RTI INTERNATIONAL METALS INC
Form 10-Q
May 09, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012

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)

(412) 893-0026

Registrant s telephone number, including area code:

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

þ **Yes** ¨ **No**

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).

þ **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.

Large accelerated filer	þ	Accelerated filer	¨	Non-accelerated filer (Do not check if a smaller company)	¨	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** þ **No**

Number of shares of the Corporation s common stock (Common Stock) outstanding as of April 30, 2012 was 30,315,574.

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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, Inc., its predecessors, and consolidated subsidiaries, taken as a whole, unless the context indicates otherwise.

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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 March 31, 2012	2011
Net sales	$ 162,850	$ 120,850
Cost and expenses:		
Cost of sales	127,145	94,845
Selling, general, and administrative expenses	21,622	17,458
Research, technical, and product development expenses	1,065	632
Asset and asset-related charges (income)		(1,501)
Operating income	13,018	9,416
Other expense	(268)	(569)
Interest income	82	225
Interest expense	(4,278)	(4,300)
Income before income taxes	8,554	4,772
Provision for income taxes	2,929	2,430
Net income	$ 5,625	$ 2,342
Earnings per share:		
Basic	$ 0.19	$ 0.08
Diluted	$ 0.19	$ 0.08
Weighted-average shares outstanding:		
Basic	30,090,101	29,995,803
Diluted	30,200,542	30,225,412

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income	$ 5,625	$ 2,342
Other comprehensive income:		
Foreign currency translation	2,192	3,704
Unrealized loss on investments, net of tax of $0, and $(45)		(84)
Realized loss on investments, net of tax of $4, and $0	8	
Benefit plan amortization, net of tax of $725 and $490	1,203	909
Other comprehensive income, net of tax	3,403	4,529
Comprehensive income	$ 9,028	$ 6,871

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except share and per share amounts)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 117,872	$ 156,842
Short-term investments		164,255
Receivables, less allowance for doubtful accounts of $954 and $872	107,177	95,022
Inventories, net	327,922	275,059
Deferred income taxes	19,395	18,674
Other current assets	10,975	9,932
Total current assets	583,341	719,784
Property, plant, and equipment, net	361,520	289,434
Marketable securities		12,683
Goodwill	140,236	55,864
Other intangible assets, net	59,527	22,576
Deferred income taxes	29,111	27,424
Other noncurrent assets	4,972	5,173
Total assets	$ 1,178,707	$ 1,132,938
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 68,463	$ 59,591
Accrued wages and other employee costs	19,878	27,260
Unearned revenues	40,889	31,690
Other accrued liabilities	21,833	20,085
Total current liabilities	151,063	138,626
Long-term debt	191,189	186,981
Liability for post-retirement benefits	41,806	41,388
Liability for pension benefits	15,097	20,830
Deferred income taxes	38,209	13,606
Other noncurrent liabilities	8,895	8,755
Total liabilities	446,259	410,186
Commitments and Contingencies		
Shareholders equity:		
Common stock, $0.01 par value; 50,000,000 shares authorized; 31,066,254 and 30,948,209 shares issued; 30,286,879 and 30,198,780 shares outstanding	311	309
Additional paid-in capital	480,653	479,245
Treasury stock, at cost; 779,375 and 749,429 shares	(18,399)	(17,657)
Accumulated other comprehensive loss	(35,808)	(39,211)
Retained earnings	305,691	300,066

Total shareholders equity	732,448	722,752
Total liabilities and shareholders equity	$ 1,178,707	$ 1,132,938

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
OPERATING ACTIVITIES:		
Net income	$ 5,625	$ 2,342
Adjustment for non-cash items included in net income:		
Depreciation and amortization	8,734	5,582
Asset and asset-related charges (income)		(597)
Deferred income taxes	(1,915)	(1,233)
Stock-based compensation	1,378	1,402
Excess tax benefits from stock-based compensation activity	(61)	(102)
Gain on sale of property, plant and equipment		47
Amortization of discount on long-term debt	2,352	2,166
Other	(68)	116
Changes in assets and liabilities:		
Receivables	4,750	(19,479)
Inventories	(31,130)	1,522
Accounts payable	5,504	(6,640)
Income taxes payable	1,659	(87)
Unearned revenue	8,230	(3,445)
Other current assets and liabilities	(14,430)	(2,395)
Other assets and liabilities	(3,587)	(2,974)
Cash used in operating activities	(12,959)	(23,775)
INVESTING ACTIVITIES:		
Acquisitions, net of cash acquired	(185,633)	
Maturity/sale of investments	176,809	5,000
Purchase of investments	(38)	(72,612)
Capital expenditures	(17,128)	(10,137)
Cash used in investing activities	(25,990)	(77,749)
FINANCING ACTIVITIES:		
Proceeds from exercise of employee stock options	120	154
Excess tax benefits from stock-based compensation activity	61	102
Repayments on long-term debt	(97)	(3)
Purchase of common stock held in treasury	(742)	(283)
Cash used in financing activities	(658)	(30)
Effect of exchange rate changes on cash and cash equivalents	637	757
Decrease in cash and cash equivalents	(38,970)	(100,797)
Cash and cash equivalents at beginning of period	156,842	376,951

Cash and cash equivalents at end of period	$ 117,872	$ 276,154

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 1 BASIS OF PRESENTATION:

The accompanying unaudited Condensed 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 of America (GAAP) 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 GAAP 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, 2011 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and notes required by GAAP 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 Condensed Consolidated Financial Statements be read in conjunction with accounting policies and Notes to the Consolidated Financial Statements included in the Company s 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) on February 28, 2012.

Note 2 ORGANIZATION:

The Company is a leading producer and global supplier of advanced titanium mill products and a manufacturer of fabricated titanium and specialty metal components for the international aerospace, defense, energy, medical device 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 the symbol RTI, and was reorganized into a holding company structure in 1998 under the name RTI International Metals, Inc.

On February 13, 2012, the Company completed its acquisition of all of the issued and outstanding common stock of REI Delaware Holding, Inc., which directly owns all of the issued and outstanding capital stock of Remmele Engineering, Inc. (Engineering) and indirectly owns all of the issued and outstanding capital stock of REI Medical, Inc. (REI Medical and together with Engineering, Remmele) for total consideration of approximately $188.4 million, including approximately $185.6 million in cash and the assumption of $2.8 million of capitalized equipment leases. The total purchase price included adjustments totaling $6.4 million for capital expenditures incurred during the negotiating period and working capital which increased the total consideration paid from the contractual purchase price of $182.0 million. Remmele provides precision machining and collaborative engineering, as well as other key technologies and services, for the aerospace and defense and medical device sectors. The acquisition broadens the Company s product offerings and provides access to new markets. Refer to Note 3 for additional information on this acquisition.

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; Hermitage, Pennsylvania; and 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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 and soft-metal expertise that form, extrude, fabricate, machine, micro machine, and assemble titanium, aluminum, and other specialty metal parts and components. Its products, many of which are complex engineered parts and assemblies, serve commercial aerospace, defense, medical device, 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 Minneapolis, Minnesota; Houston, Texas; Washington, Missouri; Laval, Canada; and Welwyn Garden City, England, the Fabrication Group provides value-added products and services such as engineered tubulars and extrusions, fabricated and machined components and sub-assemblies, and components for the production of minimally invasive and implantable medical devices, as well as engineered systems for deepwater oil and gas exploration and production infrastructure.

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; Tamworth, 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 ACQUISITIONS:

Remmele. On February 13, 2012, the Company purchased all of the outstanding common stock of Remmele for cash consideration of $185.6 million and the assumption of capitalized equipment leases of $2.8 million. Remmele has four facilities in the Minneapolis, Minnesota area and engages in precision machining and collaborative engineering services, as well as supply sourcing, assembly/integration, and other key services and technologies for the aerospace and defense and medical device sectors. Remmele s results for the period from February 13, 2012 to March 31, 2012 are included in the Fabrication Group segment. For this period, net sales totaled $17.1 million and operating income totaled $0.1 million which included the amortization of intangible assets for customer relationships, developed technologies, and backlog, as well as depreciation of acquired property, plant, and equipment and the sale of inventory recorded at fair value upon acquisition. For the three months ended March 31, 2012 and 2011, pro forma net sales would have been $175.5 million and $151.6 million and pro forma operating income would have been $13.5 million and $8.3 million, respectively, assuming that the acquisition occurred as of January 1, 2011.

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The purchase price allocation, which has not been finalized, is as follows:

Fair value of assets acquired:	
Current assets, excluding inventories	$ 19,736
Inventories	21,264
Property, plant, and equipment	65,639
Other assets	166
Intangible assets:	
Customer relationships	19,300
Developed technologies	9,400
Backlog	1,100
Trade name	7,600
Goodwill	84,105
Fair value of liabilities assumed:	
Current liabilities	15,489
Deferred tax liabilities	25,172
Capital leases, less current portion	2,016
Net assets acquired	$ 185,633

Goodwill is primarily attributable to Remmele s assembled workforce and exposure to new customers for the Company s products and is not deductible for tax purposes. Customer relationships and developed technologies are being amortized over a period of 12 to 15 years and backlog over a period of two years. Trade names are not amortized as the Company believes that these assets have an indefinite life as the Company currently intends to continue use of the Remmele name indefinitely.

RTI Advanced Forming. The purchase price allocation with respect to the acquisition of RTI Advanced Forming in November 2011 has not been completed as the working capital adjustment has not been finalized. During the three months ended March 31, 2012, there were no material revisions to the previously-disclosed purchase price allocation.

Note 4 STOCK-BASED COMPENSATION:

Stock Options

A summary of the status of the Company s stock options as of March 31, 2012, and the activity during the three months then ended, is presented below:

Stock Options	Options
Outstanding at December 31, 2011	558,597
Granted	83,706
Forfeited	

Expired	(1,635)
Exercised	(5,351)
Outstanding at March 31, 2012	635,317
Exercisable at March 31, 2012	452,754

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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:

	2012
Risk-free interest rate	0.75%
Expected dividend yield	0.00%
Expected lives (in years)	5.0
Expected volatility	66.00%

The weighted-average grant date fair value of stock option awards granted during the three months ended March 31, 2012 was $13.49.

Restricted Stock

A summary of the status of the Company s nonvested restricted stock as of March 31, 2012, and the activity during the three months then ended, is presented below:

Nonvested Restricted Stock Awards	Shares
Nonvested at December 31, 2011	163,070
Granted	56,173
Vested	(43,875)
Nonvested at March 31, 2012	175,368

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 three months ended March 31, 2012 was $24.62.

Performance Share Awards

A summary of the Company s performance share award activity during the three months ended March 31, 2012 is presented below:

Performance Share Awards	Awards Activity	Maximum Shares Eligible to Receive
Outstanding at December 31, 2011	160,771	321,542
Granted	61,230	122,460

Forfeited	(1,850)	(3,700)
Outstanding at March 31, 2012	220,151	440,302

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 three months ended March 31, 2012 was $35.59.

Note 5 INCOME TAXES:

Management estimates the annual effective income tax rate quarterly, based on current annual forecasted results. 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 provided at the most recent estimated annual effective tax rate, increased or decreased for the tax effect of discrete items.

RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

For the three months ended March 31, 2012, the estimated annual effective tax rate applied to ordinary income was 34.3% compared to a rate of 49.3% for the three months ended March 31, 2011. The Company s effective income tax rate decreased 15 percentage points from 2011 principally due to the effects of foreign operations partially offset by adjustments to unrecognized tax benefits. Although these factors are present in both 2012 and 2011, the differing mix of foreign losses and domestic income between the periods and the level of expected annual operating results forecasted in each period had a substantial influence on the tax rates for each respective period.

Inclusive of discrete items, the Company recognized a provision for income taxes of $2,929 or 34.2% of pretax income, and $2,430, or 50.9% of pretax income, for federal, state, and foreign income taxes for the three months ended March 31, 2012 and 2011, respectively. Discrete items for each of the three months ended March 31, 2012 and 2011 were not material.

Note 6 EARNINGS PER SHARE:

Basic earnings per share was computed by dividing net income attributable to common shareholders 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 attributable to common shareholders by the weighted-average of all potentially dilutive shares of Common Stock that were outstanding during the periods presented.

At March 31, 2012, the Company had $230 million aggregate principal amount of 3.0% Convertible Senior Notes due 2015 (the Notes) outstanding. For the three months ended March 31, 2012 and 2011, 6.4 million potential shares of Common Stock related to the Notes have been excluded from the calculation of diluted earnings per share because their effects were antidilutive, as calculated under the If Converted method.

For the three months ended March 31, 2012 and 2011, options to purchase 412,230 and 338,374 shares of Common Stock, at an average price of $38.84 and $42.09, respectively, have been excluded from the calculation of diluted earnings per share because their effects were antidilutive.

The Company s restricted stock awards are considered participating securities. As such, the Company uses the two-class method to compute basic and diluted earnings per share. The following illustrates the earnings allocation method utilized in the calculation of basic and diluted earnings per share. Actual weighted-average shares of Common Stock outstanding used in the calculation of basic and diluted earnings per share for the three months ended March 31, 2012 and 2011 were as follows:

	Three Months Ended March 31,	
	2012	**2011**
Numerator:		
Net income before allocation of earnings to participating securities	$ 5,625	$ 2,342
Less: Earnings allocated to participating securities	(32)	(13)
Net income attributable to common shareholders, after earnings allocated to participating securities	$ 5,593	$ 2,329
Denominator:		
Basic weighted-average shares outstanding	30,090,101	29,995,803
Effect of dilutive securities	110,441	229,609

Diluted weighted-average shares outstanding		30,200,542		30,225,412
Earnings per share:				
Basic	$	0.19	$	0.08
Diluted	$	0.19	$	0.08

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 7 FAIR VALUE MEASUREMENTS:

For certain of the Company s financial instruments and account groupings, including cash, accounts receivable, accounts payable, accrued wages and other employee costs, unearned revenue, and other accrued liabilities, the carrying value approximates fair value.

As of March 31, 2012, the Company did not have any financial assets or liabilities that were measured at fair value on either a recurring or a non-recurring basis.

The carrying amounts and fair values of financial instruments for which the fair value option was not elected were as follows:

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 117,872	$ 117,872	$ 156,842	$ 156,842
Long-term debt	$ 192,003	$ 237,290	$ 186,981	$ 229,540

The fair value of long-term debt was estimated based on the quoted market price for the debt (Level 2).

Note 8 INVENTORIES:

Inventories are valued at cost as determined by the last-in, first-out (LIFO) method for approximately 53% and 60% of the Company s inventories at March 31, 2012 and December 31, 2011, 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). As of March 31, 2012 and December 31, 2011, the current cost of inventories exceeded their carrying value by $62,801 and $63,826, respectively. 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:

	March 31, 2012	December 31, 2011
Raw materials and supplies	$ 100,180	$ 83,778
Work-in-process and finished goods	290,543	255,107
LIFO reserve	(62,801)	(63,826)
Total inventories	$ 327,922	$ 275,059

Note 9 GOODWILL AND OTHER INTANGIBLE ASSETS:

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.

While there have been no impairments during the first three months of 2012, uncertainties or other factors that could result in a potential impairment in future periods 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 other major aerospace programs in which the Company currently participates, including the Joint Strike Fighter program, the Airbus family of aircraft, including the A380 and A350XWB programs, or the Boeing 747-8 program. In addition, the Company s ability to ramp up its production in a cost efficient manner may also impact the results of a future impairment test.

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Goodwill. The carrying amount of goodwill attributable to each segment at December 31, 2011 and March 31, 2012 was as follows:

	Titanium Group	Fabrication Group	Distribution Group	Total
December 31, 2011	$ 2,548	$ 43,483	$ 9,833	$ 55,864
Acquisitions (Note 3)		84,105		84,105
Translation adjustment		256		256
Purchase price allocation adjustment		11		11
March 31, 2012	$ 2,548	$ 127,855	$ 9,833	$ 140,236

Intangibles. Intangible assets consist primarily of customer relationships, trade names, and developed technology acquired through various business combinations. These intangible assets were valued at fair value at acquisition. 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. Trade names are not amortized as the Company believes that these assets have an indefinite life as the Company currently intends to continue use of the Remmele name indefinitely. Other intangible assets are being amortized over the following periods:

Intangible Asset	Amortization Period
Customer relationships	15-20 years
Developed technology	12-20 years
Backlog	2 years

There were no intangible assets attributable to our Titanium and Distribution Groups at December 31, 2011 and March 31, 2012. The carrying amounts of intangible assets attributable to our Fabrication Group at December 31, 2011 and March 31, 2012 were as follows:

	Intangible Assets
December 31, 2011	$ 22,576
Intangible assets acquired (Note 3)	37,400
Amortization	(558)
Translation adjustment	109
March 31, 2012	$ 59,527

Note 10 LONG-TERM DEBT:

Long-term debt consisted of:

	March 31, 2012	December 31, 2011
$230 million aggregate principal amount 3.0% convertible notes due December 2015	$ 189,313	$ 186,961
Capital leases	2,670	
Other	20	20
Total debt	192,003	186,981
Less: Current portion of capital leases	(814)	
Total long-term debt	$ 191,189	$ 186,981

RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

During the three months ended March 31, 2012, the Company recorded long-term debt discount amortization of $2,352 as a component of interest expense. Interest expense from the amortization of debt issuance costs was $368 for the three months ended March 31, 2012. Additionally, the Company capitalized interest totaling $351 and $94 for the three months ended March 31, 2012 and 2011, respectively.

Note 11 EMPLOYEE BENEFIT PLANS:

Components of net periodic pension and other post-retirement benefit cost for the three months ended March 31, 2012 and 2011 for those salaried and hourly covered employees were as follows:

	Pension Benefits		Other Post-Retirement Benefits	
	2012	2011	2012	2011
Service cost	$ 612	$ 512	$ 168	$ 187
Interest cost	1,773	1,794	525	590
Expected return on plan assets	(2,426)	(1,948)		
Amortization of prior service cost	245	100	304	303
Amortization of actuarial loss	1,340	1,004	39	
Net periodic benefit cost	$ 1,544	$ 1,462	$ 1,036	$ 1,080

During the three months ended March 31, 2012, the Company made cash contributions totaling $5.7 million to its qualified defined benefit pension plans. The Company expects to make additional cash contributions of at least $13.9 million during the remainder of 2012 in order to maintain its desired 95% funding status.

Note 12 COMMITMENTS AND CONTINGENCIES:

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. In the Company s opinion, the ultimate liability, if any, resulting from these matters will have no significant effect on its Consolidated Financial Statements. Given the critical nature of many of the aerospace end uses for the Company s products, including specifically their use in critical rotating parts of gas turbine engines, the Company maintains aircraft products liability insurance of $500 million, which includes grounding liability.

Duty Drawback Investigation

From January 1, 2001 through March 31, 2007 the Company maintained a program through an authorized agent to recapture duty paid on imported titanium sponge as an offset against exports for products shipped outside the U.S. by the Company or its customers. The agent, who matched the Company s duty paid with the export shipments through filings with U.S. Customs and Border Protection (U.S. Customs), performed the recapture process. Under this program, the Company recognized a credit to Cost of Sales when it received notification from its agent that a claim had been filed and received by U.S. Customs. During this period the Company recognized a reduction to Cost of Sales totaling $14.5 million associated with the recapture of duty paid. This amount represents the total of all claims filed by the agent on the Company s behalf.

During 2007, the Company received notice from U.S. Customs that it was under formal investigation with respect to $7.6 million of claims previously filed by the agent on the Company s behalf. The investigation related to discrepancies in, and lack of supporting documentation for, claims filed through the Company s authorized agent. In response, the Company revoked the authorized agent s authority, fully cooperated with U.S. Customs to determine the extent to which any claims may have been invalid or may not have been supportable with adequate documentation, and suspended the filing of new duty drawback claims through the third quarter of 2007.

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Concurrent with the U.S. Customs investigation, the Company performed an internal review of the entire $14.5 million of drawback claims filed with U.S. Customs to determine to what extent any claims may have been invalid or may not have been supported with adequate documentation. As a result of the internal review, the Company recorded a contingent liability of $9.5 million as the Company s best estimate of probable loss. Through December 31, 2011, the Company had repaid $6.7 million to U.S. Customs for invalid claims. As a result of these payments, the Company s remaining contingent liability totaled $2.8 million as of December 31, 2011.

In April 2012, the Company s pending protests of U.S. Customs denial of claims were effectively concluded in the Company s favor thereby allowing it to reduce the Company s previously recorded contingent liability $2.2 million. This liability reduction was recorded as a reduction to cost of sales during the three months ended March 31, 2012.

Additionally, the Company has been subjected to the imposition of penalties by U.S. Customs with respect to claims. In December 2009, the Company received pre-penalty notices from U.S. Customs imposing penalties in the amount of $1.7 million. In April 2012, the Company received a final penalty notice from U.S. Customs that reduced the Company s total liability for penalties to $0.9 million. This liability reduction was recorded as a reduction to cost of sales during the three months ended March 31, 2012.

During the fourth quarter of 2007, the Company began filing new duty drawback claims through a new authorized agent. Claims filed through December 31, 2011 totaled $8.5 million. No additional claims were filed during the three months ended March 31, 2012. As a result of the investigation discussed above, the Company has not recognized credits to cost of sales upon the filing of any of these new claims. Instead, the Company intends to record these credits only when payment is received from U.S. Customs, until a consistent history of receipts against claims filed has been established. Through March 31, 2012 the Company has received payments totaling $2.2 million from U.S. Customs in satisfaction of claims filed since initiating its new duty drawback program.

Environmental Matters

Based on available information, the Company believes that its share of possible environmental-related costs is in a range from $662 to $2,134 in the aggregate. At March 31, 2012 and December 31, 2011, the amounts accrued for future environmental-related costs were $1,277 and $1,349, respectively. Of the total amount accrued at March 31, 2012, $13 was expected to be paid out within the next twelve months, and was included in the other accrued liabilities line of the balance sheet. The remaining $1,265 was recorded in other noncurrent liabilities. During the three months ended March 31, 2012, the Company made payments totaling $72 related to its environmental liabilities.

Other Matters

The Company is also the subject of, or a party to, a number of other pending or threatened legal actions involving a variety of matters incidental to its business. The Company is of the opinion that the ultimate resolution of these matters will not have a material adverse effect on the results of the operations, cash flows, or the financial position of the Company.

Note 13 SEGMENT REPORTING:

The Company has three reportable segments: the Titanium Group, the Fabrication Group, and the Distribution Group. Both the Fabrication Group and the Distribution Group utilize the Titanium Group as their primary source of titanium mill products. Intersegment sales are accounted for at prices that are generally established by reference to similar transactions with unaffiliated customers. Reportable segments are measured based on segment operating income after an allocation of certain corporate items such as general corporate overhead and expenses. Assets of general corporate activities include unallocated cash and deferred taxes.

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A summary of financial information by reportable segment is as follows:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net sales:		
Titanium Group	$ 38,733	$ 35,541
Intersegment sales	49,924	33,776
Total Titanium Group sales	88,657	69,317
Fabrication Group	61,771	38,102
Intersegment sales	20,876	13,305
Total Fabrication Group sales	82,647	51,407
Distribution Group	62,346	47,207
Intersegment sales	659	433
Total Distribution Group sales	63,005	47,640
Eliminations	71,459	47,514
Total consolidated net sales	$ 162,850	$ 120,850
Operating income (loss):		
Titanium Group before corporate allocations	$ 12,645	$ 11,290
Corporate allocations	(3,607)	(2,551)
Total Titanium Group operating income	9,038	8,739
Fabrication Group before corporate allocations	3,151	2,020
Corporate allocations	(3,066)	(3,306)
Total Fabrication Group operating income (loss)	85	(1,286)
Distribution Group before corporate allocations	6,175	3,944
Corporate allocations	(2,280)	(1,981)
Total Distribution Group operating income	3,895	1,963
Total consolidated operating income	$ 13,018	$ 9,416

	March 31, 2012	December 31, 2011

Total assets:		
Titanium Group	$ 352,688	$ 356,391
Fabrication Group	546,367	296,598
Distribution Group	182,663	170,584
General corporate assets	96,989	309,365
Total consolidated assets	$ 1,178,707	$ 1,132,938

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Note 14 NEW ACCOUNTING STANDARDS:

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The new guidance amends current fair value measurement and enhances disclosure requirements to include expansion of the information required for Level 3 measurements. The amendments in this ASU are effective for fiscal years and interim periods beginning after December 15, 2011 and are to be applied prospectively. The adoption of this guidance did not have a material impact on the Company s Consolidated Financial Statements.

In December 2011, the FASB issued ASU No. 2011-11 Balance Sheet Disclosures about Offsetting Assets and Liabilities. This new guidance requires the disclosure of both net and gross information in the notes for relevant assets and liabilities that are offset. This update is effective for annual reporting periods beginning on or after January 1, 2013. The Company is still evaluating the impact of this guidance.

Note 15 GUARANTOR SUBSIDIARIES:

The Notes are jointly and severally, fully and unconditionally (subject to the customary exceptions discussed below) guaranteed by several of RTI International Metals, Inc. s (the Parent s) 100% owned subsidiaries (the Guarantor Subsidiaries). Each Guarantor Subsidiary would be automatically released from its guarantee of the Notes if either (i) it ceases to be a guarantor of the Parent s Amended and Restated Credit Agreement or (ii) it ceases to be a subsidiary of the Parent. Separate financial statements of the Parent and each of the Guarantor Subsidiaries are not presented because the guarantees are full and unconditional (subject to the aforementioned customary exceptions) and the Guarantor Subsidiaries are jointly and severally liable. The Company believes separate financial statements and other disclosures concerning the Guarantor Subsidiaries would not be material to investors in the Notes.

There are no current restrictions on the ability of the Guarantor Subsidiaries to make payments under the guarantees referred to above, except, however, the obligations of each Subsidiary Guarantor under its guarantee will be limited to the maximum amount as will result in obligations of such Subsidiary Guarantor under its guarantee not constituting a fraudulent conveyance or fraudulent transfer for purposes of bankruptcy law, the Uniform Conveyance Act, the Uniform Fraudulent Transfer Act, or any similar Federal or state law.

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The following tables present Condensed Consolidating Financial Statements as of March 31, 2012 and December 31, 2011 and for the three months ended March 31, 2012 and 2011:

Condensed Consolidating Statement of Operations

Three Months Ended March 31, 2012

	RTI International Metals, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 99,717	$ 121,244	$ (58,111)	$ 162,850
Costs and expenses:					
Cost of sales		81,749	103,507	(58,111)	127,145
Selling, general, and administrative expenses (1)	(102)	6,689	15,035		21,622
Research, technical, and product development expenses	95	816	154		1,065
Operating income	7	10,463	2,548		13,018
Other income (expense), net	(13)	280	(535)		(268)
Interest income (expense), net	(4,014)	174	(356)		(4,196)
Equity in earnings of subsidiaries	8,589			(8,589)	
Income before income taxes	4,569	10,917	1,657	(8,589)	8,554
Provision for (benefit from) income taxes	(1,056)	3,042	943		2,929
Net income	$ 5,625	$ 7,875	$ 714	$ (8,589)	$ 5,625
Comprehensive income	$ 9,028	$ 8,934	$ 2,906	$ (11,840)	$ 9,028

(1) The parent company allocates selling, general, and administrative expenses (SG&A) to the subsidiaries based upon its budgeted annual expenses. A credit in parent company SG&A is offset by an equal debit amount in the subsidiaries SG&A.

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

Condensed Consolidating Statement of Operations

Three Months Ended March 31, 2011

	RTI International Metals, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net sales	$	$ 78,922	$ 82,102	$ (40,174)	$ 120,850
Costs and expenses:					
Cost of sales		64,652	70,367	(40,174)	94,845
Selling, general, and administrative expenses (1)	(415)	5,800	12,073		17,458
Research, technical, and product development expenses		632			632
Asset and asset-related charges (income)			(1,501)		(1,501)
Operating income	415	7,838	1,163		9,416
Other expense	(17)	(71)	(481)		(569)
Interest income (expense), net	(4,201)	363	(237)		(4,075)
Equity in earnings of subsidiaries	5,599			(5,599)	
Income before income taxes	1,796	8,130	445	(5,599)	4,772
Provision for (benefit from) income taxes	(546)	2,854	122		2,430
Net income	$ 2,342	$ 5,276	$ 323	$ (5,599)	$ 2,342
Comprehensive income	$ 6,871	$ 5,981	$ 4,028	$ (10,009)	$ 6,871

(1) The parent company allocates SG&A to the subsidiaries based upon its budgeted annual expenses. A credit in parent company SG&A is offset by an equal debit amount in the subsidiaries SG&A.

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Condensed Consolidating Balance Sheet

As of March 31, 2012

	RTI International Metals, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 98,277	$ 19,595	$	$ 117,872
Receivables, net	209	62,508	83,678	(39,218)	107,177
Inventories, net		147,461	180,461		327,922
Deferred income taxes	17,177	1,400	818		19,395
Other current assets	5,737	1,770	5,395	(1,927)	10,975
Total current assets	23,123	311,416	289,947	(41,145)	583,341
Property, plant, and equipment, net	634	232,227	128,659		361,520
Goodwill					