

RTI INTERNATIONAL METALS INC

Form 10-Q

May 05, 2010

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: **001-14437**

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

Ohio
(State or other jurisdiction of incorporation or organization)

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

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

15108-2973
(Zip Code)

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

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

Yes No

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

Yes No

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

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

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

Yes No

Number of shares of the Corporation's common stock (Common Stock) outstanding as of April 30, 2010 was 30,076,394.

RTI INTERNATIONAL METALS, INC AND CONSOLIDATED SUBSIDIARIES

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

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

	Three Months Ended March 31,	
	2010	2009
Net sales	\$ 107,885	\$ 106,054
Cost and expenses:		
Cost of sales	80,362	89,762
Selling, general, and administrative expenses	15,639	16,547
Research, technical, and product development expenses	725	524
Asset and asset-related charges (income)	(521)	
Operating income (loss)	11,680	(779)
Other income	133	899
Interest income	98	641
Interest expense	(273)	(2,421)
Income (loss) before income taxes	11,638	(1,660)
Provision for (benefit from) income taxes	240	(201)
Net Income (loss)	\$ 11,398	\$ (1,459)
Earnings per share:		
Basic	\$ 0.38	\$ (0.06)
Diluted	\$ 0.38	\$ (0.06)
Weighted-average shares outstanding:		
Basic	29,864,801	22,877,409
Diluted	30,110,568	22,877,409

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

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

	March 31, 2010	December 31, 2009
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 83,921	\$ 56,216
Short-term investments	20,096	65,042
Receivables, less allowance for doubtful accounts of \$682 and \$646	71,912	60,924
Inventories, net	273,590	266,887
Deferred income taxes	21,318	21,237
Other current assets	16,158	21,410
 Total current assets	 486,995	 491,716
Property, plant, and equipment, net	257,039	252,301
Goodwill	41,530	41,068
Other intangible assets, net	14,550	14,299
Deferred income taxes	54,029	53,814
Other noncurrent assets	1,350	1,537
 Total assets	 \$ 855,493	 \$ 854,735
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 36,339	\$ 39,193
Accrued wages and other employee costs	11,867	9,796
Unearned revenues	17,234	21,832
Current liability for post-retirement benefits	2,476	2,476
Current liability for pension benefits	140	140
Other accrued liabilities	22,137	30,518
 Total current liabilities	 90,193	 103,955
Long-term debt	74	81
Noncurrent liability for post-retirement benefits	34,612	34,530
Noncurrent liability for pension benefits	28,453	28,102
Deferred income taxes		244
Other noncurrent liabilities	6,254	8,617
 Total liabilities	 159,586	 175,529

Commitments and Contingencies

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Shareholders' equity:

Common stock, \$0.01 par value; 50,000,000 shares authorized; 30,783,179 and 30,724,351 shares issued; 30,058,623 and 30,010,998 shares outstanding	308	307
Additional paid-in capital	440,478	439,361
Treasury stock, at cost; 724,556 and 713,353 shares	(17,278)	(16,996)
Accumulated other comprehensive loss	(29,096)	(33,563)
Retained earnings	301,495	290,097
Total shareholders' equity	695,907	679,206
Total liabilities and shareholders' equity	\$ 855,493	\$ 854,735

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

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

	Three Months Ended March 31,	
	2010	2009
<u>OPERATING ACTIVITIES:</u>		
Net income (loss)	\$ 11,398	\$ (1,459)
Adjustment for non-cash items included in net income:		
Depreciation and amortization	5,372	5,312
Asset and asset-related charges (income)	(521)	
Deferred income taxes	44	(2,029)
Stock-based compensation	1,086	1,222
Excess tax benefits from stock-based compensation activity	(70)	(339)
Loss (gain) on sale of property, plant and equipment	(276)	
Other	101	(57)
Changes in assets and liabilities:		
Receivables	(11,640)	12,846
Inventories	(6,718)	(9,022)
Accounts payable	(4,597)	4,011
Income taxes payable	(80)	(290)
Unearned revenue	(318)	670
Other current assets and liabilities	(2,447)	(11,128)
Other assets and liabilities	(1,127)	2,525
Cash provided by (used in) operating activities	(9,793)	2,262
<u>INVESTING ACTIVITIES:</u>		
Proceeds from disposal of property, plant, and equipment	468	
Purchase of investments	(56)	
Sale of short-term investments	45,000	
Capital expenditures	(7,564)	(26,055)
Cash provided by (used in) investing activities	37,848	(26,055)
<u>FINANCING ACTIVITIES:</u>		
Proceeds from exercise of employee stock options	174	22
Excess tax benefits from stock-based compensation activity	70	339
Borrowings on long-term debt		1,184
Repayments on long-term debt	(7)	(212)
Purchase of common stock held in treasury	(282)	(84)
Cash provided by (used in) financing activities	(45)	1,249

Effect of exchange rate changes on cash and cash equivalents	(305)	939
Increase (decrease) in cash and cash equivalents	27,705	(21,605)
Cash and cash equivalents at beginning of period	56,216	284,449
Cash and cash equivalents at end of period	\$ 83,921	\$ 262,844

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

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

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss) Net Unrealized Gain (Loss) From			Total
	Shares Outstanding	Amount				Available For Sale Investments	Minimum Pension Liability	Foreign Currency Translation	
Balance at September 30, 2008	30,010,998	\$ 307	\$ 439,361	\$ (16,996)	\$ 290,097	\$ 42	\$ (39,932)	\$ 6,327	\$ 679,200
Income					11,398				11,398
Foreign currency translation								3,776	3,776
Recognized loss on investments						(15)			(15)
Benefit plan amortization							706		706
<i>Comprehensive income</i>									15,859
Shares issued for restricted stock award	49,770	1							
Stock-based compensation expense recognized			1,086						1,086
Treasury stock purchased at cost	(11,203)			(282)					(11,485)
Exercise of employee stock options	7,600		174						7,774
Forfeiture of restricted stock awards									
Benefits from stock-based compensation activity			(178)						(178)
Shares issued for employee stock purchase plan	1,458		35						1,493
	30,058,623	\$ 308	\$ 440,478	\$ (17,278)	\$ 301,495	\$ 27	\$ (39,226)	\$ 10,103	\$ 695,900

ance at March 31,
0)

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

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

Note 1 BASIS OF PRESENTATION:

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

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these financial statements be read in conjunction with accounting policies and notes to consolidated financial statements included in the Company's 2009 Annual Report on Form 10-K.

Note 2 ORGANIZATION:

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

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

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

The Fabrication Group is comprised of companies with significant hard-metal expertise that extrude, fabricate, machine, and assemble titanium and other specialty metal parts and components. Its products, many of which are complex engineered parts and assemblies, serve commercial aerospace, defense, oil and gas, power generation,

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

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

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

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

Note 3 ASSET AND ASSET-RELATED CHARGES (INCOME):

In December 2009, the Company announced that it had indefinitely delayed the construction of its premium-grade titanium sponge production facility in Hamilton, Mississippi. The indefinite delay was identified as a triggering event for an asset impairment test. The company reviewed the assets for recoverability and determined the assets were impaired. At the time, the Company had spent approximately \$66.9 million related to the construction of the facility and had additional contractual commitments of approximately \$7.8 million. The Company determined the fair value of the assets to be \$5.8 million. As a result, the Company recorded an asset and asset-related impairment charge of \$68.9 million in December 2009. These assets were not placed into service, therefore no depreciation expense related to them had been recognized. The \$7.8 million of additional contractual commitments was recorded within other accrued liabilities within the Company's Condensed Consolidated Balance Sheet at December 31, 2009.

During the three months ended March 31, 2010, the Company settled several of these contractual commitments resulting in recognition of \$521 in income. A summary of the status of the Company's accrual for additional contractual commitments as of March 31, 2010, and the activity for the three months then ended is as follows:

	Sponge-Plant Contractual Commitments
Balance as of December 31, 2009	\$ 7,809
Settlements/adjustments	(521)
Payments	(939)
Balance as of March 31, 2010	\$ 6,349

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Notes to Consolidated Financial Statements
(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)****Note 4 STOCK-BASED COMPENSATION:*****Stock Options***

A summary of the status of the Company's stock options as of March 31, 2010, and the activity during the three months then ended, is presented below:

Stock Options	Options
Outstanding at December 31, 2009	475,581
Granted	89,580
Forfeited	(267)
Expired	(133)
Exercised	(7,600)
Outstanding at March 31, 2010	557,161
Exercisable at March 31, 2010	348,543

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:

	2010
Risk-free interest rate	2.34%
Expected dividend yield	0.00%
Expected lives (in years)	4.0
Expected volatility	66.00%

The weighted-average grant date fair value of stock option awards granted during the three months ended March 31, 2010 was \$12.95.

Restricted Stock

A summary of the status of the Company's nonvested restricted stock as of March 31, 2010, and the activity during the three months then ended, is presented below:

Nonvested Restricted Stock Awards	Shares
Nonvested at December 31, 2009	171,387
Granted	49,770
Vested	(37,020)
Nonvested at March 31, 2010	184,137

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, 2010 was \$25.18.

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

A summary of the Company's performance share award activity during the three months ended March 31, 2010 is presented below:

Performance Share Awards	Awards Activity	Maximum Shares Eligible to Receive
Outstanding at December 31, 2009	73,380	146,760
Granted	49,450	98,900
Forfeited	(500)	(1,000)
Outstanding at March 31, 2010	122,330	244,660

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, 2010 was \$38.79.

Note 5 INCOME TAXES:

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

For the three months ended March 31, 2010, the estimated annual effective tax rate applied to ordinary income was 5.9% compared to a rate of 45.8% for the three months ended March 31, 2009. The rate in 2010 differs from the federal statutory rate of 35% principally as a result of the mix of foreign loss and domestic income and adjustments to unrecognized tax benefits. Although these factors are present in both 2010 and 2009, the level of expected annual operating results in each period amplifies the rate impact and determines its direction in such period, decreasing the rate in 2010 and increasing it in 2009.

Inclusive of discrete items, the Company recognized a provision for (benefit from) income taxes of \$240 or 2.1% of pretax income, and (\$201), or 12.1% of pretax income, for federal, state, and foreign income taxes for the three months ended March 31, 2010 and 2009, respectively. Discrete items totaling \$447 reduced the provision for income taxes for the three months ended March 31, 2010 and were comprised of a \$1.6 million charge associated with the recently enacted healthcare legislation with the remainder associated with adjustments to unrecognized tax benefits

due to the effective settlement of an income tax examination. Discrete items totaling \$559 reduced the benefit from income taxes for the three months ended March 31, 2009 and were comprised primarily of adjustments to unrecognized tax benefits based upon data that became public during that quarter.

Note 6 EARNINGS PER SHARE:

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

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Notes to Consolidated Financial Statements
(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)**

Actual weighted-average shares of Common Stock outstanding used in the calculation of basic and diluted earnings (loss) per share for the three months ended March 31, 2010 and 2009 were as follows:

	Three Months Ended March 31,	
	2010	2009
Numerator:		
Net income (loss)	\$ 11,398	\$ (1,459)
Denominator:		
Basic weighted-average shares outstanding	29,864,801	22,877,409
Effect of diluted securities	245,767	
Diluted weighted-average shares outstanding	30,110,568	22,877,409
Earnings (loss) per share:		
Basic	\$ 0.38	\$ (0.06)
Diluted	\$ 0.38	\$ (0.06)

For the three months ended March 31, 2010 and March 31, 2009, options to purchase 250,366 and 477,490 shares of Common Stock, at an average price of \$48.86 and \$32.31, respectively, have been excluded from the calculation of diluted earnings per share because their effects were antidilutive.

Note 7 RECEIVABLES:

Receivables are carried at net realizable value. Estimates are made as to the Company's ability to collect outstanding receivables, taking into consideration the amount, the customer's financial condition, and the age of the receivable. The Company ascertains the net realizable value of amounts owed and provides an allowance when collection becomes doubtful. Receivables are expected to be collected in the normal course of business and consisted of the following:

	March 31, 2010	December 31, 2009
Trade and commercial customers	\$ 72,594	\$ 61,570
Less: Allowance for doubtful accounts	(682)	(646)
Total receivables	\$ 71,912	\$ 60,924

At March 31, 2010, receivables included \$15,400 related to the resolution of Airbus 2009 contractual obligations during the three months ended March 31, 2010. This amount was received on April 1, 2010.

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)****Note 8 INVENTORIES:**

Inventories are valued at cost as determined by the last-in, first-out (LIFO) method for approximately 63% and 64% of the Company's inventories as of March 31, 2010 and December 31, 2009, respectively. The remaining inventories are valued at cost determined by a combination of the first-in, first-out (FIFO) and weighted-average cost methods. Inventory costs generally include materials, labor, and manufacturing overhead (including depreciation). When market conditions indicate an excess of carrying cost over market value, a lower-of-cost-or-market provision is recorded. Inventories consisted of the following:

	March 31, 2010	December 31, 2009
Raw materials and supplies	\$ 137,934	\$ 145,062
Work-in-process and finished goods	203,369	197,840
LIFO reserve	(67,713)	(76,015)
Total inventories	\$ 273,590	\$ 266,887

As of March 31, 2010 and December 31, 2009, the current cost of inventories exceeded their carrying value by \$67,713 and \$76,015, respectively. The Company's FIFO inventory value is used to approximate current costs.

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 2010, 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 the Company currently supplies, including the Joint Strike Fighter program or the Airbus family of aircraft, including the A380 and A350XWB programs. In addition, the Company's ability to ramp up its production of these programs in a cost efficient manner may also impact the results of a future impairment test.

Goodwill. The carrying amount of goodwill attributable to each segment at December 31, 2009 and March 31, 2010 was as follows:

Titanium	Fabrication	Distribution
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	Group	Group	Group	Total
Balance at December 31, 2009:				
Goodwill	\$ 2,548	\$ 37,386	\$ 9,833	\$ 49,767
Accumulated impairment loss		(8,699)		(8,699)
Net goodwill	2,548	28,687	9,833	41,068
Translation adjustment		462		462
Balance at March 31, 2010:				
Goodwill	2,548	37,848	9,833	50,229
Accumulated impairment loss		(8,699)		(8,699)
Net goodwill	\$ 2,548	\$ 29,149	\$ 9,833	\$ 41,530

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

Intangibles. Intangible assets consist of customer relationships as a result of the Company's 2004 acquisition of Claro Precision, Inc. (Claro). These intangible assets, which were valued at fair value, are being amortized over 20 years. In the event that long-term demand or market conditions change and the expected future cash flows associated with these assets is reduced, a write-down or acceleration of the amortization period may be required.

There were no intangible assets attributable to our Titanium Group and Distribution Group at December 31, 2009 and March 31, 2010. The carrying amount of intangible assets attributable to our Fabrication Group at December 31, 2009 and March 31, 2010 was as follows:

	December 31, 2009	Amortization	Translation Adjustment	March 31, 2010
Fabrication Group	\$ 14,299	\$ (241)	\$ 492	\$ 14,550

Note 10 UNEARNED REVENUE:

The Company reported a liability for unearned revenue of \$17,234 and \$21,832 as of March 31, 2010 and December 31, 2009, respectively. These amounts primarily represent payments received in advance from commercial aerospace, defense, and energy market customers on long-term orders, which the Company has not recognized as revenues.

Note 11 OTHER INCOME:

Other income for the three months ended March 31, 2010 and 2009 was \$133 and \$899, respectively. Other income consists primarily of foreign exchange gains and losses from international operations and fair value adjustments related to the Company's foreign currency forward contracts. See Note 15 to the Company's Condensed Consolidated Financial Statements for further information on the Company's foreign currency forward contracts.

Note 12 EMPLOYEE BENEFIT PLANS:

Components of net periodic pension and other post-retirement benefit cost for the three months ended March 31, 2010 and 2009 for those salaried and hourly covered employees were as follows:

	Pension Benefits		Other Post-Retirement Benefits	
	2010	2009	2010	2009
Service cost	\$ 451	\$ 398	\$ 178	\$ 128

Interest cost	1,770	1,762	550	535
Expected return on plan assets	(1,869)	(1,929)		
Amortization of prior service cost	131	209	303	303
Amortization of unrealized gains and losses	701	480		
Net periodic benefit cost	\$ 1,184	\$ 920	\$ 1,031	\$ 966

Note 13 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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

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

parts of gas turbine engines, the Company maintains aircraft products liability insurance of \$350 million, which includes grounding liability.

Tronox LLC Litigation

In connection with its now indefinitely delayed plans to construct a premium-grade titanium sponge production facility in Hamilton, Mississippi, in 2008, a subsidiary of the Company entered into an agreement with Tronox LLC (Tronox) for the long-term supply of titanium tetrachloride ($TiCl_4$), the primary raw material in the production of titanium sponge. Tronox filed for Chapter 11 bankruptcy protection in January 2009. On September 23, 2009, a subsidiary of the Company filed a complaint in the United States Bankruptcy Court for the Southern District of New York against Tronox challenging the validity of the supply agreement. Tronox filed a motion to dismiss the complaint, and on February 9, 2010 the Bankruptcy Court issued an order granting the motion. The Company's subsidiary has appealed the order, as it believes that its claims seeking termination and/or rescission of the supply agreement and companion ground lease on grounds of breach of warranty, nondisclosure, mistake and breach of duty of good faith and fair dealing are meritorious; however, due to the inherent uncertainties of litigation and because of the pending appeal, the ultimate outcome of the matter is uncertain. Pending the outcome of this litigation, management estimates that additional future contractual expenses could range from zero to approximately \$36 million.

Environmental Matters

The Company is subject to environmental laws and regulations as well as various health and safety laws and regulations that are subject to frequent modifications and revisions. While the costs of compliance for these matters have not had a material adverse impact on the Company in the past, it is not possible to accurately predict the ultimate effect these changing laws and regulations may have on the Company in the future. The Company continues to evaluate its obligation for environmental-related costs on a quarterly basis and makes adjustments as necessary.

Given the status of the proceedings at certain of the Company's sites and the evolving nature of environmental laws, regulations, and remediation techniques, the Company's ultimate obligation for investigative and remediation costs cannot be predicted. It is the Company's policy to recognize environmental costs in the financial statements when an obligation becomes probable and a reasonable estimate of exposure can be determined. When a single estimate cannot be reasonably made, but a range can be reasonably estimated, the Company accrues the amount it determines to be the most likely amount within that range.

Based on available information, the Company believes that its share of possible environmental-related costs is in a range from \$835 to \$2,307 in the aggregate. At March 31, 2010 and December 31, 2009, the amounts accrued for future environmental-related costs were \$1,468 and \$1,546, respectively. Of the total amount accrued at March 31, 2010, \$1,310 is expected to be paid out within the next twelve months, and is included in the other accrued liabilities line of the balance sheet. The remaining \$158 is recorded in other noncurrent liabilities. During the three months ended March 31, 2010, the Company made payments totaling \$78 related to its environmental liabilities.

As these proceedings continue toward final resolution, amounts in excess of those already provided may be necessary to discharge the Company from its obligations for these sites, which include the Ashtabula River.

Duty Drawback Investigation

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

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

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.

Historically, 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. For the period January 1, 2001 through March 31, 2007, 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 relates to discrepancies in, and lack of supporting documentation for, claims filed through the Company's authorized agent. The Company revoked the authorized agent's authority and is fully cooperating with U.S. Customs to determine the extent to which any claims may be invalid or may not be supportable with adequate documentation. In response to the investigation noted above, the Company suspended the filing of new duty drawback claims through the third quarter of 2007. The Company is fully engaged and cooperating with U.S. Customs in an effort to complete the investigation in an expeditious manner.

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, the Company recorded charges totaling \$10.5 million to Cost of Sales through December 31, 2009. No additional charges were recorded during the three months ended March 31, 2010.

These abovementioned charges represent the Company's current best estimate of probable loss. Of this amount, \$9.5 million was recorded as a contingent current liability and \$1.0 million was recorded as a write-off of an outstanding receivable representing claims filed which had not yet been paid by U.S. Customs. Through December 31, 2009, the Company repaid to U.S. Customs \$4.0 million for invalid claims. The Company made additional repayments totaling \$2.3 million during the three months ended March 31, 2010. As a result of these payments, the Company's liability totaled \$3.2 million as of March 31, 2010. While the Company's internal investigation into these claims is complete, there is not a timetable of which it is aware for when U.S. Customs will conclude its investigation.

While the ultimate outcome of the U.S. Customs investigation is not yet known, the Company believes there is an additional possible risk of loss between \$0 and \$3.0 million based on current facts, exclusive of additional amounts imposed for interest, which cannot be quantified at this time. This possible risk of future loss relates primarily to indirect duty drawback claims filed with U.S. Customs by several of the Company's customers as the ultimate exporter of record in which the Company shared in a portion of the revenue.

Additionally, the Company is exposed to potential penalties imposed by U.S. Customs on these claims. In December 2009, the Company received formal pre-penalty notices from U.S. Customs imposing penalties in the amount of \$1.7 million. While the Company has the opportunity to negotiate with U.S. Customs to potentially obtain relief of these penalties, due to the inherent uncertainty of the penalty process, the Company has accrued the full amount of the penalties as of December 31, 2009. There was no change to the amount accrued for penalties during the three months

ended March 31, 2010.

During the fourth quarter of 2007, the Company began filing new duty drawback claims through a new authorized agent. Claims filed through December 31, 2009 totaled \$3.0 million. During the three months ended March 31, 2010, the Company filed additional claims totaling \$0.2 million. As a result of the open investigation discussed above, the Company has not recognized any credits to cost of sales upon the filing of

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

these new claims. The Company intends to record these credits on a cash basis as they are paid by U.S. Customs until a consistent history of receipts against claims filed has been established.

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 14 SEGMENT REPORTING:

The Company has three reportable segments: the Titanium Group, the Fabrication Group, and the Distribution Group.

The Titanium Group's products consist primarily of titanium mill products and ferro titanium alloys. The mill products are sold to a customer base consisting primarily of manufacturing and fabrication companies in the supply chain for the commercial aerospace, defense, and industrial and consumer markets. Customers include prime aircraft manufacturers and their family of subcontractors including fabricators, forge shops, extruders, casting producers, 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.

The Fabrication Group is comprised of companies with significant hard-metal expertise that extrude, fabricate, machine, and assemble titanium and other specialty metal parts and components. Its products, many of which are complex engineered parts and assemblies, serve the commercial aerospace, defense, oil and gas, power generation, medical device, and chemical process industries, as well as a number of other industrial and consumer markets.

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.

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

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

	Three Months Ended March 31,	
	2010	2009
Net sales:		
Titanium Group	\$ 38,841	\$ 30,303
Intersegment sales	23,765	33,751
Total Titanium Group net sales	62,606	64,054
Fabrication Group	28,602	26,064
Intersegment sales	12,762	14,365
Total Fabrication Group net sales	41,364	40,429
Distribution Group	40,442	49,687
Intersegment sales	464	677
Total Distribution Group net sales	40,906	50,364
Eliminations	36,991	48,793
Total consolidated net sales	\$ 107,885	\$ 106,054
Operating income (loss):		
Titanium Group before corporate allocations	\$ 17,083	\$ 6,979
Corporate allocations	(2,091)	(2,758)
Total Titanium Group operating income	14,992	4,221
Fabrication Group before corporate allocations	(2,430)	(4,652)
Corporate allocations	(2,836)	(2,569)
Total Fabrication Group operating loss	(5,266)	(7,221)
Distribution Group before corporate allocations	3,570	4,264
Corporate allocations	(1,616)	(2,043)

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Total Distribution Group operating income	1,954	2,221
Total consolidated operating income (loss)	\$ 11,680	\$ (779)

	March 31, 2010	December 31, 2009
Total assets:		
Titanium Group	\$ 387,641	\$ 365,725
Fabrication Group	241,764	239,847
Distribution Group	129,939	140,666
General corporate assets	96,149	108,497
Total consolidated assets	\$ 855,493	\$ 854,735

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(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)****Note 15 FINANCIAL INSTRUMENTS:**

When appropriate, the Company uses derivatives to manage its exposure to changes in interest and exchange rates. The Company's derivative financial instruments are recognized on the balance sheet at fair value. Changes in the fair value of derivative instruments designated as cash flow hedges, to the extent the hedges are highly effective, are recorded in other comprehensive income, net of tax effects. The ineffective portions of cash flow hedges, if any, are recorded into current period earnings. Amounts recorded in other comprehensive income are reclassified into current period earnings when the hedged transaction affects earnings. Changes in the fair value of derivative instruments designated as fair value hedges, along with corresponding changes in the fair values of the hedged assets or liabilities, are recorded in current period earnings.

As of March 31, 2010, the Company maintained several foreign currency forward contracts, with notional amounts totaling 403 that are used to manage foreign currency exposure related to equipment purchases associated with the Company's ongoing capital expansion projects. These forward contracts settle throughout 2010. These forward contracts have not been designated as hedging instruments; therefore changes in the fair value of these forward contracts are recorded in current period earnings within other income.

A summary of the Company's derivative instrument portfolio as of March 31, 2010, is below:

	Designated as Hedging Instrument	Statement of Financial Position Location	Asset (Liability) Fair Value
Foreign currency forward contracts	No	Other current liabilities	\$ (6)

The Company had no interest rate swaps as of March 31, 2010.

Note 16 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, other accrued liabilities, and long-term debt, the carrying value approximates the fair value of these instruments and groupings.

The Financial Accounting Standards Board (FASB) defines fair value as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a three-tier fair value hierarchy prioritizes the inputs utilized in measuring fair value as follows: (Level 1) observable inputs such as

quoted prices in active markets; (Level 2) inputs other than the quoted prices in active markets that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data and which requires the Company to develop its own assumptions. The hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including its cash equivalents.

The Company's cash and cash equivalents and short-term investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The Company's foreign currency forward contracts are estimated utilizing the terms of the contracts and available forward pricing information. However, because these derivative contracts are unique and not actively traded, the fair values are classified as Level 2 estimates.

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Listed below are the Company's assets and liabilities, and their fair values, that are measured at fair value on a recurring basis as of March 31, 2010. There were no transfers between levels for the three months ended March 31, 2010.

	Quoted Market Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Cash and cash equivalents	\$ 83,921	\$	\$	\$ 83,921
Short-term investments	20,096			20,096
Total assets	\$ 104,017	\$	\$	\$ 104,017
Foreign currency forward contracts			6	6
Total liabilities	\$	\$	6	\$ 6

As of March 31, 2010 the Company did not have any financial assets or liabilities that were measured on a non-recurring basis.

Note 17 CREDIT AGREEMENT:

The Company maintains a \$200 million revolving credit facility under our Amended and Restated Credit Agreement (the "Credit Agreement") which matures on September 27, 2012. On March 1, 2010, the Company and its lenders agreed to increase the revolving credit facility to \$225 million under the provisions of the Credit Agreement. The Company had no borrowings outstanding under the Credit Agreement during the three months ended March 31, 2010.

Borrowings under the Credit Agreement bear interest at the option of the Company at a rate equal to the London Interbank Offered Rate (the "Libor Rate") plus an applicable margin or a prime rate plus an applicable margin. In addition, the Company pays a facility fee in connection with the Credit Agreement. Both the applicable margin and the facility fee vary based upon the Company's consolidated net debt to consolidated EBITA, as defined in the Credit Agreement.

Note 18 NEW ACCOUNTING STANDARDS:

In January 2010, the FASB issued authoritative guidance to require new fair value measurement and classification disclosures, and to clarify existing disclosures. The guidance requires disclosures about transfers into and out of Levels 1 and 2 of the fair value hierarchy, and separate disclosures about purchases, sales, issuances and settlements

relating to Level 3 measurements. The guidance is effective for interim and annual periods beginning after December 15, 2009, with the exception that the Level 3 activity disclosure requirement will be effective for interim periods for fiscal years beginning after December 15, 2010. The adoption of the revised guidance did not have an effect on the Company's Consolidated Financial Statements.

In February 2010, the FASB issued authoritative guidance amending the disclosure requirements for events that occur after the balance sheet date but before financial statements are issued, eliminating the need to disclose the date through which subsequent events have been evaluated. The new guidance became effective upon issuance of the guidance on February 24, 2010. The adoption of the revised guidance did not have a material effect on the Company's Consolidated Financial Statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

The following discussion should be read in connection with the information contained in the Consolidated Financial Statements and Notes to Consolidated Financial Statements. The following information contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and is subject to the safe harbor created by that Act. Such forward-looking statements may be identified by their use of words like expects, anticipates, intends, projects, or other words of similar meaning. Forward-looking statements are based on expectations and assumptions regarding future events. In addition to factors discussed throughout this annual report, the following factors and risks should also be considered, including, without limitation:

- the future availability and prices of raw materials,
- competition in the titanium industry,
- demand for the Company's products,
- the historic cyclical nature of the titanium and commercial aerospace industries,
- changes in defense spending and cancellation or changes in defense programs or initiatives,
- changes in the Joint Strike Fighter production schedule,
- the success of new market development,
- the ability to obtain access to financial markets and to maintain current covenant requirements,
- long-term supply agreements,
- the impact of titanium inventory overhang throughout the Company's supply chain,
- the impact of Boeing 787 Dreamliner® production delays,
- our ability to attract and retain key personnel,
- the impact if another party to a long-term contract fails to take or pay for minimum requirements under existing contracts or successfully manage its future development and production schedule,
- legislative challenges to the Specialty Metals Clause of the Berry Amendment,
- labor matters,
- global economic activities,
- the outcome of the U.S. Customs investigation,
- the successful completion of our expansion projects,

our ability to execute on new business awards,
our order backlog and the conversion of that backlog into revenue, and
other statements contained herein that are not historical facts.

Because such forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These and other risk factors are set forth in this filing, as well as in other filings filed with or furnished to the Securities and Exchange Commission (SEC) over the last 12 months, copies of which are available from the SEC or may be obtained upon request from the Company. Except as may be required by applicable law, we undertake no duty to update our forward-looking information.

Overview

RTI International Metals, Inc. (the Company, RTI, we, us, or our) is a leading producer and global supplier of titanium mill products and a supplier of fabricated titanium and specialty metal components for the international aerospace, defense, energy, and industrial and consumer markets.

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

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

The Fabrication Group is comprised of companies with significant hard-metal expertise that extrude, fabricate, machine, and assemble titanium and other specialty metal parts and components. Its products, many of which are complex engineered parts and assemblies, serve the commercial aerospace, defense, oil and gas, power generation, medical device, and chemical process industries, as well as a number of other industrial and consumer markets. With operations located in Houston, Texas; Washington, Missouri; Laval, Canada; and a representative office in China, the Fabrication Group provides value-added products and services such as engineered tubulars and extrusions, fabricated and machined components and sub-assemblies, as well as engineered systems for deepwater oil and gas exploration and production infrastructure.

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

Both the Fabrication and Distribution Groups access the Titanium Group as their primary source of titanium mill products. For the three months ended March 31, 2010 and 2009, approximately 38% and 53%, respectively, of the Titanium Group's sales were to the Fabrication and Distribution Groups.

Trends and Uncertainties

Management believes that long-term demand indicators in the titanium industry, driven largely by the significant backlog in the commercial aerospace market, remain strong as we move into the middle of the decade. Recently announced build rate increases by Boeing and Airbus, and a small increase in order activity in our titanium mill product business support that belief.

However, the effects of the cyclical nature of this market are still negatively impacting spot market demand and capacity utilization. Both the Boeing and Airbus supply chains are saddled with relatively high inventories created by lower than anticipated production levels over the past two years. We do not expect this inventory overhang to dissipate until at least the end of 2011. Given the current inventory level in the supply chain, it is possible that certain of our customers' short-term demand may fall short of contracted minimums. That imbalance, together with recently announced production schedule changes on the F-35 Joint Strike Fighter, is contributing to significant near-term uncertainty.

Three Months Ended March 31, 2010 Compared To Three Months Ended March 31, 2009

Net Sales. Net sales for our reportable segments, excluding intersegment sales, for the three months ended March 31, 2010 and 2009 were as follows:

**Three Months
Ended**

<i>(In millions except percents)</i>	March 31,		\$	%
	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
Titanium Group	\$ 38.8	\$ 30.3	\$ 8.5	28.1%
Fabrication Group	28.6	26.1	2.5	9.6%
Distribution Group	40.5	49.7	(9.2)	(18.5)%
Total consolidated net sales	\$ 107.9	\$ 106.1	\$ 1.8	1.7%

Excluding the \$15.4 million related to the resolution of Airbus 2009 contractual obligations, the Titanium Group's net sales decreased \$6.9 million. The combination of a 6% decrease in shipments and a 26% decrease

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in the average realized selling prices of prime mill products to our trade customers resulted in an \$8.1 million reduction in the Titanium Group's net sales. The decrease in average realized selling prices was primarily due to the continued high proportion of sales under long-term agreements with lower contract pricing versus the comparable period in the prior year. Partially offsetting these impacts was an increase in ferro-alloy demand from the specialty steel industry which resulted in a \$1.6 million increase in net sales.

Excluding the \$4.2 million of nonrecurring engineering funds received related to the Boeing 787 Dreamliner® program that were previously paid by the customer, the Fabrication Group's net sales decreased \$1.7 million compared to the prior year. The nonrecurring engineering funds were received to offset certain agreed upon tooling expenses to support the Boeing 787 Dreamliner® program. A corresponding amount was recorded in cost of sales during the current period. The decrease in net sales principally relates to a reduction of \$2.1 million in sales to our energy market customers. Partially offsetting this decrease, however, has been the recent first deliveries related to the Boeing 787 Dreamliner® Pi Box program, as well as increased deliveries related to other Boeing programs, which have increased net sales \$1.4 million compared to the prior year.

The decrease in the Distribution Group's net sales was principally related to lower demand resulting from the continued slowdown in the commercial aerospace market which has resulted in higher levels of titanium inventory throughout the supply chain. The combination of lower demand and lower realized pricing for the Distribution Group's titanium and specialty alloys products resulted in an \$8.7 million and a \$0.5 million reduction in net sales, respectively.

Gross Profit (Loss). Gross profit (loss) for our reportable segments, for the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended		\$	%
	March 31, 2010	2009		
<i>(In millions except percents)</i>				
Titanium Group	\$ 19.0	\$ 9.4	\$ 9.6	102.1%
Fabrication Group	1.7	(1.3)	3.0	230.8%
Distribution Group	6.8	8.2	(1.4)	(17.1)%
Total consolidated gross profit	\$ 27.5	\$ 16.3	\$ 11.2	68.7%

Excluding the \$15.4 million related to the resolution of Airbus' 2009 contractual obligations, the Titanium Group's gross profit decreased \$5.8 million. The decrease in the Titanium Group's gross profit was the result of the Boeing 787 Dreamliner® production delays causing reduced overall titanium demand. Lower sales levels of prime products reduced gross profit by \$1.7 million and lower average realized selling prices reduced gross profit by \$3.8 million, while higher raw material costs and lower overhead absorption reduced gross profit by \$2.0 million. Partially offsetting these decreases, gross profit at the Titanium Group was favorably impacted \$1.3 million due to higher ferro-alloy demand and \$0.4 million due to higher sales of Titanium Group-sourced inventory by our Fabrication and Distribution Group businesses.

The increase in gross profit for the Fabrication Group was driven by a \$4.3 million favorable product mix in the current period. The product mix in the current period included additional higher-margin spot market sales to our

energy market customers and as well as higher-margin sales to our military program customers in the current period compared to the same period in the prior year. These higher margin sales were partially offset by \$1.3 million in increased operational inefficiencies and incremental ramp up costs as we increase production related to the Boeing 787 Dreamliner® program.

The decrease in gross profit for the Distribution Group was principally related to lower sales coupled with a decrease in realized selling prices for certain specialty metals that exceeded our decline in product cost.

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Selling, General, and Administrative Expenses. Selling, general, and administrative expenses (SG&A) for our reportable segments for the three months ended March 31, 2010 and 2009 were as follows:

	Three Months Ended		\$	%
	March 31, 2010	2009		
<i>(In millions except percents)</i>				
Titanium Group	\$ 3.7	\$ 4.7	\$ (1.0)	(21.3)%
Fabrication Group	6.9	5.9	1.0	16.9%
Distribution Group	5.0	5.9	(0.9)	(15.3)%
Total consolidated SG&A expenses	\$ 15.6	\$ 16.5	\$ (0.9)	(5.5)%

The \$0.9 million decrease in SG&A was primarily related to a \$0.5 million reduction in salaries and benefits in the current year compared to the prior year as well as a \$0.4 million reduction in professional and consulting expenses. The decreases reflect management's focus on reducing expenses during the current economic downturn while continuing to position the Company for future growth.

Research, Technical, and Product Development Expenses. Research, technical, and product development expenses (R&D) were \$0.7 million and \$0.5 million for the three month periods ended March 31, 2010 and 2009, respectively. This spending reflects our continued focus on productivity and quality enhancements to our operations.

Asset and Asset-Related Charges (Income). Asset and asset-related charges (income) for the three months ended March 31, 2010 was (\$0.5) million. Asset and asset-related charges consist of settlements related to the Company's accrued contractual commitments at the Company's indefinitely delayed sponge plant.

Operating Income (Loss). Operating income (loss) for our reportable segments for the three months ended March 31, 2010 and 2009 was as follows:

	Three Months Ended		\$	%
	March 31, 2010	2009		
<i>(In millions except percents)</i>				
Titanium Group	\$ 15.0	\$ 4.2	\$ 10.8	257.1%
Fabrication Group	(5.3)	(7.2)	1.9	26.4%
Distribution Group	2.0	2.2	(0.2)	(9.1)%
Total operating income (loss)	\$ 11.7	\$ (0.8)	\$ 12.5	1562.5%

Excluding the \$15.4 million related to the resolution of Airbus' 2009 contractual obligations, the Titanium Group's operating income decreased \$4.6 million. The decrease was primarily attributable to lower gross profit, largely due to

unfavorable volume and lower realized selling prices, which were partially offset by a reduction in SG&A expenses.

The reduced operating loss for the Fabrication Group was the result of favorable shifts in product mix and better execution on higher-margin value-added fabricated parts for both our energy market and military customers. These increases were partially offset by higher production costs and SG&A expenses during the year as we continue to ramp up the Boeing 787 Dreamliner® Pi Box program.

The decrease in operating income for the Distribution Group was largely due to lower demand in both the titanium and specialty alloys markets. The lower demand resulted in decreased realized selling prices for certain specialty metals that exceeded our decline in product cost. This decrease was partially offset by a decrease in compensation-related expenses and other cost management actions, including the rationalization of our domestic Distribution Group facilities during the first half of 2009.

Other Income. Other income for the three months ended March 31, 2010 and 2009 was \$0.1 million and \$0.9 million, respectively. Other income consists primarily of foreign exchange gains and losses from our international operations and fair value adjustments related to our foreign currency forward contracts.

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Interest Income and Interest Expense. Interest income for the three months ended March 31, 2010 and 2009 was \$0.1 million and \$0.6 million, respectively. The decrease was principally related to lower returns on invested cash, as well as lower overall cash balances, compared to the prior year period. Interest expense was \$0.3 million and \$2.4 million for the three months ended March 31, 2010 and 2009, respectively. The decrease in interest expense was primarily attributable to the decrease in our long-term debt compared to the prior year as a result of the payoff of our \$225 million term loan in September 2009.

Provision for (Benefit from) Income Taxes. We recognized a provision for income taxes of \$0.2 million, or 2.1% of pretax income, and a benefit from income taxes of \$0.2 million, or 12.1% of pretax income, for federal, state, and foreign income taxes for the three months ended March 31, 2010 and 2009, respectively. Discrete items totaling \$0.4 million reduced the provision for income taxes for the three months ended March 31, 2010 and were comprised of a \$1.6 million charge associated with the recently enacted healthcare legislation with the remainder associated with adjustments to unrecognized tax benefits due to the effective settlement of an income tax examination. Discrete items totaling \$0.6 million reduced the provision for income taxes for the three months ended March 31, 2009 and were comprised primarily of adjustments to unrecognized tax benefits based upon data that became available during the quarter.

Liquidity and Capital Resources

In connection with our long-term supply agreements for the Joint Strike Fighter (JSF) program and the Airbus family of commercial aircraft, including the A380 and A350XWB programs, we are constructing a new titanium forging and rolling facility in Martinsville, Virginia, and new melting facilities in Canton and Niles, Ohio, with anticipated capital spending of approximately \$140 million. The Niles melting facility is substantially complete, whereas we have capital spending of approximately \$6 million remaining on the Canton melting facility and expect it will begin operations in 2011. We have capital expenditures of \$60 million remaining related to the Martinsville, Virginia facility and anticipate that it will begin production in 2012. We expect this facility will enable us to enhance our throughput and shorten our lead times on certain products, primarily titanium sheet and plate. We will continually evaluate market conditions as we move forward with these capital projects to ensure our operational capabilities are matched to our anticipated demand.

We maintain a \$200 million revolving credit facility under our Amended and Restated Credit Agreement (the Credit Agreement) which matures on September 27, 2012. On March 1, 2010, we agreed with our lenders to increase the revolving credit facility to \$225 million under the provisions of the Credit Agreement. We had no borrowings outstanding under the Credit Agreement during the three months ended March 31, 2010.

Borrowings under the Credit Agreement bear interest at our option at a rate equal to the London Interbank Offered Rate (the Libor Rate) plus an applicable margin or a prime rate plus an applicable margin. In addition, we pay a facility fee in connection with the Credit Agreement. Both the applicable margin and the facility fee vary based upon our consolidated net debt to consolidated EBITDA, as defined in the Credit Agreement.

The Credit Agreement financial covenants and rates are described below:

Our leverage ratio (the ratio of Net Debt to Consolidated EBITDA, as defined in the Credit Agreement) was (1.5) at March 31, 2010. If this ratio were to exceed 3.25 to 1, we would be in default under our Credit Agreement and our ability to borrow under our Credit Agreement would be impaired.

Our interest coverage ratio (the ratio of Consolidated EBITDA to Net Interest, as defined in the Credit Agreement) was 143.0 at March 31, 2010. If this ratio were to fall below 2.0 to 1, we would be in default under our Credit Agreement and our ability to borrow under our Credit Agreement would be impaired.

Consolidated EBITDA, as defined in the Credit Agreement, allows for adjustments related to unusual gains and losses, certain noncash items, and certain non-recurring charges. At March 31, 2010, we were in compliance with our financial covenants under the Credit Agreement.

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While our current financial forecasts indicate we will maintain our compliance with these covenants, certain events, some of which are beyond our control, including further long-term delays in the Boeing 787 Dreamliner® or JSF production schedule, the failure of one or more significant customers to honor the terms of their take-or-pay contracts, and deeper reductions in global aircraft demand, may cause us to be in default of one or more of the covenants in the future. In the event of a default under our Credit Agreement, absent a waiver from our lenders or an amendment to our Credit Agreement, the interest rate on the Credit Agreement could increase materially. Such a development could have a material adverse impact on our Consolidated Financial Statements if we were to borrow under the Credit Agreement. In addition, a failure to maintain our financial covenants may impair our ability to borrow under our Credit Agreement. If we default or anticipate an expected future default under one or more of our covenants, we will need to renegotiate our Credit Agreement, seek other sources of liquidity, or both.

Provided we continue to meet our financial covenants under the Credit Agreement, we expect that our cash and cash equivalents of \$83.9 million, short-term investments of \$20.1 million, and our undrawn \$225 million revolving credit facility will provide us sufficient liquidity to meet our operating needs and capital expansion plans.

Cash provided by (used in) operating activities. Cash provided by (used in) operating activities for the three months ended March 31, 2010 and 2009 was \$(9.8) million and \$2.3 million, respectively. This decrease is primarily due to increased working capital, primarily due to an increase in inventory and a decrease in accounts payable.

Cash provided by (used in) investing activities. Cash provided by (used in) investing activities for the three months ended March 31, 2010 and 2009, was \$37.8 million and \$(26.1) million, respectively. The increase in cash provided by (used in) investing activities is principally related to the sale of \$45 million in short-term investments and a significant decrease in our capital expenditures compared to the same period in the prior year.

Cash provided by financing activities. Cash provided by financing activities for the three months ended March 31, 2010 and 2009, was \$0.0 million and \$1.2 million, respectively. This decrease was primarily due to no borrowings or repayments on our credit facility during the three months ended March 31, 2010 as compared to \$1.2 million in borrowings during the same period in the prior year.

Duty Drawback Investigation

We 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.

Historically, 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. For the period January 1, 2001 through March 31, 2007, 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 relates to discrepancies in, and lack of supporting documentation for, claims filed through the Company's authorized agent. The Company revoked the authorized agent's authority and is fully cooperating with U.S. Customs to determine the extent to which any claims may be invalid or may not be supportable with adequate documentation. In response to the investigation noted above, the Company suspended the filing of new duty drawback claims through the third quarter of 2007. The Company is fully engaged and cooperating with U.S. Customs in an effort to complete the investigation in an expeditious manner.

Concurrent with the U.S. Customs investigation, we 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, we recorded charges

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totaling \$10.5 million to cost of sales through December 31, 2009. No additional charges were recorded during the three months ended March 31, 2010.

These abovementioned charges represent our current best estimate of probable loss. Of this amount, \$9.5 million was recorded as a contingent current liability and \$1.0 million was recorded as a write-off of an outstanding receivable representing claims filed which had not yet been paid by U.S. Customs. Through December 31, 2009, we had repaid to U.S. Customs \$4.0 million for invalid claims. We made additional repayments totaling \$2.3 million during the three months ended March 31, 2010. As a result of these payments, the Company's liability totaled \$3.2 million as of March 31, 2010. While our internal investigation into these claims is complete, there is not a timetable of which we are aware for when U.S. Customs will conclude its investigation.

While the ultimate outcome of the U.S. Customs investigation is not yet known, we believe there is an additional possible risk of loss between \$0 and \$3.0 million based on current facts, exclusive of additional amounts imposed for interest, which cannot be quantified at this time. This possible risk of future loss relates primarily to indirect duty drawback claims filed with U.S. Customs by several of our customers as the ultimate exporter of record in which we shared in a portion of the revenue.

Additionally, we are exposed to potential penalties imposed by U.S. Customs on these claims. In December 2009, we received formal pre-penalty notices from U.S. Customs imposing penalties in the amount of \$1.7 million. While we have the opportunity to negotiate with U.S. Customs to potentially obtain relief of these penalties, due to the inherent uncertainty of the penalty process, we have accrued the full amount of the penalty as of December 31, 2009. There was no change to the amount accrued for penalties during the three months ended March 31, 2010.

During the fourth quarter of 2007, we began filing new duty drawback claims through a new authorized agent. Claims filed through December 31, 2009 totaled \$3.0 million. During the three months ended March 31, 2010, we filed additional claims totaling \$0.2 million. As a result of the open investigation discussed above, we have not recognized any credits to cost of sales upon the filing of these new claims. We intend to record these credits on a cash basis as they are paid by U.S. Customs until a consistent history of receipts against claims filed has been established.

Backlog

The Company's order backlog for all markets was approximately \$315 million as of March 31, 2010, as compared to \$342 million at December 31, 2009. Of the backlog at March 31, 2010, approximately \$214 million is likely to be realized over the remainder of 2010. We define backlog as firm business scheduled for release into our production process for a specific delivery date. We have numerous contracts that extend multiple years, including the Airbus, JSF and Boeing 787 Dreamliner® long-term supply agreements, which are not included in backlog until a specific release into production or a firm delivery date has been established.

Environmental Matters

We are subject to environmental laws and regulations as well as various health and safety laws and regulations that are subject to frequent modifications and revisions. While the costs of compliance for these matters have not had a material adverse impact on the Company in the past, it is not possible to accurately predict the ultimate effect these changing laws and regulations may have on the Company in the future. We continue to evaluate our obligation for environmental-related costs on a quarterly basis and make adjustments as necessary.

Given the status of the proceedings at certain of our sites and the evolving nature of environmental laws, regulations, and remediation techniques, our ultimate obligation for investigative and remediation costs cannot be predicted. It is our policy to recognize environmental costs in the financial statements when an obligation becomes probable and a

reasonable estimate of exposure can be determined. When a single estimate cannot be reasonably made, but a range can be reasonably estimated, we accrue the amount we determine to be the most likely amount within that range.

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Based on available information, we believe our share of possible environmental-related costs is in a range from \$0.8 million to \$2.3 million in the aggregate. At both March 31, 2010 and December 31, 2009, the amount accrued for future environmental-related costs was \$1.5 million. Of the total amount accrued at March 31, 2010, \$1.3 million is expected to be paid out within the next twelve months and is included in the other accrued liabilities line of the balance sheet. The remaining \$0.2 million recorded in other noncurrent liabilities. During the three months ended March 31, 2010, we made payments totaling \$0.1 million related to our environmental liabilities.

As these proceedings continue toward final resolution, amounts in excess of those already provided may be necessary to discharge us from our obligations for these sites, which include the Ashtabula River.

New Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued authoritative guidance to require new fair value measurement and classification disclosures, and to clarify existing disclosures. The guidance requires disclosures about transfers into and out of Levels 1 and 2 of the fair value hierarchy, and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance is effective for interim and annual periods beginning after December 15, 2009, with the exception that the Level 3 activity disclosure requirement will be effective for interim periods for fiscal years beginning after December 15, 2010. The adoption of the revised guidance did not have an effect on our Consolidated Financial Statements.

In February 2010, the FASB issued authoritative guidance amending the disclosure requirements for events that occur after the balance sheet date but before financial statements are issued eliminating the need to disclose the date through which subsequent events have been evaluated. The new guidance became effective upon issuance of the guidance on February 24, 2010. The adoption of the revised guidance did not have an effect on our Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

There have been no significant changes in our exposure to market risk from the information provided in Item 7A. Quantitative Disclosures about Market Risk on our Form 10-K filed with the SEC on February 22, 2010.

Item 4. Controls and Procedures.

As of March 31, 2010, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management concluded that the Company's disclosure controls and procedures were effective as of March 31, 2010.

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2010 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1A. Risk Factors.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on February 22, 2010, which could materially affect our business, financial condition, financial results, or future performance. Reference is made to Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements of this report which is incorporated herein by reference.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company may repurchase shares of Common Stock under the RTI International Metals, Inc. share repurchase program approved by the Company's Board of Directors on April 30, 1999. The repurchase program authorizes the repurchase of up to \$15 million of RTI Common Stock. No shares were purchased under the program during the three months ended March 31, 2010. At March 31, 2010, approximately \$3 million of the \$15 million remained available for repurchase. There is no expiration date specified for the share repurchase program.

In addition to the share repurchase program, employees may surrender shares to the Company to pay tax liabilities associated with the vesting of restricted stock awards under the 2004 Stock Plan. The number of shares of Common Stock surrendered to satisfy tax liabilities for the three months ended March 31, 2010 and March 31, 2009 were 11,203 and 5,814 shares, respectively.

Item 6. Exhibits.

The exhibits listed on the Index to Exhibits are filed herewith and incorporated herein by reference.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RTI INTERNATIONAL METALS, INC.

By /s/ William T. Hull
William T. Hull
Senior Vice President and Chief Financial Officer
(principal accounting officer)

Dated: May 5, 2010

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INDEX TO EXHIBITS

Exhibit No.	Description
10.1	Assumption Agreement, dated March 1, 2010, by and between PNC Bank, National Association, and Wells Fargo Bank, National Association, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K for the event dated March 1, 2010.
31.1	Certification of Chief Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification of Principal Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.