out within one year and is included in the Other accrued liabilities line of the balance sheet. The remaining \$1.4 million is recorded in Other non current liabilities. Based on available information, RMI believes its share of potential environmental-related costs, before expected contributions from third parties, is in a range from \$3.1 million to \$7.3 million, in the aggregate. The amount accrued is net of expected contributions from third parties (other than insurers) of approximately \$0.5 to \$2.2 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

As part of Boeing Commercial Airplane Group's long-term supply agreement with the Company, Boeing was required to order a minimum of 3.25 million pounds of titanium in each of the five years beginning in 1999. They failed to do so for 1999, 2000, 2001, and 2002, ordering 0.9 million pounds, 1.1 million pounds, 0.9 million pounds, and 0.5 million pounds, respectively.

The Company made claim against Boeing in accordance with the provisions of

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

the long-term contract for each of the years in which the minimum was not achieved. Revenue under the provisions of Statement of Financial Accounting Standards No. 5 ("SFAS No. 5"), "Accounting for Contingencies" was deemed not realized until Boeing settled the claims. Accordingly, the claims were treated as a gain contingency dependent upon realization.

As a result of the application of SFAS No. 5 as to gain contingencies, the Company recorded revenue of approximately \$6 million in 2000 and 2001, and approximately \$7 million in 2002, for each of the preceding years claims upon receipt of the cash. The Company recognized approximately \$8 million in the first quarter of 2003 when Boeing satisfied the claim for 2002. In all years, revenue recognized from these cash receipts was presented as other income in the financial statements.

### 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.

9

### NOTE 9--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 and sheet. 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 Titanium Group includes the activities related to the clean up and remediation of a former titanium extrusion facility operated by the Company under a contract from the U.S. Department of Energy.

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; cut, forged, extruded and rolled shapes; and commercially pure titanium strip and welded tube 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.

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.

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

Segment information for the three-month periods ended March 31, 2003 and 2002 is as follows:

|   | QUARTER ENDED<br>MARCH 31 |          |
|---|---------------------------|----------|
|   | 2003                      | 2002     |
| <b>TOTAL SALES</b>  |                           |          |
| Titanium Group.....   | \$32,742                  | \$50,204 |
| Fabrication and Distribution Group.....   | 46,049                    | 47,732   |
| Total.....  | 78,791                    | 97,936   |
| <b>INTER AND INTRA SEGMENT SALES</b>  |                           |          |
| Titanium Group.....   | 18,507                    | 28,442   |
| Fabrication and Distribution Group.....   | 1,752                     | 3,816    |
| Total.....  | 20,259                    | 32,258   |
| <b>TOTAL SALES TO EXTERNAL CUSTOMERS</b>  |                           |          |
| Titanium Group.....   | 14,235                    | 21,762   |
| Fabrication and Distribution Group.....   | 44,297                    | 43,916   |
| Total.....  | \$58,532                  | \$65,678 |
| <b>OPERATING INCOME (LOSS)</b>  |                           |          |
| Titanium Group.....   | \$ (1,776)                | \$ 4,261 |
| Fabrication and Distribution Group.....   | 155                       | 115      |
| Total.....  | (1,621)                   | 4,376    |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO REPORTED INCOME BEFORE TAXES:</b> |                           |          |
| Other income (loss)-net.....  | 8,777                     | 8,936    |
| Interest expense.....   | 168                       | 147      |
| Reported Income before taxes.....   | \$ 6,988                  | \$13,165 |

On January 1, 2003 the Company realigned its two operating segments to better reflect its strategy for achieving higher value-added sales and has modified results for 2002 to reflect this realignment. Included in the realignment was the transfer from the Titanium Group to the Fabrication and Distribution Group of the

10

Company's commercially pure products business, grinding operations at the Company's Washington, MO., facility and marketing and sales responsibility for most sheet and plate products.

#### NOTE 10--NEW ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 ("SFAS No. 143"), "Accounting for Asset Retirement Obligations." SFAS No. 143 prescribes the accounting for retirement obligations associated with tangible long-lived assets, including: (1) the timing of liability recognition; (2) initial

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

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. SFAS No. 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. The Company adopted this standard in the first quarter of 2003 and it did not result in a material adjustment to the financial statements.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue 94-3, a liability for an exit activity was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. SFAS No. 146 will impact the timing of the recognition of costs associated with an exit or disposal activity but is not expected to have a material impact on the Company.

In January 2003, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS 148 amends current disclosure requirements and requires prominent disclosures on both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. See Note 3 for the disclosures required by this standard.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The recognition and measurement provisions are effective on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of this interpretation is not expected to have a material impact on the Company.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 provides guidance on the identification of entities for which control is achieved through means other than through voting rights, variable interest entities, and how to determine when and which business enterprises should consolidate variable interest entities. This interpretation applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of this interpretation will not have an impact on the Company.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), "Amendment of Statement 133 on Derivative Instruments

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

and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments

11

embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, with some exceptions. The adoption of this standard will not have a material impact on the Company.

### 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 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. In addition to factors discussed throughout this report, the following factors and risks should also 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 cyclical nature of the titanium and aerospace industries, increased defense spending, the success of new market development, 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.

THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THREE MONTHS ENDED MARCH 31, 2002

#### NET SALES

Net sales decreased to \$58.5 million for the three months ended March 31, 2003 compared to net sales of \$65.7 million in the corresponding 2002 period. Sales for the Company's Titanium Group amounted to \$14.2 million in the three months ended March 31, 2003 compared to \$21.8 million in the same period of 2002. 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 1.4 million pounds in the three months ended March 31, 2003, compared to 2.8 million pounds for the same period in 2002. Mill product shipments in the three months ended March 31, 2003 were lower than those in 2002 as demand for forged mill products for commercial 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 decreased over the same period last year reflecting reduced demand for titanium products through the Fabrication and Distribution Group as well as intentional

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

inventory reductions within certain F&D businesses. Average realized prices on mill products for the three months ended March 31, 2003 increased to \$16.58 per pound from \$13.22 per pound in 2002. 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 2002. Sales for the Company's Fabrication and Distribution Group amounted to \$44.3 million in the three months ended March 31, 2003, compared to \$43.9 million in the same period of 2002. This increase reflects an increase in energy market sales, partially offset by reduced demand in fabrication, and U.S. and European distribution sales.

### GROSS PROFIT

Gross profit amounted to \$6.4 million, or 10.9% of sales for the three months ended March 31, 2003 compared to a gross profit of \$13.8 million or 21.0% for the comparable 2002 period. Gross margin declined as a result of the decline in mill product shipments and reduced volume in fabrication, and U.S. and European distribution sales, partially offset by increased sales in energy markets.

12

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses amounted to \$7.6 million or 13.0% of sales for the three months ended March 31, 2003, compared to \$9.1 million or 13.8% of sales for the same period in 2002. The decrease in selling, general and administrative expenses primarily reflects reductions in employee benefit liabilities of \$0.6 million and employee bonus compensation of \$0.3 million.

### RESEARCH, TECHNICAL AND PRODUCT DEVELOPMENT EXPENSES

Research, technical and product development expenses amounted to \$0.4 million in 2003 and 2002.

### OPERATING INCOME

Operating loss for the three months ended March 31, 2003 amounted to \$1.6 million, or 2.8% of sales compared to operating income of \$4.4 million, or 6.7% of sales, in the same period of 2002. This decline consists of a decrease in operating income from the Titanium Group of \$8.2 million primarily due to a decrease in mill product shipments. This decrease is partially offset by an increase in operating income in the Fabrication and Distribution Group of \$1.9 million due to an increase in energy market sales, partially offset by a decrease in demand in fabrication, and U.S. and European distribution sales.

### OTHER INCOME

Other income for the three months ended March 31, 2003 and March 31, 2002 amounted to \$8.8 and \$8.9 million, respectively. Other income primarily reflects the receipt of liquidated damages from the Boeing Airplane Group of \$8.4 million in 2003 and \$7.1 million in 2002. 2002 also reflects a \$2.1 million gain from the receipt of a common stock distribution in connection with the demutualization of one of the Company's insurance carriers.

### INTEREST EXPENSE

Interest expense for the three months ended March 31, 2003 and March 31, 2002 amounted to \$0.2 million and \$0.1 million, respectively. 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 March

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

31, 2003 and 2002.

### INCOME TAXES

In the three months ended March 31, 2003, the Company recorded an income tax expense of \$2.7 million compared to a \$5.1 million expense recorded in the same period in 2002. The first quarter 2003 rate of 38% reflects the effective tax rate for all of 2002. The effective tax rate of 38% for the three months ended March 31, 2003 and 39% for the three months ended March 31, 2002 was greater than the federal statutory rate of 35% primarily due to state income taxes.

### NET INCOME

Net income for the three months ended March 31, 2003 amounted to \$4.3 million or 7.4% of sales, compared to \$8.0 million or 12.2% of sales in the comparable 2002 period. This decline consists of a decrease in operating income from the Titanium Group of \$8.2 million primarily due to a decrease in mill product shipments. This decrease is partially offset by an increase in operating income in the Fabrication and Distribution Group of \$1.9 million due to an increase in energy market sales, partially offset by a decrease in demand in fabrication, and U.S. and European distribution sales.

### OUTLOOK

The terrorist attacks of September 11, 2001, and their effect on the general economy had a significant adverse influence on business conditions. The war in Iraq and the worldwide outbreak of Severe Acute

13

Respiratory Syndrome ("SARS") have added further downward pressure. There remains a high degree of uncertainty on how long these conditions will last.

#### Commercial Aerospace Markets

The largest impact of these events has been on commercial aerospace markets, which provided approximately 30% of RTI's sales in 2002. 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, adjusted their build rates beginning in 2002 downward approximately 20% to reflect the expected change in demand. The exact magnitude of the downturn on commercial aerospace remains uncertain for 2003, but it will be further exacerbated by the war in Iraq and the outbreak of SARS affecting world travel, particularly to and from the Far East.

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. Given reduced activity by aircraft builders, it is expected that shipments from RTI to this segment will be reduced in 2003.

The effect of the reduction in commercial aircraft demand on RTI will be partially mitigated 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 at year-end 2003. Under the accord, Boeing receives firm prices in exchange for RMI receiving a



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

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. The claim for 2002 was settled during the first quarter of 2003 for approximately \$8 million. Given the state of the commercial aircraft industry, it is not expected that Boeing will meet the minimum in 2003, the final year of the contract, and accordingly, a similar payment will be called for in early 2004. Beginning in 2004, business between the companies not covered by other contracts will be conducted on a non-committed basis, that is, no volume commitment by Boeing and no commitment of capacity or price by RMI.

RTI, through its RTI Europe subsidiary, entered into an agreement with the European Aeronautic Defense and Space Company ("EADS") in April 2002 to supply value-added titanium products and parts to the EADS group of companies, including Airbus. The contract is in place through 2004, subject to extension.

### Defense Markets

The importance of military markets to RTI, approximately 30% of 2002 revenues, is expected to rise in 2003 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 and the war in Iraq. It is estimated that overall titanium consumption will be increased within this segment in 2003 globally, but it is not expected to completely offset the decrease 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, F-16, JSF (F-35) and in Europe, the Mirage, Rafale and Eurofighter-Typhoon.

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

14

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 entered into agreements with Lockheed and its teaming partner, BAE Systems, to be the supplier of titanium sheet and plate for the design and development phase of the program over the next five years.

### Industrial and Consumer Markets

40% of RTI's sales are generated in various industrial and consumer markets, where business conditions are expected to be mixed over the next year or two.

Revenues from Oil and Gas markets achieved new highs for RTI in 2002, and

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

forecasts for 2003 indicate continued strong demand, 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.

In April 2002, RTI Energy Systems, Inc. was selected by Unocal to provide production riser equipment in connection with their West Seno project off the coast of Indonesia. RTI is providing the high-fatigue riser engineering design, in addition to the manufacture of components using a combination of titanium and steel. This project, which was completed in the first quarter, is expected to lead to other opportunities in Indonesia over the next several years.

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

### BACKLOG

The Company's order backlog for all market segments decreased to \$89.0 million as of March 31, 2003, from \$100.0 million at December 31, 2002, principally due to a reduction in demand for titanium mill products from commercial aerospace markets.

### LIQUIDITY AND CAPITAL RESOURCES

Net cash flows from operating activities totaled \$7.6 million for the three months ended March 31, 2003 and 2002. Net cash flows from operations for the three months ended March 31, 2003, when compared to the three months ended March 31, 2002, reflect approximately \$4 million less net income, offset by reduced increases in working capital and other balance sheet line items of \$4 million. At March 31, 2003, working capital and other balance sheet line items remained unchanged from December 31, 2002, compared to the same period in 2002 which reflected an increase of \$4 million. The Company's working capital ratio was 10.2 to 1 at March 31, 2003, compared to 9.4 at December 31, 2002.

During the quarters ended March 31, 2003 and 2002, 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 2003 with funds generated by operations.

At March 31, 2003, the Company had a borrowing capacity equal to \$83.1 million, the amount of the facility, or a borrowing base equal to the sum of 85% of qualifying accounts receivable and 60% of qualifying inventory whichever is less.

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.

While there is no guarantee that the Company will be able to generate sufficient cash flow from operations to fund its operations and capital expenditures in 2003, the Company believes it can maintain adequate liquidity through a combination of cash reserves and available borrowing capacity. Also, as RTI currently has no debt, and

based on the expected strength of 2003 cash flows, the Company does not believe there is any material near-term risks relating to fluctuations in interest

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

rates.

### CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Following is a summary of the Company's contractual obligations and other commercial commitments as of March 31, 2003:

|                                    | CONTRACTUAL OBLIGATIONS |         |         |         |         |          |
|------------------------------------|-------------------------|---------|---------|---------|---------|----------|
|                                    | REMAINDER               |         |         |         |         |          |
|                                    | OF<br>2003              | 2004    | 2005    | 2006    | 2007    | THEREAFT |
| Operating leases.....              | \$1,829                 | \$1,924 | \$1,488 | \$1,330 | \$1,198 | \$1,423  |
| Capital leases.....                | 194                     | 178     | 137     | 30      | 23      | --       |
|                                    | -----                   | -----   | -----   | -----   | -----   | -----    |
| Total contractual obligations..... | \$2,023                 | \$2,102 | \$1,625 | \$1,360 | \$1,221 | \$1,423  |
|                                    | =====                   | =====   | =====   | =====   | =====   | =====    |

|                                       | OTHER COMMERCIAL COMMITMENTS |         |         |       |       |          |
|---------------------------------------|------------------------------|---------|---------|-------|-------|----------|
|                                       | REMAINDER                    |         |         |       |       |          |
|                                       | OF<br>2003                   | 2004    | 2005    | 2006  | 2007  | THEREAFT |
| Standby letters of credit.....        | \$2,575                      | \$1,049 | \$1,295 | \$ -- | \$ -- | \$ --    |
|                                       | -----                        | -----   | -----   | ----- | ----- | -----    |
| Total other commercial commitments... | \$2,575                      | \$1,049 | \$1,295 | \$ -- | \$ -- | \$ --    |
|                                       | =====                        | =====   | =====   | ===== | ===== | =====    |

The Company's other commercial commitments at March 31, 2003 represent standby letters of credit primarily related to commercial performance guarantees.

### CREDIT AGREEMENT

At March 31, 2003, 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. The credit agreement contains restrictions, among others, on the minimum shareholders' equity required, the minimum cash flow required, and the maximum leverage ratio permitted. At March 31, 2003, there was \$4.9 million of standby letters of credit outstanding under the facility, the Company was in compliance with all covenants, and had a borrowing capacity equal

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

to \$83.1 million.

### 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 March 31, 2003 and 2002, the amount accrued for future environmental-related costs was \$1.7 million. Of the total amount accrued at December 31, 2002, \$0.3 million is expected to be paid out within one year and is included in the Other accrued liabilities line of the balance sheet. The remaining \$1.4 million is recorded in Other non current liabilities. Based on available information, RMI believes its share of potential environmental-related costs, before expected contributions from third parties, is in a range from \$3.1 million to \$7.3 million, in the aggregate. The amount accrued is net of expected contributions from third parties (other than insurers) of approximately \$0.5 to \$2.2 million, which the Company believes are probable. The Company has been receiving

16

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.

### CAPITAL EXPENDITURES

Gross capital expenditures for the quarter ended March 31, 2003 amounted to \$1.3 million compared to \$1.5 million in the quarter ended March 31, 2002. In both quarters, capital spending primarily reflected equipment additions and improvements as well as information system projects.

Capital spending for 2003 is budgeted at approximately \$10.0 million.

### NEW ACCOUNTING STANDARDS

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 ("SFAS No. 143"), "Accounting for Asset Retirement Obligations." SFAS No. 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. SFAS No. 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. The Company adopted this standard in the first quarter of 2003 and it did not result in a material

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

adjustment to the financial statements.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146 ("SFAS No. 146"), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." Under EITF Issue 94-3, a liability for an exit activity was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. SFAS No. 146 will impact the timing of the recognition of costs associated with an exit or disposal activity but is not expected to have a material impact on the Company.

In January 2003, the FASB issued Statement of Financial Accounting Standards No. 148 ("SFAS No. 148"), "Accounting for Stock-Based Compensation-Transition and Disclosure." SFAS 148 amends current disclosure requirements and requires prominent disclosures on both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. This statement is effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. See Note 3 for the disclosures required by this standard.

In November 2002, the FASB issued FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN 45 requires that upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The recognition and measurement provisions are effective on a prospective basis to guarantees issued or modified

17

after December 31, 2002. The adoption of this interpretation is not expected to have a material impact on the Company.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." FIN 46 provides guidance on the identification of entities for which control is achieved through means other than through voting rights, variable interest entities, and how to determine when and which business enterprises should consolidate variable interest entities. This interpretation applies immediately to variable interest entities created after January 31, 2003. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The adoption of this interpretation will not have an impact on the Company.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS No. 149"), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003,

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

with some exceptions. The adoption of this standard will not have a material impact on the Company.

### 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 12, 2003.

### ITEM 4. CONTROLS AND PROCEDURES

As of a date within 90 days prior to the filing of this report (the "Evaluation Date"), the Chief Executive Officer and Chief Financial Officer evaluated the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 and 15d-14. They have concluded that the Company's 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. In addition, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect those internal controls, including any corrective actions with regard to significant differences and material weaknesses, subsequent to the Evaluation Date.

18

## 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<br>Number<br>----- | Description<br>-----  |
|----------------------------|---|
| 99.3                       | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.4                       | 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

None.

19

## 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.  
-----

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

(Registrant)

Date: May 13, 2003

By: /s/ L. W. JACOBS

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

20

CHIEF EXECUTIVE OFFICER 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:

- 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

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

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: May 13, 2003

/s/ TIMOTHY G. RUPERT

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

21

### CHIEF FINANCIAL OFFICER 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;

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



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

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: May 13, 2003

/s/ LAWRENCE W. JACOBS

-----  
Lawrence W. Jacobs  
Vice President and Chief Financial  
Officer