RTI INTERNATIONAL METALS INC
Form 10-K
March 16, 2006

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(Mark One)

þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2005 or

o 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	**52-2115953**
(State of Incorporation)	(I.R.S. Employer Identification No.)
1000 Warren Avenue, Niles, Ohio	**44446**
(Address of principal executive offices)	(Zip code)

Registrant s telephone number, including area code: 330-544-7700
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $0.01 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $495 million as of June 30, 2005. The closing price of common shares on June 30, 2005, as reported on the New York Stock Exchange was $31.41. Shares of common stock known by the registrant to be beneficially owned by officers or

directors of the registrant or persons who have filed a report on Schedule 13D or 13G are not included in the computation. The registrant, however, has made no determination that such persons are affiliates within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934.

Number of shares of common stock outstanding at February 28, 2006 was 23,087,972

Documents Incorporated by Reference:

Selected Portions of the Proxy Statement for the 2006 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

RTI INTERNATIONAL METALS, INC.
AND CONSOLIDATED SUBSIDIARIES

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

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PART I

Item 1. BUSINESS

The Company

RTI International Metals, Inc. (the Company or RTI) is a leading U.S. producer of titanium mill products and fabricated metal components for the global market. The Company 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 on October 1, 1998 under the symbol RTI. The Company conducts business in two segments: the Titanium Group and the Fabrication & Distribution Group (F&D). The Titanium Group melts and produces a complete range of titanium mill products, which are further processed by its customers for use in a variety of aerospace, defense and industrial applications. The Titanium Group also produces ferro titanium alloys for steel-making customers and processes and distributes titanium powder. The Fabrication and Distribution Group is comprised of companies that fabricate, machine, assemble and distribute titanium and other specialty metal parts and components. Its products, many of which are engineered parts and assemblies, serve aerospace, defense, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets.

On October 1, 2004, RTI acquired all of the stock of Claro Precision, Inc. (Claro) of Montreal, Quebec, Canada. Claro is a manufacturer of precision-machined components and complex mechanical and electrical assemblies for the aerospace industry. The purchase was made with available cash on hand and newly issued common stock. The results of operations are included in the quarter beginning October 1, 2004 (date of purchase). Claro operates and reports under the Company s Fabrication and Distribution segment.

Industry Overview

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

Historically, the cyclical nature of the aerospace and defense industries has been the principal cause of the fluctuations in performance of companies engaged in the titanium industry. The U.S. titanium industry s reported shipments were approximately 52 million pounds in 2001, 36 million pounds in 2002, 34 million pounds in 2003, 42 million pounds in 2004 and are estimated to be approximately 56 million pounds in 2005. Due to continuing strong demand from commercial aerospace and defense markets, industry shipments in 2006 are estimated to increase over 2005 levels.

Titanium mill products that are ordered by the prime aircraft producers and their subcontractors are generally ordered in advance of final aircraft production by six to eighteen months. This is due to the time it takes to produce a final assembly or part that is ready for installation in an airframe or jet engine. Therefore, titanium demand from commercial aerospace is likely to precede any expected increase in aircraft production.

The following is a discussion of what is occurring within each of the three major markets in which RTI participates.

Commercial Aerospace

The Company s sales to the commercial aerospace market were 42% of total sales in 2005 compared to 35% in 2004 and 30% in 2003. Growth in this market is the result of increased world wide air travel and increased usage of titanium in new aircraft design. According to *Aerospace Market News,* the leading manufacturers of commercial aircraft, Airbus and Boeing, reported an aggregate of 3,986 aircraft on order at the end of 2005, a 53% increase from the prior year. The backlog represents approximately five years of production at current build rates.

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The *Airline Monitor* reported that new orders for large commercial airliners set a record in 2005 with 2,250 airplanes placed on order with Airbus and Boeing combined. The *Airline Monitor* also reported deliveries of large commercial aircraft by Airbus and Boeing totaled 650 in 2005, compared to 600 in 2004 and 575 in 2003. It has forecasted that deliveries would reach 840 aircraft in 2006, 920 aircraft in 2007, and 985 in 2008.

Airbus is now producing the largest commercial aircraft, the A380, and Boeing launched a new aircraft, the 787. Airbus has also announced the launch of another new aircraft, the A350, to compete with Boeing s 787 models. All three of these new aircraft will use substantially more titanium per aircraft than the preceding models. The A380 is scheduled to go into service early in 2007. One version of the 787 is expected to go into service in 2008 and two other models in 2010. The A350 is shooting for a 2010 service date. As production of these new aircraft increases, the demand for titanium is expected to grow to levels significantly above previous peak markets for commercial aerospace applications.

According to Airbus and Boeing and other industry forecast sources, the long term outlook for this segment is approximately 21,000 large jets and 3,900 regional jets over the next 20 years as new and replacement aircraft will be required to support the expected demand of increased passenger and freight traffic.

Defense

Defense markets represented approximately 27% of RTI s revenues in 2005. Military aircraft make extensive use of titanium and specialty metals in their airframe structures and jet engines. These aircraft include U.S. fighters such as the F/ A 22, F/ A-18, F-15, Joint Strike Fighter (JSF), and in Europe, the Mirage, Rafale, and Eurofighter-Typhoon. Military troop transports such as the C-17 and A400m also use significant quantities of these metals.

The Joint Strike Fighter is set to become the fighter for the 21st Century with expected production exceeding 2,600 aircraft over the life of the program. In 2002, RTI was awarded a five year contract from Lockheed Martin, the prime contractor for the JSF, to be the supplier of certain titanium products including sheet and plate for the systems design and development phase of the program. The first deliveries of the JSF are expected to begin in 2008.

In addition to aerospace defense requirements there are numerous applications now using titanium on ground vehicles for armor protection and for lightweight to enhance mobility. An example of this is the titanium Howitzer program which began full rate production in 2005 for 495 units. RTI is the principal titanium supplier under a contract to BAE Systems over the next four years.

Military demand is expected to remain at high levels in 2006 due to strong defense budgets and significant hardware purchases by the U.S. Government and European nations.

Industrial and Consumer

Industrial and Consumer markets provided approximately 31% of RTI s revenue in 2005, largely due to increased shipments of ferro-titanium to the steel industry. The recent world wide demand for steel in the first half of 2005 significantly increased demand for ferro-titanium, made from combining titanium and iron for addition to steel heats. This demand is expected to be reduced somewhat in 2006 depending on overall volume in the global steel market.

The improvement in the world economy and the infrastructure growth of China and India has stimulated increased demand from the Chemical Process Industry (CPI) for heat exchangers, tubing for power plant construction, and specialty metals for desalinization plants.

In the energy sector, the demand for RTI s products for oil and gas extraction, including deepwater exploration and production increased in 2005. This demand is expected to grow over the next several years as a consequence of the strong market for oil and gas production and interest in extracting energy from deepwater and difficult to reach locations around the globe.

RTI Energy was selected by BP in 2005 to provide titanium stress joints for its Shah Deniz project located in the Caspian Sea, Azerbaijan. Titanium was chosen because both strength and flexibility are needed to deal with the strong currents in the development field.

Titanium is being used extensively in the consumer market for orthopedic implants in hip and knee replacements, and for sporting goods such as golf clubs, tennis racquets, and other diverse applications such as eyeglass frames, and architectural structures around the world.

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Products and Segments

The company s products are produced and marketed by two operating segments: (1) the Titanium Group and (2) the Fabrication & Distribution Group (F&D).

Titanium Group

The Titanium Group s products consist primarily of titanium mill products and ferro titanium alloys (for use in steel and other industries). The titanium mill products consist of basic mill shapes including ingot, slab, bloom, billet, bar, plate and sheet. The Titanium Group s titanium products are certified and approved for use by all major domestic and most international manufacturers of commercial and military airframes and related jet engines. These products are fabricated into parts and utilized in aircraft structural sections such as landing gear parts, fasteners, tail sections, wing support and carry-through structures, and various engine components including rotor blades, vanes and discs, rings, engine cases, and armor for military vehicles.

The mill products are sold to a customer base consisting primarily of manufacturing and fabrication companies in the aerospace, defense, and non-aerospace markets. Customers include prime aircraft manufacturers and their family of subcontractors including fabricators, forge shops, extruders, fastener manufacturers, machine shops and metal distribution companies. Titanium mill products are semi-finished goods and usually represent the raw or starting material for these customers who then form, fabricate, machine, or further process the products into semi-finished and finished parts. A significant amount of titanium mill products are sold to the Company s Fabrication and Distribution Group (61% in 2005) where value-added services such as those mentioned above, are performed for ultimate shipment of parts to the customer. The Titanium Group also processes and distributes titanium powders.

The remainder of the Group s revenue comes from the sale of ferro alloys to the steel industry.

Fabrication & Distribution Group

The Fabrication & Distribution Group consists primarily of businesses engaged in the fabrication and distribution of titanium mill products and other specialty metals such as stainless steel and nickel-based alloys in 18 locations, principally in the United States, Europe, and Canada.

The Company owns and operates a number of distribution facilities with domestic and international locations. These centers stock titanium and specialty metal mill products to fill customer needs for smaller quantity and quick delivery requirements from stock. These centers also provide cutting, machining and light fabrication services. In addition, four locations: St. Louis, Missouri, Los Angeles, California, Birmingham, England, and Villette, France, operate significant stocking and cut to size programs designed to meet the needs of commercial aerospace, defense and non-aerospace customers for multi-year requirements. The RTI Europe business unit operates distribution facilities in Europe which stock and deliver cut-to-size titanium products and other specialty metals. An example of this is the new agreement with BAE Systems (UK) awarded to RTI Europe in 2005 to provide value added flat rolled titanium products for the Eurofighter aircraft through 2009.

Fabricated products include seamless and welded pipe, engineered tubular products and assemblies and extrusions for oil and gas extraction and production. Fabricated products also include hot formed and superplastically formed parts, machined, assembled, cut parts and extruded shapes for aerospace and defense applications as noted below.

In 2004, RTI expanded its capability to offer precision machining and complex assemblies for the aerospace and defense sector through its acquisition of Claro Precision, Inc. located in Montreal, Canada.

The Energy unit, located in Houston, Texas, specializes in oil and gas systems engineering and manufacturing services. Their strength lies in integrating traditional materials with titanium into engineered solutions using advanced design and manufacturing technologies available. RTI Energy fabricates components such as connectors, sub sea manifolds and riser systems, stress joints and keel joints.

When titanium products and fabrications are involved in a project, the Titanium Group and the Fabrication & Distribution Group coordinate their varied capabilities to provide the best solution for a customer. An example is RTI s titanium Howitzer program. The Titanium Group is providing the titanium mill products to the Fabrication & Distribution Group, which in turn is providing extrusions, hot formed parts, and machined components that are

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packaged as a kit at RTI s operation in the UK, and sent to BAE Systems for final assembly in the UK. This contract was awarded to RTI in 2005 for delivery over the next four years.

The amount of sales and percentage of the Company s consolidated sales from continuing operations represented by each Group during each of the years beginning in 2003 were as follows (dollars in millions):

	2005		2004		2003	
	$	%	$	%	$	%
Titanium Group (1)(2)	$ 130.2	37.5%	$ 48.7	23.2%	$ 42.0	23.3%
Fabrication & Distribution Group (2)	216.7	62.5	161.0	76.8	138.3	76.7
Total	$ 346.9	100.0%	$ 209.7	100.0%	$ 180.3	100.0%

Operating profit (loss) from continuing operations and the percentage of consolidated operating profit contributed by each Group during each of the years beginning in 2003 were as follows (dollars in millions):

	2005		2004		2003	
	$	%	$	%	$	%
Titanium Group (2)	$ 40.8	72.8%	$ (11.1)	76.0%	$ (3.0)	136.4%
Fabrication & Distribution Group (2)	15.3	27.2	(3.5)	24.0	0.8	(36.4)
Total	$ 56.1	100.0%	$ (14.6)	100.0%	$ (2.2)	100.0%

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

	2005	2004	2003
Titanium Group	$ 230.5	$ 153.6	$ 163.6
Fabrication & Distribution Group	231.7	203.8	166.8
General Corporate (3)	39.6	52.0	63.4
Total	$ 501.8	$ 409.4	$ 393.8

(1) Excludes $205 million, $99 million and $91 million of intercompany sales primarily to the Fabrication and Distribution Group in 2005, 2004 and 2003, respectively.

(2) Excludes the effect of Discontinued Operations in both current and prior years.

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

RTI Sales by Market

	2005	2004	2003
Commercial Aerospace	42%	35%	30%
Defense	27%	29%	31%
Industrial and Consumer	31%	36%	39%

Exports

The majority of the Company s exports consist of titanium mill products and extrusions used in aerospace markets. Also, significant exports to energy market customers are beginning to occur as deepwater oil and gas exploration increases. The Company s export sales were 19% of sales in 2005, 21% of sales in 2004, and 24% of sales in 2003. Such sales were made primarily to the European market, where the Company is a leader in supplying flat-rolled titanium alloy mill products. Most of the Company s export sales are denominated in U.S. dollars, which minimizes exposure to foreign currency fluctuations. For further information about geographic areas, see Note 16, Segment Reporting to the consolidated financial statements included in this report.

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

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remaining 60% of Reamet. In addition, the Company expanded its operations in the United Kingdom to include a distribution and service center facility in Birmingham, England. RTI, through its French subsidiary, Reamet, was chosen by Airbus in 2005 as a major supplier of titanium flat rolled products through 2008.

Backlog

The Company s order backlog for all market segments increased 89% to $450 million as of December 31, 2005, up from $240 million at December 31, 2004, principally from titanium mill product markets. Of the backlog at December 31, 2005, approximately $340 million is likely to be realized in 2006. The Company includes in its backlog those orders from customers that are represented by a bona-fide purchase order or an executable contract. In most cases, prior to the Company incurring production costs to complete an order, a customer may cancel the order without penalty. If the Company has incurred costs for a customer order, the customer is liable to reimburse the Company for out of pocket expenses. In the case of certain high dollar RTI Energy System contracts, the contract normally provides for damages and fees based on particular milestones.

Raw Materials

The principal raw materials used in the production of titanium mill products are titanium sponge (a porous metallic material, so called due to its appearance), titanium scrap, and alloying agents. RTI acquires its raw materials from a number of domestic and foreign suppliers, under long-term contracts and other negotiated transactions. The majority of sponge requirements are sourced from foreign suppliers. Requirements for sponge, scrap and alloys vary depending upon the volume and mix of final products. The Company s cold hearth melting facility permits the Company flexibility to consume a wider range of metallics in its primary melting facility, thus reducing the need for purchased titanium sponge. Based on the current levels of customer demand, current production schedules, and the level of inventory on hand, the Company estimates its purchases of sponge, scrap and alloys will increase during 2006.

The Company currently has long-term supply agreements for raw materials. These contracts are with suppliers located in Japan and Kazakhstan and allow the Company to purchase certain quantities of raw materials at negotiated prices. These contracts are based upon fixed or variable price provisions and expire at various periods up through 2012. In addition, the Company makes spot purchases of raw materials from other sources. The Company believes it has adequate sources of supply for titanium sponge, scrap, alloying agents and other raw materials.

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

Competition and Other Market Factors

The titanium metals industry is highly competitive on a worldwide basis. Titanium competes with other materials of construction, including certain stainless steel, nickel-based high temperature, and corrosion resistant alloys and composites. A metal manufacturing company with rolling and finishing facilities could participate in the mill product segment of the industry. It would either have to acquire intermediate product from an existing source, or further integrate to include vacuum melting and forging operations to provide the starting stock for further rolling. In addition, many end use applications, especially in aerospace, require rigorous testing and approvals prior to purchase which would require a significant investment of time and capital coupled with extensive technical expertise.

The aerospace consumers of titanium products tend to be highly concentrated. The Boeing Company, Airbus and Lockheed Martin manufacture airframes. General Electric, Pratt & Whitney and Rolls Royce build jet engines. Through the direct purchase from these companies and their family of specialty subcontractors, they account for a majority of aerospace products for large commercial aerospace and defense applications.

Producers of titanium mill products are located primarily in the U.S., Japan, Russia, Europe and China. RTI participates directly in the titanium mill product business primarily through its Titanium Group with the RMI Titanium Company located in Niles, Ohio.

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Aerospace (commercial and defense) shipments in the Titanium Group in 2005 amounted to approximately 50% of its sales, and in the Fabrication and Distribution Group aerospace shipments represented approximately 75% of its sales.

Competition for the Fabrication & Distribution Group is primarily on the basis of price, quality, timely delivery and customer service. RTI Energy Systems (RTIES) competes with a number of other fabricators, some of which are significantly larger, in the offshore oil and gas exploration and production industry. However, the Company does not believe that any of these possess RTIES level of expertise in the use of titanium. The Company believes the businesses in the Fabrication & Distribution group are well positioned to remain competitive and grow in size due to the range of goods and services offered and the increasing synergy with the Titanium Group for product and technical support.

Trade and Legislative Factors

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

In the fall of 1997, VSMPO, the integrated Russian titanium manufacturer, petitioned the USTR for a waiver of the CNL on the wrought products, and also filed a petition seeking to have unwrought products granted GSP status. In July of 1998, the USTR granted the waiver of the CNL on the wrought products, allowing unlimited imports of Russian mill products into the domestic market. The petition from Russia on the unwrought products was denied in the fall of 2003.

On December 3, 2002, Titanium Metals Corporation (Timet) and RTI filed a joint petition before the USTR seeking removal of GSP status for the Russian wrought products and/or a reinstatement of the CNL. Allegheny Technologies, Incorporated (ATI) actively supported this petition. In addition, a sponge manufacturer from the Commonwealth of Independent States also filed a petition on December 2, 2002, seeking GSP status of unwrought titanium products from Kazakhstan. RTI supported the granting of this petition. Hearings on both of these petitions were held in April of 2003 before the Court of International Trade and the GSP Subcommittee. Subsequent to the hearings, in July of 2003, the Kazakhstan petition on unwrought products was denied. Thus, a 15% tariff still remains on unwrought titanium products entering the U.S., including titanium sponge. The Timet/ RTI petition concerning wrought products was granted on September 7, 2004 and provided that effective November 7, 2004, wrought products from Russia would have the 15% duty reinstated.

The United States Government is required by the Berry Amendment Specialty Metals Clause of 1973 to require the use of domestically melted titanium in all military procurement. Beginning in 1999, several waivers of this requirement were granted. In addition, during the 2003 and 2005 congressional legislative sessions, the Department of Defense proposed legislation that would have amended the Berry Amendment and allowed foreign sourced titanium to be used on military aircraft and other military equipment. RTI, along with Timet and ATI, have jointly lobbied against any such modification of the law. If substantive waivers of this type continue to be granted, or the requirements of the Berry Amendment were modified, it could have a negative effect on future military business, and would allow foreign titanium to be used on military aircraft. RTI believes that any legislative attempt to weaken the Berry Amendment, and improper waivers of the Specialty Metals Clause, are harmful to national security.

Marketing and Distribution

RTI markets its titanium mill products and related products and services worldwide. The majority of the Company s sales are made through its own sales force primarily assigned to the F&D Group. RTI s domestic sales force has offices in Niles, Ohio; Houston, Texas; Los Angeles, California; Indianapolis, Indiana; Hartford,

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Connecticut; Salt Lake City, Utah, and also in Montreal, Canada. Technical marketing personnel are available to service these offices and to assist in new product applications and development. In addition, the Company s Customer Technical Service and Research and Development departments, both located in Niles, Ohio, provide extensive customer support. Sales of products and services provided by companies in the Fabrication & Distribution Group are made by personnel at each plant location as well as a group level sales force. Fabrication & Distribution Group locations include: Hartford, Connecticut; Montreal, Canada; Indianapolis, Indiana; Los Angeles, California; Houston, Texas; Sullivan and Washington, Missouri; Birmingham, England; Villette, France; Dusseldorf, Germany; Milan, Italy; and Guangzhou, China.

Research, Technical and Product Development

The Company conducts research, technical and product development activities for the Titanium Group, as well as for other RTI subsidiaries, at its facilities in Niles, Ohio. The Company is conducting research for the U.S. Army and has entered into discussions with both the U.S. Army and Department of Defense on other research projects.

The Company is currently partnered with American Engineering and Manufacturing Company (AEM) to develop lower cost titanium production for the U.S. Army Industrial base under the Advanced Materials and Processes for Armament Structures Program (AMPAS). The Company and AEM were jointly awarded research and development funds in the fiscal years 2005 and 2006 U.S. Department of Defense Appropriations bills in the amounts of $4.0 million and $6.4 million, respectively.

RTI also participates in several other federal and state-funded research projects to develop lower cost titanium, advanced melting technology and as cast extrusions, as well as improved flat product research. The principal goals of the Company s research program, aside from U.S. Army and Department of Defense projects, are advancing technical expertise in the production of titanium mill and fabricated products and providing technical support in the development of new markets and products. Research, technical and product development costs borne by the Company totaled $1.6 million in 2005, $1.2 million in 2004, and $1.3 million in 2003.

Patents and Trademarks

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

Employees

As of December 31, 2005 the Company and its subsidiaries employed 1,225 persons, 392 of whom were classified as administrative and sales personnel. Of the total number of employees, 595 employees were in the Titanium Group, 605 were in the Fabrication and Distribution Group and 25 were in the RTI corporate headquarters group.

The United Steelworkers of America represents 326 of the hourly, clerical and technical employees at RMI s plant in Niles, Ohio. No other Company employees are represented by a union. The current Labor Agreement entered into on December 1, 2004 with the United Steelworkers of America expires on January 31, 2010.

Executive Officers of the Registrant

Listed below are the executive officers of the Company, together with their ages and titles as of December 31, 2005.

Name	Age	Title
Timothy G. Rupert	59	President and Chief Executive Officer
John H. Odle	63	Executive Vice President
Dawne S. Hickton	48	Senior Vice President and Chief Administrative Officer, General Counsel and Secretary (Principal Financial Officer)
William T. Hull	48	Vice President and Chief Accounting Officer
Gordon L. Berkstresser	58	Vice President and Controller

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

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

Mrs. Hickton was elected Senior Vice President, Chief Administrative Officer and Principal Financial Officer in July 2005. She was elected Secretary in April, 2004 and Vice President and General Counsel in June 1997. Mrs. Hickton had been an Assistant Professor of Law at The University of Pittsburgh School of Law and was associated with the Pittsburgh law firm of Burns, White and Hickton.

Mr. Hull was elected Vice President and Chief Accounting Officer in August 2005. Prior to his current position, Mr. Hull was Corporate Controller of Stoneridge, Inc., of Warren, Ohio, where he was employed since 2000. Mr. Hull is a Certified Public Accountant.

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

Available Information

Our Internet address is www.rtiintl.com. We make available, free of charge through our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with or furnished to the SEC. All filings are available via the Securities and Exchange Commission s website (www.sec.gov). We also make available on our website our corporate governance documents, including the Company s Code of Business Ethics, governance guidelines, and the charters for various board committees.

Item 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this report and in Management s Discussion and Analysis, the following are some of the potential risk factors that could cause our actual results to differ materially from those projected in any forward-looking statements. You should carefully consider these factors, as well as the other information contained in this document, when evaluating your investment in our securities. The below list of important factors is not all-inclusive or necessarily in order of importance.

The demand for our products and services may be adversely affected by demand for our customers products and services

Our business is substantially derived from titanium mill products and fabricated metal parts, which are primarily used by our customers as components in the manufacture of their products. Our ability or inability to meet our financial expectations could be directly impacted by our customers abilities or inabilities to meet their own financial expectations. A downturn in demand for our customers products and services could occur for reasons beyond their control such as unforeseen spending constraints, competitive pressures, rising prices, the inability to contain costs, and other economic, environmental or political factors. A slowdown in demand by or complete loss of business from these customers could have a material impact on our economic situation.

A substantial amount of revenue is derived from a single industry and a limited number of customers

Approximately two-thirds of annual revenue is derived from the aerospace industry. Within that industry is a small number of consumers of titanium products. This industry has shown the potential of sudden and dramatic changes in forecasted spending which can negatively impact the needs for our products and services. Some of our customers are particularly sensitive to the level of government spending on defense-related products. Sudden reductions in defense spending could occur due to economic or political changes which could result in a downturn in demand of defense related titanium products. Some of our customers are dependent on the commercial airline

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industry which has shown in recent years to be a somewhat unreliable economic environment due to threats of terrorism, rising fuel costs, aggressive competition and other factors. Any one or combination of these factors could evolve suddenly and result in a reduction or cancellation in orders of new airplanes and parts which could have an adverse impact on our business. We may not be able to project or plan for the impact of these events that could have a negative impact on our results of operations and that could not be predicted by our customers or by us in a timely manner.

We may be subject to competitive disadvantages

The titanium metals industry is highly competitive on a worldwide basis. Our competitors are located primarily in the U.S., Japan, Russia, Europe and China. Not only do we face competition for a limited number of customers with other producers of titanium products but we also must compete with producers of other materials of construction. Our competitors could experience more favorable economic conditions than us such as raw materials costs, favorable labor agreements or other factors which could provide them with competitive advantages in their ability to provide goods and services. Our foreign competitors in particular may have the ability to offer goods and services to our customers at more favorable prices due to advantageous economic, environmental, political or other factors. Titanium competes with other materials of construction, including stainless steel, nickel-based high temperature, and corrosion resistant alloys, and composites. Changes in costs or other factors related to the production and supply of titanium mill products compared to costs or other factors related to the production and supply of other types of materials of construction may negatively impact our business and the industry as a whole. New, competitive forces unknown to us today could also emerge which could have an adverse impact on our financial performance.

Our business could be harmed by strikes or work stoppages

The hourly, clerical and technical employees at our Niles, Ohio facility are represented by The United Steelworkers of America. Our current labor agreement with the union expires January 31, 2010. We cannot assure you that we will be able to negotiate a new bargaining agreement in 2010 on the same or more favorable terms as the current agreement, or at all, without production interruptions caused by labor stoppage. If a strike or work stoppage were to occur in connection with negotiations of a new collective bargaining agreement, or as a result of a dispute under our collective bargaining agreement with the labor union, our business, financial condition and results of operations could be materially adversely affected.

We may experience a lack of supply of raw materials at costs that provide us with acceptable margin levels

The raw materials required for the production of titanium products are acquired from a number of domestic and foreign suppliers. Although we have long-term contracts in place for the procurement of certain amounts of raw material, we cannot guarantee that our suppliers can fulfill their contractual obligations. Our suppliers may be adversely impacted by events within or outside of their control that could not be projected and that may adversely affect our business operations. We cannot guarantee that we will be able to obtain adequate amounts of raw materials from other suppliers in the event that our primary suppliers are unable to our meet our needs. We may experience an increase in prices for raw materials which could have a negative impact on our profit margins and we may not be able to project the impact that an increase in costs may cause in a timely manner. We may be contractually obligated to supply our customers at price levels that do not result in our expected margins due to unanticipated increases in the costs of raw materials. We may experience dramatic increases in demand and we cannot guarantee that we will be able to obtain adequate levels of raw materials at prices that are within acceptable cost parameters in order to fulfill that demand.

We may experience a shortage in the supply of energy or an increase in energy costs to operate our plants

We own twenty-four natural gas wells which provide some but not all of the energy required by our operations. Because our operations are reliant on energy sources from outside suppliers, we may experience significant increases in electricity and natural gas prices, unavailability of electrical power, natural gas or other resources due to natural disasters, interruptions in energy supplies due to equipment failure or other causes, or the inability to extend energy supply contracts upon expiration on economical terms.

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Our business is subject to the risks of international operations

We operate subsidiaries and conduct business with suppliers and customers in foreign countries which expose us to risks associated with international business activities. We could be significantly impacted by those risks which include the potential for volatile economic and labor conditions, political instability, expropriation, and changes in taxes, tariffs and other regulatory costs. We are also exposed to and can be adversely affected by fluctuations in the exchange rate of the United States dollar against other foreign currencies. Although we are operating primarily in countries with relatively stable economic and political climates, there can be no assurance that our business will not be adversely affected by those risks inherent to international operations.

We are dependent on services subject to price and availability fluctuations

We depend on third parties to provide conversion services that may be critical to the manufacture of our products. Purchase prices and availability of these services are subject to volatility. At any given time, we may be unable to obtain these critical services on a timely basis, on acceptable prices and other acceptable terms, or at all.

We may be affected by our ability or inability to obtain credit

Our ability to access the credit markets in the future to obtain additional financing, if needed, could be influenced by the Company s ability to meet current covenant requirements associated with its existing credit agreement, its credit rating, or other factors.

Our success depends largely on our ability to attract and retain key personnel

Much of our future success depends on the continued service and availability of skilled personnel, including members of our executive team, management, metallurgists and staff positions. The loss of key personnel could adversely affect our Company s ability to perform until suitable replacements are found. Recent accounting regulations requiring the expensing of stock options could impact the Company s future ability to provide these incentives without incurring increased compensation costs. There can be no assurance that the Company will continue to successfully attract and retain key personnel.

The demand for our products and services may be affected by factors outside of our control

War, terrorism, natural disasters, and public health issues including pandemics whether in the U.S. or abroad, have caused and could cause damage or disruption to international commerce by creating economic and political uncertainties that may have a negative impact on the global economy as a whole. Our business operations, as well as our suppliers and customers business operations, are subject to interruption by those factors as well as other events beyond our control such as governmental regulations, fire, power shortages, and others. Although it is impossible to predict the occurrences or consequences of any such events, these events could result in a decrease in demand for the Company s products, make it difficult or impossible for the us to deliver products to our customers or to receive materials from our suppliers, and could create delays and inefficiencies in our supply chain. Our operating results and financial condition have been, and in the future may be, adversely affected by these events.

Internal Controls Over Financial Reporting.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

Manufacturing Facilities

The Company has approximately 1.3 million square feet of manufacturing facilities, exclusive of distribution centers and office space. The Company s principal manufacturing plants, the principal products produced at such plants and their aggregate capacities, are set forth below.

Manufacturing Facilities

Location	Owned/Leased	Products	Annual Rated Capacity
Titanium Group			
Niles, OH	Owned	Ingot (million pounds)	30.0
Niles, OH	Owned	Mill products (million pounds)	22.0
Salt Lake City, UT			