TITANIUM METALS CORP
Form 10-K
March 21, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2001

OR

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

Commission file number 0-28538

Titanium Metals Corporation

(Exact name of registrant as specified in its charter)

Delaware	13-5630895
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1999 Broadway, Suite 4300, Denver, Colorado 80202
(Address of principal executive offices) (Zip code)

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

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

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

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

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

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

As of March 18, 2002, 31,861,338 shares of common stock were outstanding. The aggregate market value of the 18.7 million shares of voting stock held by nonaffiliates of Titanium Metals Corporation as of such date approximated $94.6 million.

Documents incorporated by reference:

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

Forward-Looking Information

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

PART I

ITEM 1: BUSINESS

General. Titanium Metals Corporation ("TIMET" or the "Company") was originally formed in 1950 and was incorporated in Delaware in 1955. TIMET is one of the world's leading integrated producers of titanium sponge, melted and mill products. The Company is the only integrated producer with major titanium production facilities in both the United States and Europe, the world's principal markets for titanium. The Company estimates that in 2001 it accounted for approximately 24% of worldwide industry shipments of mill products and approximately 13% of worldwide sponge production.

Titanium was first manufactured for commercial use in the 1950s. Titanium's unique combination of corrosion resistance, elevated-temperature performance and high strength-to-weight ratio makes it particularly desirable for use in commercial and military aerospace applications in which these qualities are essential design requirements for certain critical parts such as wing supports and jet engine components. While aerospace applications have historically accounted for a substantial portion of the worldwide demand for titanium and were approximately 40% of aggregate mill product shipments in 2001, the number of non-aerospace end-use markets for titanium has expanded substantially. Today, numerous industrial uses for titanium exist, including chemical and industrial power plants, desalination plants and pollution control equipment. Demand for titanium is also increasing in emerging markets with such diverse uses as offshore oil and gas production installations, geothermal facilities, military armor, automotive and architectural applications.

TIMET's products include (i) titanium sponge, the basic form of titanium metal used in processed titanium products, (ii) melted products, comprised of titanium ingot and slab, the result of melting sponge and titanium scrap, either alone or with various other alloying elements and (iii) mill products that are forged and rolled from ingot or slab, including long products (billet and bar), flat products (plate, sheet and strip), pipe and pipe fittings. The Company believes it is among the lower-cost producers of titanium sponge and melted products due in part to its manufacturing expertise and technology. The titanium industry is comprised of several manufacturers that, like TIMET, produce a relatively complete range of titanium products and a significant number of producers worldwide that manufacture a limited range of titanium mill products. The Company is presently the only active titanium sponge producer in the U.S.

The Company's long-term strategy is to maximize the value of its core aerospace business and develop new markets, applications and products to help reduce its traditional dependence on the aerospace industry. In the near-term, the Company is focused on reducing its cost structure, improving the quality of its products and processes and taking other actions to return to profitability and generate positive cash flow.

Industry. The titanium industry historically has derived a substantial portion of its business from the aerospace industry. Mill product shipments to

the aerospace industry in 2001 represented about 40% of total titanium demand and slightly over 80% of the Company's annual mill product shipments. Aerospace demand for titanium products, which includes both jet engine components (i.e. blades, discs, rings and engine cases) and air frame components (i.e. bulkheads, tail sections, landing gears, wing supports and fasteners) can be broken down into commercial and military sectors. The commercial aerospace sector has a significant influence on titanium companies, particularly mill product producers such as TIMET. Industry shipments of mill products to the commercial aerospace sector in 2001 accounted for approximately 90% of aerospace demand and 35% of aggregate mill product demand.

The cyclical nature of the aerospace industry has been the principal driver of the historical fluctuations in the performance of titanium companies. Over the past 20 years, the titanium industry had cyclical peaks in mill product shipments in 1980, 1989, 1997 and 2001 and cyclical lows in 1983, 1991 and 1999. Demand for titanium reached its highest peak in 1997 when industry mill product shipments reached an estimated 60,000 metric tons. Industry mill product shipments subsequently declined approximately 5% to an estimated 57,000 metric tons in 1998. After falling 16% from 1998 levels to 48,000 metric tons in 1999 and 2000, industry shipments climbed to an estimated 51,000 metric tons in 2001. The Company expects total industry mill product shipments will decrease in 2002 by approximately 16% to approximately 43,000 metric tons.

During the latter part of 2001, an economic slowdown in the U.S. and other regions of the world began to negatively affect the commercial aerospace industry as evidenced by, among other things, a decline in airline passenger traffic, reported operating losses by a number of airlines and a reduction in the forecasted deliveries of large commercial aircraft from both Boeing and Airbus. On September 11, 2001, the United States was the target of terrorist attacks that exacerbated these trends and had a significant adverse impact on the global economy and the commercial aerospace industry. The major U.S. airlines reported significant financial losses in the fourth quarter of 2001 and profits for European and Asian airlines declined. In response, airlines have announced a number of actions to reduce both costs and capacity including, but not limited to, the early retirement of airplanes, the deferral of scheduled deliveries of new aircraft and allowing purchase options to expire. These events have resulted in the major commercial airframe and jet engine manufacturers substantially reducing both their forecast of jet engine and large commercial aircraft deliveries over the next few years and their production levels in 2002. Although certain recently reported economic data may indicate some modest level of recovery, the Company expects the current slowdown in the commercial aerospace sector to last for about two years.

The Company believes that mill product demand for the commercial aerospace sector could decline by up to 40% in 2002, primarily due to a combination of reduced aircraft production rates and excess inventory accumulated throughout the aerospace supply chain since September 11, 2001. The aerospace supply chain is fragmented and decentralized, making it difficult to quantify excess inventories. However, the Company roughly estimates that excess inventory throughout the supply chain might be in the range of 3,200 to 5,500 metric tons at the end of 2001, and believes it may take up to two years for such excess inventory to be substantially absorbed.

According to The Airline Monitor, a leading aerospace publication, the worldwide commercial airline industry reported an estimated operating loss of approximately $13 billion in 2001, compared with operating income of $11 billion in 2000 and $12 billion in 1999. According to The Airline Monitor, large commercial aircraft deliveries for the 1996 to 2001 period peaked in 1999 with

889 aircraft, including 254 wide body aircraft. Wide body aircraft use substantially more titanium than their narrow body counterparts. Large commercial aircraft deliveries totaled 834 (including 202 wide bodies) in 2001, and the most recent forecast of aircraft deliveries by The Airline Monitor calls for 660 deliveries in 2002, 505 deliveries in 2003 and 515 deliveries in 2004. After 2004, The Airline Monitor calls for a continued increase each year in large commercial aircraft deliveries, with forecasted deliveries of 920 aircraft in 2008 exceeding 2001 levels. Relative to 2001, these forecasted delivery rates represent anticipated declines of about 20% in 2002 and just under 40% in 2003 and 2004. Additionally, the Company's discussions with jet engine manufacturers and related suppliers suggest that they are expecting production declines in 2002 relative to 2001 in the range of 25% to 30%. The demand for titanium generally precedes aircraft deliveries by about one year, although this varies considerably by titanium product. Accordingly, the Company's cycle historically precedes the cycle of the aircraft industry and related deliveries. The Company can give no assurance as to the extent or duration of the current commercial aerospace cycle or the extent to which it will affect demand for the Company's products.

Since titanium's initial applications in the aerospace sector, the number of end-use markets for titanium has significantly expanded. Established industrial uses for titanium include chemical plants, industrial power plants, desalination plants and pollution control equipment. Titanium continues to gain acceptance in many emerging market applications, including automotive, military armor, energy, architecture and consumer products. Although titanium is generally higher cost than other competing metals, in many cases customers find the physical properties of titanium to be attractive from the standpoint of performance, design alternatives, life cycle value and other factors. Although emerging market demand presently represents only about 10% of the total industry demand for titanium mill products, the Company believes emerging market demand, in the aggregate, could grow at healthy double-digit rates over the next few years. The Company is actively pursuing these markets.

Although difficult to predict, the most attractive emerging segment appears to be automotive, due to its potential for sustainable long-term growth. Titanium is now used in several consumer car applications including the Toyota Alteeza, Infiniti Q45, Corvette Z06, Volkswagen Lupo FSI, Honda S2000 and Mercedes S Class. At the present time, titanium is primarily used for exhaust systems and suspension springs in consumer vehicles. In exhaust systems, titanium provides for significant weight savings, while its corrosion resistance provides life-of-vehicle durability. In suspension spring applications, titanium saves weight and its combination of low mass and low modulus of elasticity allows the spring's height to be reduced by 20% to 50% compared to a steel spring.

Titanium is also making inroads into other automotive applications, including turbo charger wheels, brake parts, pistons, valves and internal engine components. Titanium engine components provide mass-reduction benefits, allowing a corresponding weight and size reduction in crankshaft counterbalance weights and resultant improvements in noise, vibration and harshness. The additional cost associated with titanium's use for internal engine parts can be offset by the elimination of balance shafts and the ability to replace sophisticated engine mounts with low cost, compact, simple designs. All of this can translate into greater styling and structural design freedom for automotive designers and engineers. Titanium is also advantageous compared to alternative materials in that it often can be formed and fabricated on the same tooling used for the steel component it is typically replacing.

The decision to select titanium components for consumer car, truck and motorcycle components remains highly cost sensitive; however, the Company believes titanium's acceptance in consumer vehicles will expand as the automotive industry continues to better understand the benefits it offers.

Customer agreements. The Company has long-term agreements ("LTAs") with certain major aerospace customers, including, but not limited to, The Boeing Company ("Boeing"), Rolls-Royce plc ("Rolls-Royce"), United Technologies Corporation (Pratt & Whitney and related companies) and Wyman-Gordon Company ("Wyman-Gordon") (a unit of Precision Castparts Corporation ("PCC")). These agreements initially became effective in 1998 and 1999 and expire in 2007 through 2008, subject to certain conditions. The LTAs generally provide for (i) minimum market shares of the customers' titanium requirements or firm annual volume commitments and (ii) fixed or formula-determined prices generally for at least the first five years. Generally, the LTAs require the Company's service and product performance to meet specified criteria and contain a number of other terms and conditions customary in transactions of these types. In certain events of nonperformance by the Company, the LTAs may be terminated early. Additionally, if the parties are unable to reach agreement on pricing after the initial pricing period or in certain other circumstances, the LTAs may be terminated early. These agreements were designed to limit selling price volatility to the customer, while providing TIMET with a committed base of volume throughout the aerospace business cycles. They also, to varying degrees, effectively obligate TIMET to bear part of the risks of increases in raw material and other costs, but allow TIMET to benefit in part from decreases in such costs. These contracts and others represent the core of the Company's long-term aerospace strategy.

In April 2001, the Company reached a settlement of the litigation between TIMET and Boeing related to the parties' 1997 LTA. Pursuant to the settlement, the Company received a cash payment of $82 million from Boeing. In addition, TIMET and Boeing also entered into an amended LTA that, among other things, allows Boeing to purchase up to 7.5 million pounds of titanium product annually from TIMET through 2007, subject to certain maximum quarterly volume levels. Under the amended LTA, Boeing will advance TIMET $28.5 million annually from 2002 through 2007. The LTA is structured as a take-or-pay agreement such that, beginning in calendar year 2002, Boeing will forfeit a proportionate part of the $28.5 million annual advance, or effectively $3.80 per pound, in the event that its orders for delivery for such calendar year are less than 7.5 million pounds. Under a separate agreement, TIMET will establish and hold buffer stock for Boeing at TIMET's facilities, for which Boeing will pay TIMET as such product is produced. See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information regarding the Boeing LTA.

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

Acquisitions and capital transactions during the past five years. In 1998, TIMET (i) acquired Loterios S.p.A. to increase its market share in industrial markets, and provide increased geographic sales coverage in Europe, (ii) purchased for cash $80 million of non-voting and non-marketable convertible

preferred securities of Special Metals Corporation ("SMC"), a U.S. manufacturer of wrought nickel-based superalloys and special alloy long products and (iii) entered into a castings joint venture with Wyman-Gordon. In January 2000, the Company sold its interest in the castings joint venture for $7 million and realized a gain of $1.2 million on the sale. In December 2001, the Company determined that there had been an other than temporary decline in the fair value of its investment in SMC and reduced the carrying amount of these securities and related dividends and interest to an estimated fair value of $27.5 million. See Notes 1, 3 and 4 to the Consolidated Financial Statements.

In 1998, Tremont Corporation ("Tremont") purchased TIMET common stock in market transactions. In 1999, Tremont exercised an option to purchase approximately two million shares of the Company's common stock. At December 31, 2001, Tremont held approximately 39% of TIMET's outstanding common stock. See Note 16 to the Consolidated Financial Statements.

Products and operations. The Company is a vertically integrated titanium manufacturer whose products include (i) titanium sponge, the basic form of titanium metal used in processed titanium products, (ii) melted products, comprised of titanium ingot and slab, the result of melting sponge and titanium scrap, either alone or with various other alloying elements and (iii) mill products that are forged and rolled from ingot or slab, including long products (billet and bar), flat products (plate, sheet and strip), pipe and pipe fittings. During the past three years, all of TIMET's sales revenue was generated by the Company's integrated titanium operations (its "Titanium melted and mill products" segment), its principal business segment. Business and geographic segment financial information is included in Note 2 to the Consolidated Financial Statements.

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

Titanium ingots and slabs are solid shapes (cylindrical and rectangular, respectively) that weigh up to 8 metric tons in the case of ingots and up to 16 metric tons in the case of slabs. Each is formed by melting titanium sponge or scrap or both, usually with various other alloying elements such as vanadium, aluminum, molybdenum, tin and zirconium. Titanium scrap is a by-product of the forging, rolling, milling and machining operations, and significant quantities of scrap are generated in the production process for finished titanium products. The melting process for ingots and slabs is closely controlled and monitored utilizing computer control systems to maintain product quality and consistency and to meet customer specifications. Ingots and slabs are both sold to customers and further processed into mill products.

Titanium mill products result from the forging, rolling, drawing, welding and/or extrusion of titanium ingots or slabs into products of various sizes and grades. These mill products include titanium billet, bar, rod, plate, sheet,

strip, pipe and pipe fittings. The Company sends certain products to outside vendors for further processing before being shipped to customers or to the Company's service centers. Many of the Company's customers process the Company's products for their ultimate end-use or for sale to third parties.

During the production process and following the completion of manufacturing, the Company performs extensive testing on its products, including sponge, melted and mill products. Testing may involve chemical analysis, mechanical testing, ultrasonic and x-ray testing. The inspection process is critical to ensuring that the Company's products meet the high quality requirements of customers, particularly in aerospace components production. The Company certifies its products meet customer specification at the time of shipment for substantially all customer orders.

The Company is reliant on several outside processors to perform certain rolling, finishing and other processing steps in the U.S., and certain melting, forging and finishing steps in France. In the U.S., one of the processors that performs these steps in relation to strip production and another as relates to plate finishing are owned by a competitor. One of the processors as relates to extrusion is operated by a customer. These processors are currently the sole source for these services. Other processors used in the U.S. are not competitors. In France, the processor is also a joint venture partner in the Company's 70%-owned subsidiary, TIMET Savoie, SA ("TIMET Savoie"). Although the Company believes that there are other metal producers with the capability to perform these same processing functions, arranging for alternative processors, or possibly acquiring or installing comparable capabilities, could take several months or longer, and any interruption in these functions could have a material and adverse effect on the Company's business, results of operations, financial postion and liquidity in the near term.

Raw materials. The principal raw materials used in the production of titanium mill products are titanium sponge, titanium scrap and alloying elements. The Company processes rutile ore into titanium tetrachloride and further processes the titanium tetrachloride into titanium sponge. During 2001, approximately 32% of the Company's melted and mill product was made from internally produced sponge, 40% from purchased sponge, 21% from titanium scrap and 7% from alloying elements.

The primary raw materials used in the production of titanium sponge are titanium-containing rutile ore, chlorine, magnesium and petroleum coke. Titanium-containing rutile ore is currently available from a limited number of suppliers around the world, principally located in Australia, South Africa, India and the United States. A majority of the Company's supply of rutile ore is currently purchased from Australian suppliers. The Company believes the availability of rutile ore will be adequate for the foreseeable future and does not anticipate any interruptions of its rutile supplies, although political or economic instability in the countries from which the Company purchases its rutile could materially and adversely affect availability. Although the Company believes that the availability of rutile ore is adequate in the near-term, there can be no assurance that the Company will not experience interruptions.

Chlorine is currently obtained from a single supplier near the Company's sponge plant. That supplier is currently reorganizing under Chapter 11 bankruptcy. While the Company does not presently anticipate any chlorine supply problems, there can be no assurances the chlorine supply will not be interrupted. The Company has taken steps to mitigate this risk, including establishing the feasibility of certain equipment modifications to enable it to utilize alternative chlorine suppliers or to purchase and successfully utilize

an intermediate product which will allow the Company to bypass the purchase of chlorine if needed. Magnesium and petroleum coke are also generally available from a number of suppliers. Various alloying elements used in the production of titanium ingot are available from a number of suppliers.

Should the Company be unable to obtain the necessary raw materials, the Company may incur higher costs to purchase sponge which could have a material adverse effect on the Company's business, results of operations, financial position and liquidity.

While the Company was one of six major worldwide producers of titanium sponge in 2001, it cannot supply all of its needs for all grades of titanium sponge internally and is dependent, therefore, on third parties for a substantial portion of its sponge requirements. Titanium mill and melted products require varying grades of sponge and/or scrap depending on the customers' specifications and expected end use. In 2001, Allegheny Technologies, Inc. idled its titanium sponge production facility, making TIMET the only active U.S. producer of titanium sponge and reducing the number of active worldwide producers to five. Presently, TIMET and certain suppliers in Japan are the only producers of premium quality sponge required for more demanding aerospace applications. However, one additional sponge supplier is presently undergoing qualification tests of its product for premium quality applications and is expected to be qualified for such during 2002.

Historically, the Company has purchased sponge predominantly from producers in Japan and Kazakhstan. During 2000 and throughout 2001, the Company also purchased sponge from the U.S. Defense Logistics Agency ("DLA") stockpile. In 2002, the Company expects to continue to purchase sponge from Japan, Kazakhstan and the DLA.

TIMET has a ten-year LTA for the purchase of titanium sponge produced in Kazakhstan. The LTA runs through 2007, with firm pricing through 2002, subject to certain possible adjustments and possible early termination in 2004. The Company is currently in the process of renegotiating certain components of this LTA with the supplier. Although the LTA provides for minimum annual purchases by the Company of 6,000 metric tons, the supplier has agreed to reduced purchases by TIMET since 1999. The Company is currently operating under an agreement in principle that provides for significantly reduced minimum purchases in 2002 and certain other modified terms. The Company has no other long-term sponge supply agreements.

Markets and customer base. Approximately 50% of the Company's 2001 sales revenue was generated by sales to customers within North America, about 40% to European customers and the balance to other regions. Over 70% of the Company's sales revenue was generated by sales to the aerospace industry. Sales under the Company's LTAs accounted for over 40% of its sales revenue in 2001. Sales to PCC and its related entities approximated 11% of the Company's sales revenue in 2001. Sales to Rolls-Royce and other Rolls-Royce suppliers under the Rolls-Royce LTA (including sales to certain of the PCC related entities) represented approximately 15% of the Company's sales revenue in 2001. The Company expects that while a majority of its 2002 sales revenue will be to the aerospace industry, other markets will continue to represent a significant portion of sales.

The primary market for titanium products in the commercial aerospace industry consists of two major manufacturers of large (over 100 seats) commercial airframes: Boeing Commercial Airplanes Group of the United States and

Airbus Integrated Company (80% owned by European Aeronautic Defence and Space Company and 20% owned by BAE Systems) of Europe ("Airbus"). In addition to the airframe manufacturers, the following four manufacturers of large civil aircraft engines are also significant titanium users - Rolls-Royce, Pratt & Whitney (a unit of United Technologies Corporation), General Electric Aircraft Engines and Societe Nationale d'Etude et de Construction de Moteurs d'Aviation ("Snecma"). The Company's sales are made both directly to these major manufacturers and to companies (including forgers such as Wyman-Gordon) that use the Company's titanium to produce parts and other materials for such manufacturers. If any of the major aerospace manufacturers were to significantly reduce aircraft and/or jet engine build rates from those currently expected, there could be a material adverse effect, both directly and indirectly, on the Company.

As of December 31, 2001, the estimated firm order backlog for Boeing and Airbus, as reported by The Airline Monitor, was 2,919 planes, versus 3,224 planes at the end of 2000 and 2,943 planes at the end of 1999. The backlogs for Boeing and Airbus reflect orders for aircraft to be delivered over several years. For example, the first deliveries of the Airbus A380 are anticipated to begin in 2006. Additionally, changes in the economic environment and the financial condition of airlines can result in rescheduling or cancellation of contractual orders. Accordingly, aircraft manufacturer backlogs are not necessarily a reliable indicator of near-term business activity, but may be indicative of potential business levels over a longer-term horizon.

The newer wide body planes, such as the Boeing 777 and the Airbus A330, A340 and A380, tend to use a higher percentage of titanium in their frames, engines and parts (as measured by total fly weight) than narrow body planes. "Fly weight" is the empty weight of a finished aircraft with engines but without fuel or passengers. Titanium represents approximately 9% of the total fly weight of a Boeing 777 for example, compared to between 2% to 3% on the older 737, 747 and 767 models. The estimated firm order backlog for wide body planes at year-end 2001 was 801 (27% of total backlog) compared to 751 (23% of total backlog) at the end of 2000. At year-end 2001, a total of 85 firm orders had been placed for the Airbus A380 superjumbo jet, which was officially launched in December 2000. The Company estimates that approximately 65 metric tons of titanium will be purchased for each A380 manufactured, the most of any commercial aircraft.

Outside of aerospace markets, the Company manufactures a wide range of industrial products including sheet, plate, tube, bar, billet and skelp for customers in the chemical process, oil and gas, consumer, sporting goods, automotive, power generation and armor/armament industries. Approximately 15% of the Company's sales revenue in 2001 was generated by sales into the industrial and emerging markets, including sales to VALTIMET for the production of condenser tubing. For the oil and gas industries, the Company provides seamless pipe for downhole casing, risers, tapered stress joints and other offshore oil production equipment, including fabrication of subsea manifolds. In armor and armament, the Company sells plate products for fabrication into door hatches on fighting vehicles, as well as tank/turret protection.

In addition to mill and melted products, the Company sells certain products it collectively refers to as "Other", such as sponge which is not suitable for internal consumption, titanium tetrachloride and fabricated titanium assemblies. Sales of these other products represented 12% of the Company's sales revenue in each of 2001 and 2000, and 14% of sales revenue in 1999.

The Company's backlog of unfilled orders was approximately $225 million at

December 31, 2001, compared to $245 million at December 31, 2000 and $195 million at December 31, 1999. Substantially all of the 2001 year-end backlog is scheduled to be shipped during 2002. However, the Company's order backlog may not be a reliable indicator of future business activity. Since September 11, 2001, the Company has received a number of deferrals and cancellations of previously scheduled orders and believes such requests will continue into 2002.

Through various strategic relationships, the Company seeks to gain access to unique process technologies for the manufacture of its products and to expand existing markets and create and develop new markets for titanium. The Company has explored and will continue to explore strategic arrangements in the areas of product development, production and distribution. The Company also will continue to work with existing and potential customers to identify and develop new or improved applications for titanium that take advantage of its unique qualities.

Competition. The titanium metals industry is highly competitive on a worldwide basis. Producers of mill products are located primarily in the United States, Japan, France, Italy, Russia, China and the United Kingdom. With the idling of Allegheny Technologies' sponge manufacturing facility discussed previously, the Company is one of four "integrated producers" in the world, with integrated producers being considered as those that produce at least both sponge and ingot. There are also a number of non-integrated producers that produce mill products from purchased sponge, scrap or ingot.

The Company's principal competitors in aerospace markets are Allegheny Technologies Inc. and RTI International Metals, Inc., both based in the United States, and Verkhnaya Salda Metallurgical Production Organization ("VSMPO"), based in Russia. These companies, along with the Japanese producers and other companies, are also principal competitors in industrial markets. The Company competes primarily on the basis of price, quality of products, technical support and the availability of products to meet customers' delivery schedules.

In the U.S. market, the increasing presence of non-U.S. participants has become a significant competitive factor. Until 1993, imports of foreign titanium products into the U.S. had not been significant. This was primarily attributable to relative currency exchange rates and, with respect to Japan, Russia, Kazakhstan and Ukraine, duties (including antidumping duties). However, since 1993, imports of titanium sponge, ingot and mill products, principally from Russia and Kazakhstan, have increased and have had a significant competitive impact on the U.S. titanium industry. To the extent the Company has been able to take advantage of this situation by purchasing sponge, ingot or intermediate and finished mill products from such countries for use in its own operations, the negative effect of these imports on the Company has been somewhat mitigated.

Generally, imports into the U.S. of titanium products from countries designated by the U.S. government as "most favored nations" are subject to a 15% tariff (45% for other countries). Titanium products for tariff purposes are broadly classified as either wrought or unwrought. Wrought products include bar, sheet, strip, plate and tubing. Unwrought products include sponge, ingot, slab and billet. For most periods since 1993, imports of titanium wrought products from Russia were exempted from this duty under the "generalized system of preferences" or "GSP" program designed to aid developing economies. TIMET has successfully resisted efforts to date to expand the scope of the GSP program to eliminate duties on sponge and other unwrought titanium products from Russia and Kazakhstan. Antidumping duties on imports of titanium sponge from Japan and the former Soviet Union were revoked in 1998. TIMET's appeal of that revocation was not successful.

Further reductions in, or the complete elimination of, all or any of these

tariffs, including expansion of the GSP program to unwrought titanium products, could lead to increased imports of foreign sponge, ingot and mill products into the U.S. and an increase in the amount of such products on the market generally, which could adversely affect pricing for titanium sponge and mill products and thus the business, results of operations, financial position and liquidity of the Company. However, since 1993, the Company has been a large importer of foreign titanium sponge and mill products, particularly sponge from Kazakhstan, into the U.S. To the extent the Company remains a substantial purchaser of these products, any adverse effects on product pricing as a result of any reduction in, or elimination of, any of these tariffs would be partially ameliorated by the decreased cost to the Company for these products to the extent it currently bears the cost of the import duties.

Producers of other metal products, such as steel and aluminum, maintain forging, rolling and finishing facilities that could be modified without substantial expenditures to process titanium products. The Company believes, however, that entry as a producer of titanium sponge would require a significant capital investment and substantial technical expertise. Titanium mill products also compete with stainless steels, nickel alloys, steel, plastics, aluminum and composites in many applications.

Research and development. The Company's research and development activities are directed toward expanding the use of titanium and titanium alloys in all market sectors, and key research activities center around the design of new alloys and the associated applications development focused by specific commercial strategies in the automotive and aerospace markets. In addition, the Company continues a focus on enhancing the performance of the Company's existing products, as applications for TIMET's proprietary alloys, such as TIMETAL(R)834, TIMETAL 5111 and TIMETAL LCB, continue to develop. The Company conducts the majority of its research and development activities at its Henderson Technical Laboratory in Henderson, Nevada, which is supported by additional activities at its Witton facility in Birmingham, England.

Patents and trademarks. The Company holds U.S. and non-U.S. patents applicable to certain of its titanium alloys and manufacturing technology. The Company continually seeks patent protection with respect to its technical base and has occasionally entered into cross-licensing arrangements with third parties. However, most of the titanium alloys and manufacturing technology used by the Company do not benefit from patent or other intellectual property protection. The Company believes that the trademarks TIMET(R) and TIMETAL(R), which are protected by registration in the U.S. and other countries, are important to its business.

Employees. The cyclical nature of the aerospace industry and its impact on the Company's business is the principal reason that the Company periodically implements cost reduction, restructurings, reorganizations and other changes that impact the Company's employment levels. The following table shows the fluctuation in the number of employees over the past 3 years. The 9% increase in employees from 2000 to 2001, and the 6% reduction in employees from 1999 to 2000, were principally in response to changes in market demand for the Company's products. During 2002, the Company expects to decrease employment, principally in its manufacturing operations, due to the previously discussed decline in demand for titanium products.

Employees at December 3

	2001	2000
U.S.	1,462	1,333
Europe	948	887
Total	2,410	2,220

The Company's production, maintenance, clerical and technical workers in Toronto, Ohio, and its production and maintenance workers in Henderson, Nevada are represented by the United Steelworkers of America ("USWA") under contracts expiring in June 2002 and October 2004, respectively. Employees at the Company's other U.S. facilities are not covered by collective bargaining agreements. Approximately 62% of the salaried and hourly employees at the Company's European facilities are represented by various European labor unions, generally under annual agreements.

While the Company currently considers its employee relations to be satisfactory, it is possible that there could be future work stoppages, or other labor disruptions, upon the expiration of the Toronto, Ohio labor contract, or other labor contracts, that could materially and adversely affect the Company's business, results of operations, financial position, and liquidity.

Regulatory and environmental matters. The Company's operations are governed by various Federal, state, local and foreign environmental and worker safety laws and regulations. In the U.S., such laws include the Occupational, Safety and Health Act, the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act. The Company uses and manufactures substantial quantities of substances that are considered hazardous or toxic under environmental and worker safety and health laws and regulations. In addition, at the Company's Henderson, Nevada facility, the Company produces and uses substantial quantities of titanium tetrachloride, a material classified as extremely hazardous under Federal environmental laws. The Company has used such substances throughout the history of its operations. As a result, risk of environmental damage is inherent in the Company's operations. The Company's operations pose a continuing risk of accidental releases of, and worker exposure to, hazardous or toxic substances. There is also a risk that government environmental requirements, or enforcement thereof, may become more stringent in the future. There can be no assurances that some, or all, of the risks discussed under this heading will not result in liabilities that would be material to the Company's business, results of operations, financial position or liquidity.

The Company's operations in Europe are similarly subject to foreign laws and regulations respecting environmental and worker safety matters, which laws have not had, and are not presently expected to have, a material adverse effect on the Company's business, results of operations, financial position, or liquidity.

The Company believes that its operations are in compliance in all material respects with applicable requirements of environmental and worker health and safety laws. The Company's policy is to continually strive to improve environmental, health and safety performance. From time to time, the Company may be subject to environmental regulatory enforcement under various statutes, resolution of which typically involves the establishment of compliance programs. Occasionally, resolution of these matters may result in the payment of

penalties. The Company incurred capital expenditures for health, safety and environmental compliance matters of approximately $2.4 million in 2001, $2.6 million in 2000 and $4.0 million in 1999. The Company's capital budget provides for approximately $2.0 million of such expenditures in 2002. However, the imposition of more strict standards or requirements under environmental, health or safety laws and regulations could result in expenditures in excess of amounts estimated to be required for such matters. See Note 17 to the Consolidated Financial Statements - Commitments and contingencies - Environmental matters.

ITEM 2: PROPERTIES

Set forth below is a listing of the Company's major production facilities. In addition to its U.S. sponge capacity discussed below, the Company's worldwide melting capacity presently aggregates approximately 45,000 metric tons (estimated 30% of world capacity), and its mill capacity aggregates approximately 20,000 metric tons (estimated 16% of world capacity). Approximately 35% of TIMET's worldwide melting capacity is represented by electron beam cold hearth melting ("EB") furnaces, 63% by vacuum arc remelting ("VAR") furnaces and 2% by a vacuum induction melting ("VIM") furnace.

Manufacturing Location	Products Manufactured	Annu Capac Melted Products (me
Henderson, Nevada(1)	Sponge, Ingot	12,250
Morgantown, Pennsylvania(1)	Slab, Ingot, Raw materials processing	20,000
Toronto, Ohio(1)	Billet, Bar, Plate, Sheet, Strip	-
Vallejo, California(2)	Ingot (including non-titanium superalloys)	1,600
Ugine, France(2)	Ingot, Billet, Bar, Wire, Extrusions	2,450
Waunarlwydd (Swansea), Wales(1)	Bar, Plate, Sheet	-
Witton, England(2)	Ingot, Billet, Bar	8,700

The Company has operated its major production facilities at varying levels of practical capacity during the past three years. In 2001, the plants operated at approximately 75% of practical capacity, an increase from 60% in 2000 and from 55% in 1999. In 2002, the Company's plants are expected to operate at 60% of practical capacity. However, practical capacity and utilization measures can vary significantly based upon the mix of products produced. In 1999, the Company idled its Kroll-leach process sponge facility in Henderson, Nevada due to changing market conditions for certain grades of titanium sponge.

The Company conducts its operations in Europe primarily through its wholly owned subsidiaries TIMET UK, Ltd. ("TIMET UK"), 70% owned TIMET Savoie and wholly owned Loterios S.p.A. ("Loterios"). TIMET UK's Witton, England facilities are leased pursuant to long-term capital leases expiring in 2026. TIMET Savoie

has the right to utilize portions of the Ugine, France plant of Compagnie Europeene du Zirconium-CEZUS, S.A. ("CEZUS"), the 30% minority partner in TIMET Savoie, pursuant to an agreement expiring in 2006.

United States production. The Company's VDP sponge facility is expected to operate at approximately 95% of its annual practical capacity of 8,600 metric tons during 2002, up slightly from approximately 94% in 2001. VDP sponge is used principally as a raw material for the Company's melting facilities in the U.S. and Europe. Approximately 1,200 metric tons of VDP production from the Company's Henderson, Nevada facility was used in Europe during 2001, which represented approximately 20% of the sponge consumed in the Company's European operations. The Company expects the consumption of VDP sponge in its European operations to be 40% of their sponge requirements in 2002. The raw materials processing facilities in Morgantown, Pennsylvania primarily process scrap used as melting feedstock, either in combination with sponge or separately.

The Company's U.S. melting facilities in Henderson, Nevada and Morgantown, Pennsylvania, produce ingots and slabs both sold to customers and used as feedstock for its mill products operations. These melting facilities are expected to operate at approximately 50% of aggregate capacity in 2002.

Titanium mill products are produced by TIMET in the U.S. at its forging and rolling facility in Toronto, Ohio, which receives intermediate titanium products (ingots or slabs) principally from the Company's U.S. melting facilities. The Company's U.S. forging and rolling facility is expected to operate at approximately 60% of practical capacity in 2002. Capacity utilization across the Company's product lines varies.

Sponge for melting requirements in the U.S. that is not supplied by the Company's Henderson, Nevada plant is purchased principally from suppliers in Japan and Kazakhstan, and from the DLA.

European production. TIMET UK's melting facility in Witton, England produces VAR ingots used primarily as feedstock for its forging operations, also in Witton. The forging operations process the ingots principally into billet product for sale to customers or into an intermediate product for further processing into bar and plate at its facility in Waunarlwydd, Wales. U.K. melting and mill products production in 2002 is expected to operate at approximately 60% and 45%, respectively, of practical capacity.

The capacity of 70%-owned TIMET Savoie in Ugine, France is to a certain extent dependent upon the level of activity in CEZUS' zirconium business, which may from time to time provide TIMET Savoie with capacity in excess of that contractually required to be provided by CEZUS. During 2002, TIMET Savoie expects to operate at approximately 60% of the maximum capacity required to be provided by CEZUS.

Sponge for melting requirements in both the U.K. and France that is not supplied by the Company's U.S. Henderson, Nevada plant is purchased principally from suppliers in Japan and Kazakhstan.

Distribution. The Company sells its products through its own sales force based in the U.S. and Europe, and through independent agents worldwide. The Company's marketing and distribution system also includes eight Company-owned service centers (five in the U.S. and three in Europe), which sell the Company's products on a just-in-time basis. The service centers primarily sell value-added and customized mill products including bar and flat-rolled sheet and strip. The

Company believes its service centers provide a competitive advantage because of their ability to foster customer relationships, customize products to suit specific customer requirements and respond quickly to customer needs.

The Company believes that it has a competitive sales advantage arising from the location of certain of its production plants and service centers, which are in close proximity to major customers.

ITEM 3: LEGAL PROCEEDINGS

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. See Note 17 of the Consolidated Financial Statements.

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2001.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

TIMET's common stock is traded on the New York Stock Exchange (symbol: "TIE"). On March 18, 2002, the closing price of TIMET common stock was $5.05 per share. The high and low sales prices for the Company's common stock are set forth below.

Year ended December 31, 2001:	High
First quarter	$ 10.62
Second quarter	14.40
Third quarter	11.90
Fourth quarter	4.70
Year ended December 31, 2000:	
First quarter	$ 5.50
Second quarter	5.00
Third quarter	8.94
Fourth quarter	8.19

As of March 18, 2002, there were 313 common shareholders of record, which the Company estimates represents approximately 8,300 shareholders.

In the third quarter of 1999, the Company suspended payment of quarterly common stock dividends. The Company's U.S. credit agreement, entered into in early 2000, prohibits the payment of dividends on the Company's common stock and the repurchase of common shares, except under specified conditions. The Company presently has no plans to resume payment of common stock dividends. See Note 9 to the Consolidated Financial Statements.

ITEM 6: SELECTED FINANCIAL DATA

The selected financial data set forth below should be read in conjunction with the Company's Consolidated Financial Statements and Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A").

	Year Ended December 31,			
	2001	2000	1999	199
	($ in millions, except per share and selling			
STATEMENT OF OPERATIONS DATA:				
Net sales	$ 486.9	$ 426.8	$ 480.0	$ 7
Gross margin	39.9	3.9	25.5	1
Operating income (loss) (1)	64.5	(41.7)	(31.4)	
Interest expense	4.1	7.7	7.1	
Net income (loss) (1)	$ (41.8)	$ (38.9)	$ (31.4)	$
Earnings (loss) per share (1):				
Basic	$ (1.33)	$ (1.24)	$ (1.00)	$
Diluted (2)	$ (1.33)	$ (1.24)	$ (1.00)	$
Cash dividends per share	$ -	$ -	$ .12	$
BALANCE SHEET DATA:				
Cash and cash equivalents	$ 24.5	$ 9.8	$ 20.7	$
Total assets (1)	699.4	759.1	883.1	9
Indebtedness (3)	12.4	44.9	117.4	1
Net cash (debt) (4)	12.1	(35.1)	(96.7)	(
Capital lease obligations	8.9	8.8	10.1	
Minority interest - Convertible Preferred Securities	201.2	201.2	201.2	2
Stockholders' equity	$ 298.1	$ 357.5	$ 408.1	$ 4
OTHER OPERATING DATA:				
Cash flows provided (used):				
Operating activities	$ 62.6	$ 63.3	$ 19.5	$
Investing activities	(16.1)	(4.2)	(21.7)	(2
Financing activities	(31.4)	(70.7)	8.6	
Net provided (used)	$ 15.1	$ (11.6)	$ 6.4	$ (
Mill product shipments (5)	12.2	11.4	11.4	
Average mill product prices (5)	$ 29.80	$ 28.70	$ 33.00	$ 3

Melted product shipments (5)	4.4	3.5	2.5	
Average melted product prices (5)	$ 14.50	$ 13.65	$ 14.20	$ 1
Active employees at December 31	2,410	2,220	2,350	2
Order backlog at December 31(6)	$ 225.0	$ 245.0	$ 195.0	$ 3
Capital expenditures	$ 16.1	$ 11.2	$ 24.8	$ 1

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

RESULTS OF OPERATIONS

Overview. The titanium industry derives a substantial portion of its demand from the highly cyclical commercial aerospace industry. The Company estimates that aggregate industry demand for titanium mill products in 2001 was derived from the following markets: 40% from aerospace; 50% from industrial; and 10% from emerging markets. The commercial aerospace sector is the principal driver of titanium consumed in the aerospace markets, representing about 90% of aggregate aerospace demand, or 35% of aggregate industry demand. The Company's business is more dependent on the commercial aerospace demand than the overall titanium industry, as approximately two-thirds of its sales volume in 2001 was to this sector.

During the latter part of 2001, an economic slowdown in the U.S. and other regions of the world began to negatively affect the commercial aerospace industry as evidenced by, among other things, a decline in airline passenger traffic, reported operating losses by a number of airlines and a reduction in forecasted deliveries of large commercial aircraft from both Boeing and Airbus. On September 11, 2001, the United States was the target of terrorist attacks that exacerbated these trends and had a significant adverse impact on the global economy and the commercial aerospace industry. The major U.S. airlines reported significant financial losses in the fourth quarter of 2001 and profits for European and Asian airlines declined. In response, airlines have announced a number of actions to reduce both costs and capacity including, but not limited to, the early retirement of airplanes, the deferral of scheduled deliveries of new aircraft, and allowing purchase options to expire.

A number of the Company's customers cancelled or deferred delivery of previously scheduled orders in late 2001, and the rate of new orders slowed significantly. The Company's order backlog at the end of December 2001 decreased to approximately $225 million, compared to $315 million at the end of September 2001 and $245 million at the end of December 2000.

As a result of recent events, the Company's financial results and trends during most of 2001 are not indicative of future trends or the Company's expectations for 2002. The Company anticipates a substantial near term decline in its business as described in Outlook.

The following table summarizes certain components of the Company's results for the past three years. The discussion that follows regarding the Company's results frequently refers to segment information that is presented in Note 2 to the Consolidated Financial Statements, and should be read in conjunction with that information. Restructuring and other special items are more fully described in Note 13 to the Consolidated Financial Statements. Average selling prices per kilogram, as reported by the Company, reflect the net effects of changes in

selling prices, currency exchange rates, customer and product mix. Accordingly, average selling prices are not necessarily indicative of any one factor. In the following discussion, the Company has attempted to adjust for the effect of currency fluctuations and changes in mix when referring to the percentage change in selling prices from period to period.

	Year ended Decembe	
	2001	2000
		($ in thousands
Net sales	$ 486,935	$ 426,798
Gross margin	39,892	3,881
Gross margin, excluding special items	54,002	10,610
Operating income (loss)	64,480	(41,650)
Operating income (loss), excluding restructuring and other special items	11,555	(34,116)
Percent of net sales:		
Gross margin	8%	1%
Gross margin, excluding special items	11%	2%
Percent change in:		
Mill product sales volume	+7	-1
Mill product selling prices (1)	-	-9
Melted product sales volume	+27	+39
Melted product selling prices (1)	+8	-10

2001 operations. Demand for titanium products for the commercial aerospace industry increased substantially in 2001. This was principally driven by increased aircraft production rates and a substantial reduction of excess inventory throughout the aerospace supply chain that accumulated following the previous cyclical peak. Generally, the Company's recurring operations prior to September 11 were characterized by rising selling prices on new non-LTA orders for aerospace quality titanium products, strong order demand, increasing production levels and capacity utilization, and the Company's return to profitability in the third quarter of 2001.

Sales of mill products in 2001 increased 11% from $326.3 million in 2000 to $363.3 million in 2001. This increase was principally due to a 7% increase in mill product sales volume and changes in customer and product mix. Mill product selling prices (expressed in U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods) during 2001 approximated 2000 selling prices. In billing currencies (which exclude the effects of foreign currency translation), mill product selling prices increased 2% over 2000 levels. Melted product sales increased 35% from $47.4 million in 2000 to $64.1 million in 2001 due to the net effects of a 27% increase in melted product sales volume, an 8% increase in melted product selling prices and changes in customer and product mix.

Gross margin (net sales less cost of sales) was 8% of sales in 2001, compared to 1% in the prior year, primarily reflecting the net effects of higher selling prices, higher operating rates at certain plants, lower sponge costs, higher scrap costs, higher energy costs, changes in customer and product mix and special items. Gross margin, excluding special items, was 11% of sales in 2001, compared to 2% for the prior year. Gross margin for 2001 was adversely impacted by $10.8 million of equipment impairment charges and $3.3 million of estimated costs related to the tungsten inclusion matter. In comparison, gross margin in 2000 was adversely impacted by a $3.5 million equipment impairment charge and a $3.3 million charge for anticipated environmental remediation costs.

In March 2001, the Company was notified by one of its customers that a product the customer manufactured from standard grade titanium produced by the Company contained what has been confirmed to be a tungsten inclusion. The Company believes that the source of this tungsten was contaminated silicon, which is used as an alloying addition to titanium at the melting stage, purchased from an outside vendor in 1998. The Company continues to investigate the scope of this problem, including identification of customers who received material manufactured using this silicon and the applications into which such material has been placed by such customers.

At the present time, the Company is aware of six standard grade ingots that have been demonstrated to contain tungsten inclusions; however, further investigation may identify additional material that has been similarly affected. Until this investigation is completed, TIMET is unable to determine the ultimate liability the Company may incur with respect to this matter. The Company currently believes it is unlikely that its insurance policies will provide coverage for any costs that may be associated with this matter. The Company is continuing to work with its affected customers to determine the appropriate remedial steps required to satisfy their claims. Based upon continuing assessments of possible losses completed by the Company, the Company recorded an aggregate charge to cost of sales of $3.3 million during 2001 ($1.0 million expense in the first quarter of 2001, $2.8 million expense in the second quarter of 2001 and $.5 million reduction in expense in the fourth quarter of 2001). This amount represents the Company's best estimate of the most likely amount of loss to be incurred. It does not represent the maximum possible loss, which is not possible for the Company to estimate at this time, and may be periodically revised in the future as more facts become known. As of December 31, 2001, $2.7 million remains accrued for potential future claims. The Company has filed suit seeking full recovery from the silicon supplier for any liability the Company might incur, although no assurances can be given that the Company will ultimately be able to recover all or any portion of such amounts. The Company has not recorded any recoveries related to this matter as of December 31, 2001.

During the second quarter of 2001, the Company determined that an impairment of the carrying amount of certain long-lived assets located at its Millbury, Massachusetts facility had occurred, as the assets' undiscounted future cash flows could no longer support their carrying amount. This determination was made after the Company completed studies of the potential uses of these assets in the foreseeable future as well as the economic viability of those alternatives. As a result, the Company recorded a $10.8 million pre-tax impairment charge to cost of sales in 2001, representing the difference between the assets' previous carrying amounts and their estimated fair values, based on a third-party appraisal.

In April 2001, the Company reached a settlement of the litigation between TIMET and Boeing related to the parties' 1997 LTA. Pursuant to the settlement, the Company received a cash payment of $82 million. In the second quarter of 2001, the Company reported approximately $73 million (cash settlement less legal fees) as other operating income, with partially offsetting operating expenses of approximately $10.3 million for employee incentive compensation and other costs reported as a component of selling, general, administrative and development expense, resulting in a net pre-tax income effect of $62.7 million in the second quarter of 2001. In the fourth quarter of 2001, the Company reduced its estimate of employee incentive compensation by $4.1 million as a result of its fourth quarter and full year financial results, and recorded such reduction as a component of selling, general, administrative and development expense. Accordingly, the net pre-tax income effect of the Boeing settlement for 2001 was $66.8 million.

Selling, general, administrative and development expenses increased 18% in 2001 compared to 2000 principally due to approximately $6.2 million of employee incentive compensation discussed above.

Equity in earnings (losses) of joint ventures in 2001 increased by $3.4 million from 2000 principally due to the increase in earnings of VALTIMET, the Company's 44%-owned welded tube joint venture.

2000 operations. Sales of mill products in 2000 declined 13%, from $376.2 million in 1999 to $326.3 million in 2000. This decrease was due to a 9% decline in mill product selling prices (expressed in U.S. dollars using actual foreign currency exchange rates prevailing during the respective periods), a less than 1% decrease in sales volume, and changes in customer and product mix. In billing currencies, mill product selling prices declined 7% from 1999. Melted product sales increased 33% from $35.5 million in 1999 to $47.4 million in 2000 due to the net effects of a 39% increase in melted product sales volume, a 10% decline in melted product selling prices and changes in product mix. The decrease in the selling prices was principally due to greater price competition in the Company's non-LTA business.

Early in 2000, the Company implemented a plan to address market and operating conditions, which resulted in the recognition of a net $2.8 million restructuring charge in 2000. The restructuring charge is principally related to personnel severance and benefits for the approximately 170 employees terminated as part of the restructuring. Additionally, the Company recorded net special charges of $4.7 million to operating income, consisting of $3.5 million of equipment related impairment charges, $3.3 million of environmental remediation charges, a special income item of $2.0 million related to the termination of the Company's 1990 agreement to sell titanium sponge to Union Titanium Sponge Corporation.

Gross margin was 1% of sales for 2000 compared to 5% in the prior year, primarily reflecting the net effects of lower selling prices, higher energy costs, lower raw material costs, changes in customer and product mix and special items. Gross margin in 2000 was adversely impacted by $3.5 million of equipment impairment charges and a $3.3 million charge for anticipated environmental remediation costs. Gross margin, excluding special items, was 2% in 2000, as compared to 5% for the year ended December 31, 1999.

Selling, general, administrative and development expenses decreased 9% in 2000 compared to 1999 principally due to the impact of the restructuring plan implemented in early 2000, as well as reduced expenses related to the

business-enterprise information system project that was completed in early 1999 and "Year 2000" computer systems expenses which were incurred in 1999 but not 2000.

Equity in earnings (losses) of joint ventures of the "Titanium melted and mill products" segment in 2000 decreased by $1.4 million from 1999 principally due to the decline in earnings of VALTIMET.

Non-operating income and expense.

	Year ended Decembe	
	2001	2000
		(In thousands
Dividends and interest income	$ 5,460	$ 6,154
General corporate income (expense), net:		
SMC impairment charge	(61,519)	-
Other	112	67
Interest expense	(4,060)	(7,704)
	$ (60,007)	$ (1,483)

Dividends and interest income consisted principally of dividends on $80 million principal amount of non-voting convertible preferred securities of Special Metals Corporation. During the fourth quarter of 2001, the Company recognized a $61.5 million pre-tax impairment charge to general corporate expense for an other than temporary decline in the fair value of these securities. See Note 4 to the Consolidated Financial Statements.

The remaining general corporate income (expense) consists principally of currency transaction gains/losses. In 2000, net currency losses of $1.1 million were offset by a $1.2 million gain on the sale of the Company's castings joint venture.

Interest expense for 2001 decreased 47% compared to 2000, primarily due to the paydown of the Company's revolving U.S. debt following settlement of the Boeing related litigation. Interest expense for 2000 increased over 1999 primarily due to the net effects of increased interest rates related to U.S. credit facilities entered into in early 2000, lower average borrowings outstanding during the year and a lower level of capitalized interest.

European operations. The Company has substantial operations and assets located in Europe, principally the United Kingdom, with less significant operations in France and Italy. Titanium is a worldwide market, and many factors influencing the Company's U.S. and European operations are similar.

Approximately 40% of the Company's sales revenue originated in Europe in 2001, of which approximately 60% was denominated in currencies other than the U.S. dollar, principally the British pound and European currencies tied to the euro. Certain purchases of raw materials, principally titanium sponge and alloys, for the Company's European operations are denominated in U.S. dollars, while labor and other production costs are primarily denominated in local

currencies. The functional currencies of the Company's European subsidiaries are those of their respective countries; thus, the U.S. dollar value of these subsidiaries' sales and costs denominated in currencies other than their functional currency, including sales and costs denominated in U.S. dollars, are subject to exchange rate fluctuations which may impact reported earnings and may affect the comparability of period-to-period operating results. Borrowings of the Company's European operations may be in U.S. dollars or in functional currencies. The Company's export sales from the U.S. are denominated in U.S. dollars and as such are not subject to currency exchange rate fluctuations.

The Company does not use currency contracts to hedge its currency exposures. Net currency transaction gains/losses included in earnings were a gain of $.1 million in 2001 and losses of $1.1 million and $1.2 million in 2000 and 1999, respectively. At December 31, 2001, consolidated assets and liabilities denominated in currencies other than functional currencies were approximately $31.7 million and $41.2 million, respectively, consisting primarily of U. S. dollar cash, accounts receivable, accounts payable and borrowings. Exchange rates among eleven European currencies (including the French franc and Italian lira, but excluding the British pound) became fixed relative to each other as a result of the implementation of the euro effective in 1999.

Income taxes. Based on its recent history of losses, its near term outlook, and management's evaluation of available tax planning strategies, the Company concluded that realization of its previously recorded U.S. deferred tax assets did not continue to meet the "more-likely-than-not" recognition criteria. Accordingly, during 2001, the Company increased its deferred tax valuation allowance by $35.5 million to offset deferred tax benefits related to net U.S. deferred tax assets, primarily net operating loss and minimum tax credit carryforwards and certain capital losses that did not meet the "more-likely-than-not" recognition criteria. This included a fourth quarter 2001 charge of $12.3 million to increase the deferred tax asset valuation allowance related to U.S. net deferred tax assets recorded as of September 30, 2001. This charge included $8.6 million as a component of income tax expense and $3.7 million as a component of Minority interest - Convertible Preferred Securities. Additionally, the Company determined that it would not recognize a deferred tax benefit related to U.S. losses commencing in the fourth quarter of 2001, and continuing for an uncertain period of time. Accordingly, the Company provided a deferred tax valuation allowance of $23.2 million related to U.S. net deferred tax assets arising from its fourth quarter 2001 operating results. See Note 14 to the Consolidated Financial Statements.

Minority interest. Annual dividend expense related to the Company's 6.625% Convertible Preferred Securities approximates $13 million and is reported as minority interest. In 2000 and 1999, this expense was reported net of allocable income taxes; however, as a result of the Company's decision to increase its deferred tax valuation allowance as described above, this expense was reported pre-tax in 2001. Other minority interest relates primarily to the 30% interest in TIMET Savoie held by CEZUS. See Note 10 to the Consolidated Financial Statements.

Extraordinary item. During 2000, the deferred financing costs associated with the Company's prior U.S. credit facility were written off and reflected as an extraordinary item of $.9 million after taxes in the Consolidated Statements of Operations.

Related party transactions The Company is a party to certain transactions with related parties. See Note 16 to the Consolidated Financial Statements.

Outlook. The Outlook section contains a number of forward-looking statements, all of which are based on current expectations, and exclude the potential effect of special and other charges related to restructurings, asset impairments, valuation allowances and similar items, unless otherwise noted. Undue reliance should not be placed on forward-looking statements. Actual results may differ materially. See Note 1 to the Consolidated Financial Statements - Summary of significant accounting policies and Note 17 to the Consolidated Financial Statements - Commitments and contingencies regarding commitments, contingencies, legal, environmental and other matters, which may materially affect the Company's future business, results of operations, financial position and liquidity.

During the latter part of 2001, an economic slowdown in the U.S. and other regions of the world began to negatively affect the commercial aerospace industry as evidenced by, among other things, a decline in airline passenger traffic, reported operating losses by a number of airlines and a reduction in forecasted deliveries of large commercial aircraft from both Boeing and Airbus. On September 11, 2001, the United States was the target of terrorist attacks that exacerbated these trends and had a significant adverse impact on the global economy and the commercial aerospace industry. The major U.S. airlines reported significant financial losses in the fourth quarter of 2001 and profits of European and Asian airlines declined. In response, airlines have announced a number of actions to reduce both costs and capacity including, but not limited to, the early retirement of airplanes, the deferral of scheduled deliveries of new aircraft, and allowing purchase options to expire.

These events have resulted in the major commercial airframe and jet engine manufacturers substantially reducing their forecast of engine and aircraft deliveries over the next few years and their production levels in 2002. The Company expects that aggregate industry mill product shipments will decrease in 2002 by approximately 16% to about 43,000 metric tons. The Company believes that demand for mill products for the commercial aerospace sector could decline by up to 40% in 2002, primarily due to a combination of reduced aircraft production rates and excess inventory accumulated throughout the aerospace supply chain since September 11, 2001. Excess inventory accumulation typically leads to order demand for titanium products falling below actual consumption.

According to The Airline Monitor, a leading aerospace publication, large commercial aircraft deliveries totaled 834 (including 202 wide bodies) in 2001, and the most recent forecast of aircraft deliveries by The Airline Monitor calls for 660 deliveries in 2002, 505 deliveries in 2003 and 515 deliveries in 2004. After 2004, The Airline Monitor calls for a continued increase each year in large commercial aircraft deliveries, with forecasted deliveries of 920 aircraft in 2008 exceeding 2001 levels. Compared to 2001, these forecasted delivery rates represent anticipated declines of about 20% in 2002 and just under 40% in 2003 and 2004. Additionally, the Company's discussions with jet engine manufacturers and related suppliers suggest that they are expecting production declines in 2002 relative to 2001 in the range of 25% to 30%. Although certain recently reported economic data may indicate some modest level of recovery, the Company expects the current slowdown in the commercial aerospace sector to last for about two years.

Although the current business environment makes it particularly difficult to predict the Company's future performance, the Company believes sales revenue in 2002 may decline to approximately $375 million, reflecting the combined effects of decreases in sales volume, softening of market selling prices, and changes in customer and product mix. Mill product sales volume is expected to decline approximately 20% from 2001 levels to about 10,000 metric tons. Melted

products volume is expected to decline by almost one-third relative to 2001, to approximately 3,000 metric tons. The Company expects approximately 60% of its 2002 sales volume will be derived from the commercial aerospace sector (compared to approximately two-thirds in 2001), with the balance from military aerospace, industrial and emerging markets. The sales volume decline in 2002 is principally driven by an anticipated reduction in the Company's commercial aerospace sales volume of approximately 30% compared to 2001, partly offset by sales volume growth to other markets.

Market selling prices on new orders for titanium products, while difficult to forecast, are expected to soften throughout 2002. However, about one-half of the Company's anticipated commercial aerospace volume in 2002 is under LTAs that provide the Company with selling price stability on that portion of its business. The Company may sell substantially similar titanium products to different customers at varying selling prices due to the effect of LTAs, timing of purchase orders and market fluctuations. There are also wide differences in selling prices across different titanium products that the Company offers. Accordingly, the mix of customers and products sold affects the average selling price realized and has an important impact on sales revenue and gross margin. Average selling prices per kilogram, as reported by the Company, reflect the net effects of changes in selling prices, currency exchange rates, customer and product mix. Accordingly, average selling prices are not necessarily indicative of any one factor.

Under the amended Boeing LTA, Boeing will advance TIMET $28.5 million annually from 2002 through 2007. The Company received the $28.5 million advance for contract year 2002 in December of 2001. The LTA is structured as a take-or-pay agreement such that, beginning in calendar year 2002, Boeing will forfeit a proportionate part of the $28.5 million annual advance, or effectively $3.80 per pound, in the event that its orders for delivery for such calendar year are less than 7.5 million pounds. The Company presently intends to recognize as income any forfeitable portion of the advance when it becomes virtually assured that Boeing's annual orders for delivery will be less than 7.5 million pounds and no other significant uncertainties exist. This will generally result in any take-or-pay forfeiture being recognized as operating income in the last half of each year. The Company anticipates that Boeing will purchase about 3 million pounds of product in 2002. At this projected order level, the Company expects to recognize about $17 million of income under the Boeing LTA's take-or-pay provisions in 2002. Any such earnings will be reported as operating income, but will not be included in sales revenue, sales volume or gross margin.

The Company's cost of sales is affected by a number of factors including, among others, customer and product mix, material yields, plant operating rates, raw material costs, labor and energy costs. Raw material costs represent the largest portion of the Company's manufacturing cost structure. The Company expects to manufacture a significant portion of its titanium sponge requirements in 2002 and purchase the balance. While the cost of titanium sponge manufactured at the Company's Henderson, Nevada facility is expected to be relatively stable compared to 2001, the Company expects the aggregate cost of purchased sponge and scrap to trend downward in 2002. The Company expects its overall capacity utilization to average about 60% in 2002 compared to about 75% in 2001, however, the Company's practical capacity utilization measures can vary significantly based on product mix. As production volume decreases, certain manufacturing and other costs will decrease at a slower rate and to a lesser extent than volume, effectively resulting in higher costs per metric ton. In combination with a softening of market selling prices, this is expected to result in a significant reduction of gross margin and gross margin percent in 2002 compared to 2001. The Company currently anticipates that its gross margin as a percent of sales will

decrease over the year and that gross margin will be near breakeven or less for the full year.

In response to the current business climate, the Company is taking a number of actions in the near term to reduce costs. These actions include reducing plant operating rates and employment levels as business declines, negotiating improved pricing at lower volume commitments for certain raw materials, reducing discretionary spending and negotiating various concessions from both suppliers and service providers. The Company has reduced operating rates and employment levels at its melting facilities since September 11 and expects similar actions will occur in the future. For the longer term, the Company is continuing to evaluate product line and facilities consolidations that may permit it to meaningfully reduce its cost structure in the future while maintaining and even increasing its market share. Accordingly, the Company's results in 2002 could include one or more special or other charges for restructurings, asset impairments and similar charges that might be material.

The Company's agreement with its labor union at its Toronto, Ohio plant expires at the end of June 2002. The Company does not presently anticipate any work stoppage or other labor disruption at any facility, and its outlook for 2002 does not contemplate any such event. However, should the Company's efforts to negotiate a mutually satisfactory agreement be unsuccessful, any work stoppage or other labor disruption at any facility could materially and adversely affect the Company's business, results of operation, financial position and liquidity.

On October 11, 2001, the Company was notified by Special Metals Corporation of its intention to again defer the payment of dividends on the SMC convertible preferred securities held by the Company, effective with the dividend due on October 28, 2001. The Company believes such dividends are likely to be deferred indefinitely and does not expect to recognize any dividend income on its SMC preferred securities in 2002.

Selling, general, administrative and development expenses for 2002 should be approximately $42 million. Interest expense in 2002 should approximate $3 million. Minority interest on the Company's Convertible Preferred Securities in 2002 should approximate $13 million.

The Company`s effective consolidated income tax rate is expected to be significantly below the U.S. statutory rate, as no income tax benefit is expected to be recorded on U.S. losses during 2002. However, the Company operates in several tax jurisdictions and is subject to varying income tax rates. As a result, the geographic mix of pretax income (loss) can significantly impact the Company's overall effective tax rate.

The Company presently expects an operating loss in 2002 of approximately $25 million and a net loss of approximately $40 million. Although the Company expects its gross margin to decrease over the year, the Company presently anticipates its results in the last half of 2002 will be improved compared to the first half because the estimated $17 million expected to be earned under the take-or-pay provision of the Boeing LTA will be recognized in the last half of the year.

The Company expects cash flow from operations to be negative in 2002. This is principally driven by the expected net loss and the effect in 2002 of the $28.5 million cash advance payment that was received from Boeing in December 2001. This customer advance was reflected as a current liability on the Company's consolidated balance sheet at year-end 2001 and will be reduced during

2002 as product shipments are made or the Boeing take-or-pay benefits are earned. Subsequent advances will occur early each calendar year beginning in 2003. Capital expenditures in 2002 are expected to be approximately $12 million, principally covering capital maintenance, safety and environmental programs. Depreciation and amortization should approximate $40 million. Effective January 1, 2002, the Company will adopt Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. Under SFAS 142, goodwill will not be amortized on a periodic basis. For the year ended December 31, 2001, the Company recorded amortization expense of approximately $4.5 million relating to its goodwill.

Debt is expected to increase in 2002 as compared to year-end 2001 levels. At December 31, 2001, the Company had over $150 million of borrowing availability under its various worldwide credit agreements. The Company believes its cash, cash flow from operations, and borrowing availability will satisfy its expected working capital, capital expenditures and other requirements in 2002.

Future results of operations and other forward-looking statements contained in this Outlook involve a number of substantial risks and uncertainties that could significantly affect expected results. Actual results could differ materially from those described in such forward-looking statements, and the Company disclaims any intention or obligation to update or revise any forward-looking statements. Among the factors that could cause actual results to differ materially are the risks and uncertainties discussed in this Annual Report and those described from time to time in the Company's other filings with the Securities and Exchange Commission which include, but are not limited to, the cyclicality of the commercial aerospace industry, the performance of aerospace manufacturers and the Company under their LTAs, the difficulty in forecasting demand for titanium products, global economic and political conditions, global productive capacity for titanium, changes in product pricing and costs, the impact of long-term contracts with vendors on the ability of the Company to reduce or increase supply or achieve lower costs, the possibility of labor disruptions, fluctuations in currency exchange rates, control by certain stockholders and possible conflicts of interest, uncertainties associated with new product development, the supply of raw materials and services, changes in raw material and other operating costs (including energy costs), possible disruption of business or increases in the cost of doing business resulting from war or terrorist activities and other risks and uncertainties. Should one or more of these risks materialize (or the consequences of such a development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those forecasted or expected.

LIQUIDITY AND CAPITAL RESOURCES

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

Year ended Decembe

	2001	2000
		(In thousands)
Cash provided (used) by:		
Operating activities:		
Excluding changes in assets and liabilities	$ 97,908	$ (4,119)
Changes in assets and liabilities	(35,334)	67,447
	62,574	63,328
Investing activities	(16,093)	(4,218)
Financing activities	(31,358)	(70,678)
Net cash provided (used) by operating, investing and financing activities	$ 15,123	$ (11,568)

Operating activities. Cash provided by operating activities was approximately $63 million in 2001 and 2000 and $20 million in 1999.

Cash provided by operating activities, excluding changes in assets and liabilities, during the past three years generally follows the trend in gross margin. Changes in assets and liabilities reflect the timing of purchases, production and sales, and can vary significantly from period to period. Accounts receivable increased in 2001, principally as a result of increased sales. Accounts receivable provided cash in 2000 and 1999, reflecting the decrease in sales levels as well as an improvement, particularly in 2000, in collections as reflected by a decrease in the average number of days that receivables were outstanding. The significant reduction in receivables in 2000 was also attributable to $16 million of customer payments received in the first quarter of 2000 related to a bill-and-hold arrangement entered into near the end of 1999. See Note 8 to the Consolidated Financial Statements.

In April 2001, the Company reached a settlement of the litigation between TIMET and Boeing. Pursuant to the settlement, the Company received a cash payment of $82 million ($73 million net of legal fees) and in December 2001 received a $28.5 million customer advance from Boeing. See Note 17 to the Consolidated Financial Statements.

Inventories increased in 2001, reflecting material purchases and production rates that were based on expected sales levels higher than actual sales levels achieved. Due to the impact of the September 11, 2001 terrorist attacks, the Company received a number of customer order deferrals and cancellations late in 2001, contributing to the inventory increase. The Company reduced inventories during 2000 and 1999 as excess raw materials and other inventory items were consumed and inventory reduction and control efforts were put in place.

Changes in deferred income taxes in 2001 were primarily due to an increase in the Company's deferred tax asset valuation allowance, as further described in Note 14 to the Consolidated Financial Statements. Changes in income taxes in 2000 primarily reflect net tax refunds of $8 million. In 1999, income taxes payable decreased as the 1999 losses were carried back to recover a portion of prior years' taxes paid. Changes in accounts with related parties resulted primarily from relative changes in receivable levels with joint ventures in 2001, 2000 and 1999.

Changes in restructuring charges represent payments made, primarily related to personnel severance and benefits, in connection with the Company's 2000 and 1999 restructuring plans, which are described in more detail in Note 13 to the Consolidated Financial Statements.

Dividends for the period October 1998 through December 1999 on the Company's investment in SMC 6.625% convertible preferred stock were deferred by SMC. In April 2000, SMC resumed current dividend payments of $1.3 million each quarter; however, dividends and interest in arrears were not paid. On October 11, 2001, the Company was notified by SMC of SMC's intention to again defer the payment of dividends effective with the dividend due on October 28, 2001. The Company believes that such dividends are likely to be deferred indefinitely.

The SMC convertible preferred securities held by TIMET are not marketable and, accordingly, quoted market prices are unavailable. The Company recorded a pre-tax impairment charge of $61.5 million related to these securities in 2001 that reduced the carrying amount of these securities to an estimated fair value of $27.5 million. See Note 4 to the Consolidated Financial Statements. The Company believes SMC has a significant amount of debt relative to its near term potential earnings and cash flow and that a refinancing and/or restructuring of its capital, or some portion thereof, is necessary. SMC has indicated that it may violate certain bank covenants early in 2002 and that it is considering strategic and financial options, including efforts to restructure and/or modify the terms of certain debt agreements. Such efforts may include negotiations with the Company to modify the terms of its preferred securities in SMC and/or exchange, in whole or in part, such preferred securities for common stock, other securities or other assets.

In April 2000, the Company exercised its right to defer future dividend payments on its outstanding 6.625% Convertible Preferred Securities for a period of up to 10 quarters (subject to possible further extension for up to an additional 10 quarters), although interest continued to accrue at the coupon rate on the principal and unpaid dividends. A portion of the Boeing settlement, described above, was used to pay the previously deferred aggregate dividends of $13.9 million and resume the payment of the regularly scheduled dividends. Changes in accrued dividends on Convertible Preferred Securities reflect this activity.

Investing activities. The Company's capital expenditures were $16.1 million in 2001, up from $11.2 million in 2000. Capital expenditures were $24.8 million in 1999. Capital spending for 2001 was principally for safety and maintaining capacity. Capital spending for 2000 was principally for capacity enhancements, capital maintenance, and safety and environmental projects. Capital expenditures in 1999 were primarily related to the expansion of forging capacity at the Toronto, Ohio facility, the installation of the business-enterprise system in Europe and various environmental and other projects.

Proceeds from sale of joint venture in 2000 represents the proceeds from the Company's sale to Wyman-Gordon of the Company's 20% interest in Wyman-Gordon Titanium Castings, LLC. This transaction is more fully described in Note 3 to the Consolidated Financial Statements.

Financing activities. Net repayments of $32 million in 2001 are principally the result of the Company's litigation settlement with Boeing. Net repayments of $70 million in 2000 reflect reductions of outstanding borrowings principally in the U.S. resulting from collection of receivables, reduction in inventories, tax refunds, the sale of the Company's casting joint venture and deferral of dividend payments on the Company's Convertible Preferred Securities. Net

borrowings of $13 million in 1999 were primarily to fund capital expenditures.

In November 1999, the Company's Board of Directors voted to suspend the regular quarterly dividend on its common stock in view of, among other things, the continuing weakness in overall market demand for titanium metal products. The Company's U.S. credit agreement prohibits the payment of dividends on the Company's common stock and the repurchase of common shares except under specified conditions. The Company presently has no plans to resume payment of common stock dividends.

Borrowing arrangements. At December 31, 2001, the Company's net cash was approximately $12.1 million ($24.5 million of cash and equivalents, less $12.4 million of notes payable and debt, principally borrowings under the Company's U.S. and U.K. credit agreements). At December 31, 2001, the Company had over $150 million of borrowing availability under its various worldwide credit agreements.

In 2000, the Company completed a new $125 million, U.S. asset-based revolving credit agreement replacing its previous U.S. bank credit facility. Borrowings under this facility are limited to a formula-determined borrowing base derived from the value of accounts receivable, inventory and equipment ("borrowing availability"). This facility requires the Company's U.S. daily cash receipts to be used to reduce outstanding borrowings, which may then be reborrowed, subject to the terms of the agreement. Interest generally accrues at rates that vary from LIBOR plus 2% to LIBOR plus 2.5%. Borrowings are collateralized by substantially all of the Company's U.S. assets. The credit agreement prohibits the payment of dividends on TIMET's Convertible Preferred Securities if excess availability is less than $25 million, limits additional indebtedness, prohibits the payment of dividends on the Company's common stock if excess availability is less than $40 million, requires compliance with certain financial covenants and contains other covenants customary in lending transactions of this type. Excess availability is defined as borrowing availability less certain contractual commitments such as letters of credit. At December 31, 2001, excess availability was $115 million. The Company's U.S. credit agreement allows the lender to modify the borrowing base formulas at its discretion, subject to certain conditions. In the event the lender exercised this discretion, such event could have a significant adverse effect on the Company's borrowing availability. Unused borrowing availability under this agreement at December 31, 2001 was approximately $117 million. The credit agreement expires in February 2003; however, the Company is currently negotiating with its lender to extend the maturity date of this agreement on substantially similar terms.

The Company's subsidiary, TIMET UK, has a credit agreement that includes a revolving and term loan facility and an overdraft facility (the "U.K. facilities"). During 2000, aggregate borrowing capacity under the U.K. facilities was increased from (pound)18 million to (pound)30 million. Borrowings under the U.K. facilities can be in various currencies, including U.S. dollars, British pounds and euros, accrue interest at rates that vary from LIBOR plus 1% to LIBOR plus 1.25% and are collateralized by substantially all of TIMET UK's assets. The U.K. facilities require the maintenance of certain financial ratios and amounts and other covenants customary in lending transactions of this type. The U.K. overdraft facility is subject to annual review in February of each year and was extended in February 2002. The U.K. facilities expire in February 2005. As of December 31, 2001, the outstanding balance of the U.K. facilities was approximately $11 million with unused borrowing availability of approximately $31 million.

Environmental matters. See Item 1 - Business - Regulatory and environmental matters and Note 17 to the Consolidated Financial Statements for a discussion of environmental matters.

Other. The Company periodically evaluates its liquidity requirements, capital needs and availability of resources in view of, among other things, its alternative uses of capital, its debt service requirements, the cost of debt and equity capital and estimated future operating cash flows. As a result of this process, the Company has in the past and, in light of its current outlook, may in the future seek to raise additional capital, modify its common and preferred dividend policies, restructure ownership interests, incur, refinance or restructure indebtedness, repurchase shares of capital stock, sell assets, or take a combination of such steps or other steps to increase or manage its liquidity and capital resources.

In the normal course of business, the Company investigates, evaluates, discusses and engages in acquisition, joint venture, strategic relationship and other business combination opportunities in the titanium, specialty metal and related industries. In the event of any future acquisition or joint venture opportunities, the Company may consider using then-available liquidity, issuing equity securities or incurring additional indebtedness.

Contractual commitments. As more fully described in Notes 9, 10, 16 and 17 to the Consolidated Financial Statements, the Company is a party to various debt, lease and other agreements at December 31, 2001 that contractually and unconditionally commit the Company to pay certain amounts in the future. The following table summarizes such contractual commitments that are unconditional both in terms of timing and amount by the type and date of payment.

	Unconditional Payment Due Date			
	2002	2003/ 2004	2005/ 2006	2007 Aft
			(In thousands)	
Contractual Commitment				
Indebtedness	$ 1,694	$ 10,712	$ -	$
Capital leases	340	679	397	7
Operating leases	4,253	4,079	967	
Obligations to Basic Management, Inc.	1,324	2,648	1,129	1
Minimum sponge purchase commitments	9,975	19,950	19,950	9
Company-obligated manditorily redeemable preferred securities of subsidiary trust holding solely subordinated debt securities	-	-	-	201

$ 17,586	$ 38,068	$ 22,443	$ 220

CRITICAL ACCOUNTING POLICIES

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

- Impairments of long-lived assets. Generally, when events or changes in circumstances indicate that the carrying amount of long-lived assets, including property and equipment, goodwill and other intangible assets, may not be recoverable, the Company prepares an evaluation comparing the carrying amount of the assets to the undiscounted expected future cash flows of the assets or asset group. If this comparison indicates that the carrying amount is not recoverable, the amount of the impairment would typically be calculated using discounted expected future cash flows or appraised values. All relevant factors are considered in determining whether an impairment exists.

  The Company completed an impairment assessment under SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and Accounting Principles Board ("APB") Opinion No. 17, Intangible Assets, during the fourth quarter of 2001 in response to certain events described in Note 1 to the Consolidated Financial Statements. Future cash flows are inherently uncertain. Although management utilizes certain external information sources such as The Airline Monitor as the basis for sales volume projections, significant management judgment is required in estimating other factors that are significant to future cash flows including, but not limited to, customer demand, the Company's market position, selling prices, competitive forces and manufacturing costs. The result of this assessment led the Company to conclude that there was no impairment related to the long-lived assets in the asset groups tested.

- Valuation and impairment of securities. In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company evaluates its investments in debt and equity securities whenever events or conditions occur to indicate that the fair value of such investments has declined below their carrying amounts. If the decline in fair value is judged to be other than temporary, the carrying amount of the security is written down to fair value. In response to certain events described in Notes 1 and 4 to the Consolidated Financial Statements, the Company undertook an assessment in the fourth quarter of 2001, with the assistance of an outside expert, of its investment in SMC. That assessment indicated that it was unlikely that the Company would recover its then existing carrying amount of the SMC securities in accordance with the securities' contractual terms and that an other than temporary decline in the fair value of its investment had occurred. Accordingly, the Company recorded an impairment charge of $61.5 million in the fourth quarter of 2001.

  The SMC convertible preferred securities held by the Company are not marketable and, accordingly, quoted market prices are unavailable. The estimate of fair value requires significant judgment and considered a number of factors including, but not limited to, the financial health and prospects of the issuer and market yields of comparable securities. The amount the Company ultimately recovers from its investment in SMC, if any, could vary significantly from estimated fair value. See Notes 1 and 4 to the Consolidated Financial Statements.

- Deferred income tax valuation allowances. Under SFAS 109, Accounting for Income Taxes, and related guidance, the Company is required to record a valuation allowance if realization of deferred tax assets is not "more-likely-than-not." Substantial weight must be given to recent historical results and near-term projections and management must assess the availability of tax planning strategies that might impact either the need for, or amount of, any valuation allowance.

  Based on its recent history of losses, its near term outlook and management's evaluation of available tax planning strategies, the Company concluded that an increase in its valuation allowance against its U.S. net deferred tax a