

RTI INTERNATIONAL METALS INC

Form 10-Q

November 05, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

OR

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

For the transition period from _____ to _____

Commission File Number: **001-14437**

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

Ohio
(State or other jurisdiction of incorporation or organization)

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

**Westpointe Corporate Center One, 5th Floor
1550 Coraopolis Heights Road
Pittsburgh, Pennsylvania**
(Address of principal executive offices)

15108-2973
(Zip Code)

Registrant's telephone number, including area code:
(412) 893-0026

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of the Corporation's common stock (Common Stock) outstanding as of October 30, 2009 was 30,002,780.

RTI INTERNATIONAL METALS, INC AND CONSOLIDATED SUBSIDIARIES

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

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations
(Unaudited)****(In thousands, except share and per share amounts)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	\$ 100,247	\$ 150,615	\$ 310,655	\$ 461,092
Cost and expenses:				
Cost of sales	82,426	113,492	263,047	322,708
Selling, general, and administrative expenses	15,384	18,723	46,526	54,829
Research, technical, and product development expenses	466	555	1,493	1,590
Operating income (loss)	1,971	17,845	(411)	81,965
Other income (expense)	252	551	2,006	(129)
Interest income	257	799	1,325	2,172
Interest expense	(7,231)	(979)	(12,007)	(1,595)
Income (loss) before income taxes	(4,751)	18,216	(9,087)	82,413
Provision for income taxes	3,901	6,964	899	30,311
Net Income (loss)	\$ (8,652)	\$ 11,252	\$ (9,986)	\$ 52,102
Earnings per share:				
Basic	\$ (0.35)	\$ 0.49	\$ (0.42)	\$ 2.26
Diluted	\$ (0.35)	\$ 0.49	\$ (0.42)	\$ 2.26
Weighted-average shares outstanding:				
Basic	24,643,301	22,838,900	23,588,555	22,881,457
Diluted	24,643,301	22,915,541	23,588,555	23,007,236

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

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets
(Unaudited)****(In thousands, except share and per share amounts)**

	September 30, 2009	December 31, 2008
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 124,733	\$ 284,449
Receivables, less allowance for doubtful accounts of \$605 and \$2,260	66,265	79,778
Inventories, net	271,738	274,330
Deferred income taxes	25,577	29,456
Other current assets	8,073	11,109
Total current assets	496,386	679,122
Property, plant, and equipment, net	305,272	271,062
Goodwill	49,401	47,984
Other intangible assets, net	14,136	13,196
Deferred income taxes	30,611	15,740
Other noncurrent assets	1,602	2,099
Total assets	\$ 897,408	\$ 1,029,203
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 43,032	\$ 54,422
Accrued wages and other employee costs	10,744	20,452
Unearned revenue	20,249	22,352
Current portion of long-term debt		1,375
Current liability for post-retirement benefits	2,632	2,632
Current liability for pension benefits	121	121
Other accrued liabilities	21,342	18,167
Total current liabilities	98,120	119,521
Long-term debt	86	238,550
Noncurrent liability for post-retirement benefits	31,520	30,732
Noncurrent liability for pension benefits	24,625	26,535
Deferred income taxes	154	154
Other noncurrent liabilities	7,310	11,777
Total liabilities	161,815	427,269

Commitments and Contingencies

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Shareholders' equity:

Common stock, \$0.01 par value; 50,000,000 shares authorized; 30,715,403 and 23,688,010 shares issued; 30,021,089 and 23,004,136 shares outstanding	307	237
Additional paid-in capital	438,547	307,604
Treasury stock, at cost; 694,314 and 683,874 shares	(16,979)	(16,891)
Accumulated other comprehensive loss	(33,632)	(46,352)
Retained earnings	347,350	357,336
Total shareholders' equity	735,593	601,934
Total liabilities and shareholders' equity	\$ 897,408	\$ 1,029,203

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

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows
(Unaudited)****(In thousands)**

	Nine Months Ended September 30,	
	2009	2008
<u>OPERATING ACTIVITIES:</u>		
Net income (loss)	\$ (9,986)	\$ 52,102
Adjustment for non-cash items:		
Depreciation and amortization	15,985	14,891
Deferred income taxes	(11,571)	(15,614)
Stock-based compensation	3,668	3,942
Excess tax benefits from stock-based compensation activity	(439)	(239)
Other	102	(144)
Changes in assets and liabilities:		
Receivables	15,363	899
Inventories	5,423	(7,935)
Accounts payable	5,635	2,286
Income taxes payable	(9)	494
Unearned revenue	(3,510)	16,088
Other current assets liabilities	(4,408)	(9,444)
Other assets and liabilities	485	(4,171)
Cash provided by operating activities	16,738	53,155
<u>INVESTING ACTIVITIES:</u>		
Capital expenditures	(63,362)	(88,815)
Cash used in investing activities	(63,362)	(88,815)
<u>FINANCING ACTIVITIES:</u>		
Proceeds from exercise of employee stock options	51	112
Excess tax benefits from stock-based compensation activity	439	239
Borrowings on long-term debt	1,181	227,011
Repayments on long-term debt	(243,449)	(815)
Financing fees	(300)	(1,313)
Proceeds from government grants		2,842
Purchase of common stock held in treasury	(88)	(9,090)
Proceeds from equity offering, net	127,423	
Cash provided by (used in) financing activities	(114,743)	218,986
Effect of exchange rate changes on cash and cash equivalents	1,651	(800)

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Increase (decrease) in cash and cash equivalents	(159,716)	182,526
Cash and cash equivalents at beginning of period	284,449	107,505
Cash and cash equivalents at end of period	\$ 124,733	\$ 290,031

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

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Consolidated Statement of Comprehensive Income and Shareholders' Equity
(Unaudited)****(In thousands, except share amounts)**

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Derivative Instruments	Accumulated Other Comprehensive Income (Loss) Net Unrealized Gain (Loss) From		Total
	Shares Outstanding	Amount					Minimum Pension Liability	Foreign Currency Translation	
Balance at December 31, 2008	23,004,136	\$ 237	\$ 307,604	\$ (16,891)	\$ 357,336 (9,986)	\$ (3,325)	\$ (39,321)	\$ (3,706)	\$ 601,000 (9,986)
Loss on foreign currency translation								7,543	7,543
Recognized gain on derivatives (interest rate contracts), net of tax						3,325			3,325
Profit plan reorganization							1,852		1,852
<i>Comprehensive income</i>									2,177
Shares issued for employee compensation	35,911								35,911
Shares issued for performance share plans	53								53
Shares issued for deferred stock award	87,360	1							87,361
Share-based compensation expense recognized			3,668						3,668
Shares issued for equity incentive plan	6,900,000	69	127,654						127,723
Treasury stock acquired at cost	(6,040)			(88)					(6,128)
Provision of employee benefits	4,069		51						4,120
Forfeiture of restricted stock awards	(4,400)		(430)						(4,830)

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-based
ensation activity

ce at
mber 30, 2009

30,021,089 \$ 307 \$ 438,547 \$ (16,979) \$ 347,350 \$ (37,469) \$ 3,837 \$ 735,

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

**Condensed Notes to Consolidated Financial Statements
(Unaudited)**

(In thousands, except share and per share amounts, unless otherwise indicated)

Note 1 BASIS OF PRESENTATION:

The accompanying unaudited Consolidated Financial Statements of RTI International Metals, Inc. and its subsidiaries (the Company or RTI) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. In the opinion of management, these financial statements contain all of the adjustments of a normal and recurring nature considered necessary to state fairly the results for the interim periods presented. The results for the interim periods are not necessarily indicative of the results to be expected for the year.

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these financial statements be read in conjunction with accounting policies and Notes to Consolidated Financial Statements included in the Company's 2008 Annual Report on Form 10-K.

Note 2 ORGANIZATION:

The Company is a leading producer and global supplier of titanium mill products and a manufacturer of fabricated titanium and specialty metal components for the international aerospace, defense, energy, and industrial and consumer markets. It is a successor to entities that have been operating in the titanium industry since 1951. The Company first became publicly traded on the New York Stock Exchange in 1990 under the name RMI Titanium Co., and was reorganized into a holding company structure in 1998 under the symbol RTI.

The Company conducts business in three segments: the Titanium Group, the Fabrication Group, and the Distribution Group.

The Titanium Group melts, processes, and produces a complete range of titanium mill products which are further processed by its customers for use in a variety of commercial aerospace, defense, and industrial and consumer applications. With operations in Niles, Ohio; Canton, Ohio; and Hermitage, Pennsylvania; and a new facility under construction in Martinsville, Virginia, the Titanium Group has overall responsibility for the production of primary mill products including, but not limited to, bloom, billet, sheet, and plate. In addition, the Titanium Group produces ferro titanium alloys for its steel-making customers. The Titanium Group also focuses on the research and development of evolving technologies relating to raw materials, melting and other production processes, and the application of titanium in new markets.

The Fabrication Group is comprised of companies with significant hard-metal expertise that extrude, fabricate, machine, and assemble titanium and other specialty metal parts and components. Its products, many of which are

complex engineered parts and assemblies, serve commercial aerospace, defense, oil and gas, power generation, medical device, and chemical process industries, as well as a number of other industrial and consumer markets. With operations located in Houston, Texas; Washington, Missouri; Laval, Quebec; and a representative office in China, the Fabrication Group provides value-added products and services such as engineered tubulars and extrusions, fabricated and machined components and sub-assemblies, as well as engineered systems for deepwater oil and gas exploration and production infrastructure.

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

The Distribution Group stocks, distributes, finishes, cuts-to-size, and facilitates just-in-time delivery services of titanium, steel, and other specialty metal products, primarily nickel-based specialty alloys. With operations in Garden Grove, California; Windsor, Connecticut; Sullivan, Missouri; Staffordshire, England; and Rosny-Sur-Seine, France; the Distribution Group is in close proximity to its wide variety of commercial aerospace, defense, and industrial and consumer customers.

Both the Fabrication Group and the Distribution Group utilize the Titanium Group as their primary source of titanium mill products.

Note 3 STOCK-BASED COMPENSATION:***Stock Options***

A summary of the status of the Company's stock options as of September 30, 2009, and the activity during the nine months then ended, is presented below:

Stock Options	Shares
Outstanding at December 31, 2008	352,680
Granted	170,430
Forfeited	(6,334)
Expired	(3,668)
Exercised	(4,069)
Outstanding at September 30, 2009	509,039
Exercisable at September 30, 2009	281,909

The fair value of stock options granted was estimated at the date of grant using the Black-Scholes option-pricing model based upon the assumptions noted in the following table:

	2009
Risk-free interest rate	1.85%
Expected dividend yield	0.00%
Expected lives (in years)	4.0
Expected volatility	58.00%

The weighted-average grant date fair value of stock option awards granted during the nine months ended September 30, 2009 was \$13.88.

Restricted Stock

A summary of the status of the Company's nonvested restricted stock as of September 30, 2009, and the activity during the nine months then ended, is presented below:

Nonvested Restricted Stock Awards	Shares
Nonvested at December 31, 2008	161,669
Granted	123,271
Vested	(90,344)
Forfeited	(4,400)
Nonvested at September 30, 2009	190,196

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

The fair value of restricted stock grants was calculated using the market value of the Company's Common Stock on the date of issuance. The weighted-average grant date fair value of restricted stock awards granted during the nine months ended September 30, 2009 was \$14.46.

Performance Share Awards

A summary of the Company's performance share award activity during the nine months ended September 30, 2009 is presented below:

Performance Share Awards	Awards Granted	Maximum Shares Eligible to Receive
Oustanding at December 31, 2008	28,500	57,000
Granted	85,730	171,460
Forfeited	(4,300)	(8,600)
Vested	(500)	(1,000)
Oustanding at September 30, 2009	109,430	218,860

The fair value of the performance share awards granted was estimated by the Company at the grant date using a Monte Carlo model. The weighted-average grant date fair value of performance shares awarded during the nine months ended September 30, 2009 was \$20.65.

Note 4 INCOME TAXES:

Management evaluates the estimated annual effective income tax rate on a quarterly basis based on current and forecasted business levels and activities, including the mix of domestic and foreign results and enacted tax laws. This estimated annual effective tax rate is updated quarterly based upon actual results and updated operating forecasts. Items unrelated to current year ordinary income are recognized entirely in the period identified as a discrete item of tax. The quarterly income tax provision is comprised of tax on ordinary income at the most recent estimated annual effective tax rate, adjusted for the effect of discrete items.

For the nine months ended September 30, 2009, management estimates that the tax benefit of foreign losses will fully offset the Company's U.S. tax liabilities so that the estimated annual effective tax rate applied to ordinary income is zero. The comparable rate in the same period in 2008 was 37.3%. These rates differ from the federal statutory rate of 35% principally as a result of the mix of domestic income and foreign losses benefited at lower tax rates. The lower level of expected annual income amplifies the rate impact of these mix effects in the current period compared to the comparable period last year.

The Company recognized a provision for income taxes of \$3,901, or (82.1)% of pretax income, and \$6,964, or 38.2% of pretax income, for federal, state, and foreign income taxes for the three months ended September 30, 2009 and 2008, respectively. The quarterly provision represents the discrete items of tax related to prior tax years and the reversal of tax benefits provided in previous quarters on previously reported losses. The relationship between tax expense and reported results varies from the comparable period of the prior year principally as a result of the mix of domestic income and foreign losses benefited at lower tax rates, the effect of which is amplified by the lower level of income in 2009. Included in the three month provision were discrete items totaling \$283 comprised primarily of normal adjustments made upon filing the 2008 U.S. federal income tax return. Discrete items recognized during the comparable three month period ended September 30, 2008 were not material.

The Company recognized a provision for income taxes of \$899, or (9.9)% of pretax income, and \$30,311, or 36.8% of pretax income, for federal, state, and foreign income taxes for the nine months ended

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

September 30, 2009 and 2008, respectively. The provision for the current year to date period is comprised entirely of discrete items of tax related to prior years which are primarily attributable to current year adjustments to unrecognized tax benefits and normal adjustments for tax returns filed during the period. Discrete items recognized during the nine months ended September 30, 2008 were immaterial.

The Company is currently under examination by the Internal Revenue Service for the years 2006 and 2007. It is reasonably possible that the examination will conclude in the next twelve months; however the Company is not able to estimate the impact to unrecognized tax benefits at this time due to the preliminary status of the examination.

Note 5 EARNINGS PER SHARE (EPS):

Basic earnings per share was computed by dividing net income (loss) by the weighted-average number of shares of Common Stock outstanding for each respective period. Diluted earnings per share was calculated by dividing net income (loss) by the weighted-average of all potentially dilutive shares of Common Stock that were outstanding during the periods presented.

In June 2008, the Financial Accounting Standards Board (FASB) amended the existing guidance for determining whether certain instruments were participating securities under the existing guidance. The new guidance clarified that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities to be included in the computation of earnings per share under the two-class method. The new guidance was effective for the Company's fiscal year beginning January 1, 2009 and was to be applied retrospectively. The Company's restricted stock awards are considered participating securities under the new guidance. The adoption of the new guidance reduced basic EPS by \$0.02 and had no effect on diluted EPS for the nine month period ended September 30, 2008. There was no effect on basic or diluted EPS for the three month period ended September 30, 2008.

Actual weighted-average shares of Common Stock outstanding used in the calculation of basic and diluted earnings per share for the three and nine months ended September 30, 2009 and 2008 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Numerator:				
Net income (loss)	\$ (8,652)	\$ 11,252	\$ (9,986)	\$ 52,102
Denominator:				
Basic weighted-average shares outstanding	24,643,301	22,838,900	23,588,555	22,881,457
Effect of diluted securities		76,641		125,779
	24,643,301	22,915,541	23,588,555	23,007,236

Diluted weighted-average shares
outstanding

Earnings (loss) per share:

Basic	\$	(0.35)	\$	0.49	\$	(0.42)	\$	2.26
Diluted	\$	(0.35)	\$	0.49	\$	(0.42)	\$	2.26

For the three and nine months ended September 30, 2009, options to purchase 511,620 and 498,526 shares of Common Stock, at an average price of \$30.86 and \$31.41, respectively, have been excluded from the calculations of diluted earnings per share because their effects were antidilutive. For the three and nine months ended September 30, 2008, options to purchase 197,040 and 181,740 shares of Common Stock, at an average

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

price of \$57.65 and \$59.10, respectively, have been excluded from the calculation of diluted earnings per share because their effects were antidilutive.

Note 6 INVENTORIES:

Inventories are valued at cost as determined by the last-in, first-out (LIFO) method for approximately 62% and 61% of the Company's inventories as of September 30, 2009 and December 31, 2008, respectively. The remaining inventories are valued at cost determined by a combination of the first-in, first-out (FIFO) and weighted-average cost methods. Inventory costs generally include materials, labor, and manufacturing overhead (including depreciation). When market conditions indicate an excess of carrying cost over market value, a lower-of-cost-or-market provision is recorded. Inventories consisted of the following:

	September 30, 2009	December 31, 2008
Raw materials and supplies	\$ 131,432	\$ 124,689
Work-in-process and finished goods	215,970	228,745
LIFO reserve	(75,664)	(79,104)
Total inventories	\$ 271,738	\$ 274,330

As of September 30, 2009 and December 31, 2008, the current cost of inventories exceeded their carrying value by \$75,664 and \$79,104, respectively. The Company's FIFO inventory value approximates current costs.

Note 7 GOODWILL AND OTHER INTANGIBLE ASSETS:

Goodwill. The Company does not amortize goodwill; however, the carrying amount of goodwill is tested, at least annually, for impairment. Absent any events throughout the year which would indicate a potential impairment has occurred, the Company performs its annual impairment testing during the fourth quarter.

The Company performs its goodwill impairment testing at the reporting unit level. The Company's reporting units, which are one level below its operating segments, where appropriate, are as follows: 1) the Titanium reporting unit; 2) the Fabrication reporting unit; 3) the Energy Fabrication reporting unit; 4) the U.S. Distribution reporting unit; and 5) the Europe Distribution reporting unit.

Goodwill is tested annually during the fourth quarter and is assessed between annual tests if an event occurs or circumstances change that would indicate the carrying value of a reporting unit may exceed its fair value. These events and circumstances may include, but are not limited to: significant adverse changes in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; a material negative change in

relationships with significant customers; strategic decisions made in response to economic or competitive conditions; loss of key personnel; or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed. The Company last performed its annual goodwill impairment test as of October 1, 2008.

The fair value of the Company's reporting units is determined using a discounted cash flow model. The Company believes a discounted cash flow model is appropriate as it provides a fair value estimate based upon each reporting unit's long-term operating and cash flow performance. This approach also considers the impact of cyclical downturns that occur in the titanium and aerospace industries.

Utilizing a discounted cash flow model, the fair values of the Company's reporting units are calculated using a number of assumptions, including projected future operating results and cash flows, discount rates, and changes in working capital. The Company considers historical experience and available information at the time

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

**Condensed Notes to Consolidated Financial Statements
(Unaudited)**

(In thousands, except share and per share amounts, unless otherwise indicated)

the reporting units' fair values are estimated. For the Company's October 1, 2008 annual impairment test, a 12% discount rate, the Company's base discount rate, was used for the Fabrication, U.S. Distribution, and Europe Distribution reporting units. An 11% and 13% discount rate were used for the Titanium and Energy Fabrication reporting units, respectively, reflecting adjustments to the base discount rate for specific risk factors associated with those two reporting units. At October 1, 2008, a 1% increase in the discount rate, or a 10% decrease in expected cash flows, would have indicated a potential impairment at the U.S. Distribution reporting unit, which had \$6.9 million in goodwill. A 4% increase in the discount rate, or a 40% decrease in expected cash flows, would have indicated a potential impairment at the Fabrication and Energy Fabrication reporting units, which had \$28.8 million and \$8.7 million, respectively, in goodwill.

The valuation method used for the October 1, 2008 annual testing was consistent with the prior year's annual test. Significant assumptions that changed from the prior year included general overall decreases in operating profits and related cash flow projections due to the expected near-term softening of the commercial aerospace and titanium markets. The Company reduced the Fabrication reporting unit's cash flow projections approximately 10% from the prior year to reflect the near-term uncertainty in Boeing 787 Dreamliner® production, offset by a more stable long-term production outlook. Cash flow projections for the U.S. Distribution reporting unit were reduced approximately 50% from the prior year to reflect declining market prices and the spot nature of sales by the U.S. Distribution reporting unit. Similarly, cash flow projections for the Energy Fabrication reporting unit were reduced approximately 50% from the prior year to reflect a forecasted reduction in orders from its energy market customers due to a forecasted decrease in energy prices from their record highs. In addition, the October 1, 2008 discount rates generally increased from the prior year. With the exception of the Titanium and Europe Distribution reporting units, the current year assumptions led to lower overall valuations of the Company's reporting units, but did not indicate a potential impairment for any of the reporting units.

For the Company's long-lead time products from the Titanium, Fabrication and Europe Distribution reporting units, the revenue and operating profit assumptions are primarily based on contractual business under various long-term agreements. Several of the larger long-term agreements were executed in 2006 and 2007, with production for these contracts not expected to ramp up until the 2011 to 2012 timeframe. For instance, the Company has a long-term supply agreement with Lockheed Martin to supply the first eight million pounds annually of titanium mill products for the Joint Strike Fighter (JSF) when production fully ramps up in the next decade. This volume will increase the Company's titanium mill product shipments by more than 50% over 2008 levels over the next several years. Accordingly, operating results for the Titanium and Europe Distribution reporting units were forecasted to grow at an average Compound Annual Growth Rate (CAGR) of approximately 15% each in the discounted cash flow analysis, with this growth significantly weighted toward the later years of the analysis. This compares to an average CAGR of approximately 11% and 74% for the Titanium and Europe Distribution reporting units, respectively, for actual results over the previous four years. Operating results for the Fabrication reporting unit were forecasted to grow at an average CAGR of approximately 51% after year one of our discounted cash flow analysis, reflecting not only the ramp up in sales to Boeing related to the 787 Dreamliner® program, but also the efficiencies gained as a result of the increased utilization of the unit's production capacity.

For the Company's Energy Fabrication reporting unit, orders are significantly dependent on the price of oil and natural gas. While oil prices hit record highs during the summer of 2008, the Company anticipated that, with the onset of the global financial recession, accelerated by the global credit crisis and rising unemployment, the prices of oil and natural gas would continue to fall and capacity increases in the oil and natural gas production industry would slow. As a result of these expectations, cash flows for the Energy Fabrication reporting unit were forecasted to grow at an average CAGR of approximately 11% in the

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discounted cash flow analysis compared to an average CAGR of approximately 40% for actual results over the previous four years.

For the Company's U.S. Distribution reporting unit, orders are dependent upon current market conditions. The Company uses its historical market expertise to make assumptions about future trends for this reporting unit. In light of the global recession and global credit crisis, the Company forecasted a significant near-term reduction in both volume and selling prices. Accordingly, cash flows for the U.S. Distribution reporting unit were forecasted to grow at an average CAGR of approximately 6% in the discounted cash flow analysis.

As a part of the October 1, 2008 annual impairment test, and at December 31, 2008, the Company considered its market capitalization relative to its book value in evaluating for potential goodwill impairment. This evaluation included a consideration of both qualitative and quantitative factors. The Company believed the decline in its stock price was significantly affected by the equity market's reaction to the global economic recession, exacerbated by the global credit crisis that began in September 2008. The Company considered these events in relation to its business which had a strong backlog and relies heavily on long-term contracts and pricing which extends out over the next seven to ten years. Other qualitative factors which were considered included:

Strong Backlog Supported by Long-Term Contracts The Company has a strong backlog and relies heavily on long-term contracts and pricing which extend out over the next ten years, including the following significant contracts which are contributing to the Company's future sales backlog:

Airbus Contracts Long-term agreements were signed with Airbus in 2006 and 2007. Shipments under these contracts are expected to average 5 million pounds of titanium mill products annually from 2008 through 2015, with the 2007 contract being a supplemental contract extending through 2020. Total revenues of these contracts combined are expected to approximate \$1.9 billion over a 12-year period.

Boeing In November 2007, the Company announced it signed a ten year agreement with the Boeing Company to supply extruded, welded, and fully-machined, value-added structural titanium components for the Boeing 787 Dreamliner®. This contract is estimated to generate approximately \$900 million in revenue over its term which commenced in 2008 and runs through 2017.

Lockheed Martin In May 2007, the Company entered into a contract extension with Lockheed Martin Aeronautics Company (Lockheed) for the long-term supply of titanium mill products that will support the production of the JSF through 2020. The agreement calls for Lockheed to purchase the first 8 million pounds of titanium related to the program from the Company on an annual basis. The contract is expected to generate revenue of approximately \$2 billion over the term of the agreement.

Overall Long-Term Prospects for Titanium Coupled with our Key Supplier Positions Titanium is and will remain a key material used within the commercial aerospace and defense markets due to the continued increased usage of titanium in airframes and jet engines, as well as in artillery weapons and armored vehicles. Titanium is growing in its use due to the metal's high strength, light weight, compatibility with composites, and

noncorrosive qualities. As a result of the Company's current position as a supplier on the key long-term programs noted above, it will be in a position going forward to leverage these relationships as new opportunities for titanium production arise within the commercial aerospace and defense markets.

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Integrated Business Model The Company maintains a breadth of capabilities that span the production cycle for highly-engineered titanium and specialty metal components. Unlike other suppliers of titanium and various specialty metals, the Company provides its customers with solutions spanning the value stream, from titanium mill products to major assembly, design, kitting, and system integration (which the Company refers to as its Fabrication business). As a result of the Company's participation throughout the supply chain value stream, especially its unique fabrication capabilities, the Company believes it offers significant structural advantages as aircraft production increases and continued design enhancements result in increased demand for fabricated titanium parts. This demand and operating leverage should serve to drive the Company's revenue growth and profitability during periods of build-rate expansion.

Additionally, the Company considered, consistent with FASB's authoritative guidance, the impact of a control premium which may effectively cause a company's aggregate fair value of its reporting units to exceed its current market capitalization due to the ability of the controlling shareholder to benefit from synergies and other intangible assets that arise from such control. The fair value of the Company's reporting units, using the aforementioned discounted cash flow analysis and assumptions, exceeded its market capitalization through the year.

The decline in the Company's sales and operating results during the quarterly periods since October 1, 2008 did not result in a re-evaluation of goodwill because, excluding the nonrecurring cost overruns and execution issues at certain of our locations, the Company had forecasted significant declines in its results when performing the October 1, 2008 annual impairment test. The Company does not believe the nonrecurring cost overruns and execution issues associated with the Fabrication and Energy Fabrication reporting units were long-term in nature and indicative of a permanent decline in business opportunities that would be considered an indicator of potential impairment.

There have been no impairments to date; however, uncertainties or other factors that could result in a potential impairment in future periods may include continued long-term production delays or a significant decrease in expected demand related to the Boeing 787 Dreamliner® program, as well as any cancellation of one of the major aerospace programs the Company currently supplies, including the JSF program or the Airbus family of aircraft, including the A380 and A350XWB programs. In addition, the Company's ability to ramp up its production of these programs in a cost efficient manner, or a long-term slowdown or delay in the energy-related markets, may also impact the results of a future impairment test.

In September 2009, Boeing released an updated production schedule in response to the most recent delay in the first flight of the Boeing 787 Dreamliner®. The new production schedule did not significantly change from the previous schedule. As such, the Company determined the release of the new Boeing production schedule was not a triggering event for an interim impairment test.

The carrying amount of goodwill attributable to each segment at December 31, 2008 and September 30, 2009 was as follows:

	December 31, 2008	Translation Adjustment	September 30, 2009
Titanium Group	\$ 2,548	\$	\$ 2,548
Fabrication Group	35,603	1,417	37,020
Distribution Group	9,833		9,833
Total goodwill	\$ 47,984	\$ 1,417	\$ 49,401

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Intangibles. Intangible assets consist of customer relationships as a result of the Company's prior acquisitions. These finite-lived intangible assets, which were valued at fair value using an Income approach, are being amortized over 20 years. The Company believes that this approach is appropriate because it provides a fair value estimate based on the expected long-term cash flows associated with the revenues generated from these customer relationships. In the event that long-term demand or market conditions change and the expected future cash flows associated with these assets is reduced, a write-down or acceleration of the amortization period may be required.

There were no intangible assets attributable to our Titanium Group and Distribution Group at December 31, 2008 and September 30, 2009. The carrying amount of intangible assets attributable to our Fabrication Group at December 31, 2008 and September 30, 2009 was as follows:

	December 31, 2008	Amortization	Translation Adjustment	September 30, 2009
Fabrication Group	\$ 13,196	(652)	1,592	\$ 14,136

Note 8 UNEARNED REVENUE:

The Company reported a liability for unearned revenue of \$20,249 and \$22,352 as of September 30, 2009 and December 31, 2008, respectively. These amounts primarily represent payments received in advance from commercial aerospace, defense, and energy market customers on long-term orders, which the Company has not recognized as revenue.

Note 9 OTHER INCOME:

Other income for the three months ended September 30, 2009 and 2008 was \$252 and \$551, respectively. Other income (expense) for the nine months ended September 30, 2009 and 2008 was \$2,006 and \$(129), respectively. Other income (expense) consists primarily of foreign exchange gains and losses from international operations and fair value adjustments related to the Company's foreign currency forward contracts. See Note 15 to the Company's Condensed Consolidated Financial Statements for further information on the Company's foreign currency forward contracts.

Note 10 EMPLOYEE BENEFIT PLANS:

Components of net periodic pension and other post-retirement benefit cost for the three and nine months ended September 30, 2009 and 2008 for those salaried and hourly covered employees were as follows:

Pension Benefits