RTI INTERNATIONAL METALS INC
Form 10-K
February 18, 2009

Table of Contents

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

FORM 10-K

(Mark One)

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

OR

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

For the transition period from ________ to ________

Commission file number **001-14437**

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

Ohio (State of Incorporation)	**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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

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

Yes þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant was $810 million as of June 30, 2008. The closing price of the Corporation s common stock (Common Stock) on June 30, 2008, as reported on the New York Stock Exchange was $35.62.

The number of shares of Common Stock outstanding at January 30, 2009 was 23,087,394.

Documents Incorporated by Reference:

Selected Portions of the Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

RTI INTERNATIONAL METALS, INC. AND CONSOLIDATED SUBSIDIARIES

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

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	Business	1
Item 1A.	Risk Factors	9
Item 1B.	Unresolved Staff Comments	13
Item 2.	Properties	13
Item 3.	Legal Proceedings	13
Item 4.	Submission of Matters to a Vote of Security Holders	14
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
Item 6.	Selected Financial Data	16
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 8.	Financial Statements and Supplementary Data	33
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	68
Item 9A.	Controls and Procedures	68
Item 9B.	Other Information	68
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	68
Item 11.	Executive Compensation	69
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	69
Item 13.	Certain Relationships and Related Transactions and Director Independence	69
Item 14.	Principal Accountant Fees and Services	70
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	70
Signatures		73

EX-21.1
EX-23.1
EX-24.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2

PART I

Item 1. Business

The Company

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

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

The Titanium Group melts, processes, and produces a complete range of titanium mill products, which are further processed by its customers for use in a variety of commercial aerospace, defense, and industrial applications. The titanium mill products consist of basic mill shapes including ingot, slab, bloom, billet, bar, plate and sheet. The Titanium Group also produces ferro titanium alloys for steel-making customers.

The Fabrication Group is comprised of companies 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, 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.

Industry Overview

Titanium s physical characteristics include a high strength-to-weight ratio, high temperature performance, and superior corrosion and erosion resistance. Relative to other metals, it is particularly effective in extremely harsh conditions. Given the properties, its scope of potential uses would be much broader than current uses but for its higher cost of production as compared to other metals. The first major commercial application of titanium occurred in the early 1950 s when it was used in components in aircraft gas turbine engines. Subsequent applications were developed to use the material in other aerospace component parts and in airframe construction. Traditionally, a majority of the U.S. titanium industry s output has been used in aerospace applications. However, in recent years, significant quantities of the industry s output have been used in non-aerospace applications, such as the global chemical processing industry, oil and gas exploration and production, geothermal energy production, consumer products, and non-aerospace military applications such as armor protection.

The U.S. titanium industry s reported shipments were approximately 67 million pounds in 2006, 73 million pounds in 2007, and are estimated to be approximately 70 million pounds in 2008. Demand from all major market segments is expected to decrease in 2009 due to the continuing global economic downturn, as well as the announced delays in the production of Boeing s 787 platform, which has created excess inventory in the supply chain. The cyclical nature of the aerospace and defense industries have been the principal cause of the fluctuations in the demand for titanium-related products.

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

The following is a summary of the Company s proportional sales to each of the three major markets it serves and a discussion of events occurring within those markets:

	2008	2007	2006
Commercial Aerospace	50%	50%	45%
Defense	34%	33%	32%
Industrial and Consumer	16%	17%	23%

Commercial Aerospace

In 2008, the Company s sales to the commercial aerospace market were approximately 50% of consolidated net sales compared to 50% in 2007 and 45% in 2006. Until recently, growth in this market was the result of increased world-wide air travel, driving not only increased plane production but also larger aircraft with higher titanium content than previous models. Despite the slowdown in 2008 relative to 2007, expected changes in global demographics is driving significant growth in demand for new aircraft, not to mention an expected replacement cycle of older aircraft. According to *Aerospace Market News,* the leading manufacturers of commercial aircraft, Airbus and Boeing, reported an aggregate of 7,429 aircraft on order at the end of 2008, an 8.5% increase from the prior year. This order backlog represents approximately eight years of production, at current build rates, for both Airbus and Boeing. *Aerospace Market News* also reported deliveries of large commercial aircraft by Airbus and Boeing totaled 858 in 2008, 894 in 2007, and 831 in 2006. According to *The Airline Monitor,* forecast deliveries of large commercial jets to airlines are predicted to reach approximately 905 aircraft in 2009, 768 aircraft in 2010, and 835 aircraft in 2011.

Airbus is now producing the largest commercial aircraft, the A380, and Boeing expects deliveries of the new 787 Dreamliner® to begin in 2010. Airbus has also announced the launch of another new aircraft, the A350XWB, to compete with Boeing s 787 models. The A350XWB is expected to go into service in 2013. All three of these new aircraft will use substantially more titanium per aircraft than on any other commercial aircraft. As production of these new aircraft increases, titanium demand is expected to grow to levels significantly above previous peak levels.

Defense

Defense markets represented approximately 34% of the Company s revenues in 2008 compared to 33% in 2007 and 32% in 2006. Military aircraft make extensive use of titanium and other specialty metals in their airframe structures and jet engines. These aircraft include U.S. fighters such as the F/A-22, F/A-18, F-15, and the F-35 Joint Strike Fighter (JSF); and European fighters, such as, the Mirage, Rafale, and Eurofighter-Typhoon. Military troop transports such as the C-17 and A400m also use significant quantities of these metals.

The JSF is set to become the fighter for the 21st Century with expected production exceeding 2,600 aircraft over the life of the program. In 2007, the Company was awarded a long-term contract extension from Lockheed Martin to support full-rate production of the JSF through 2020. Under the contract, the Company will supply the first eight million pounds of titanium mill products annually as the program fully ramps up, which is expected in 2014. The products the Company will supply include sheet, plate, and billet.

In addition to aerospace defense requirements, there are numerous titanium applications on ground vehicles and artillery driven by its armoring (greater strength) and mobility (lighter weight) enhancements. An example of these qualities is the titanium Howitzer program which began full-rate production in 2005. The Company is the principal titanium supplier for the Howitzer under a contract to BAE Systems through the third quarter of 2010.

Industrial & Consumer

Industrial & Consumer markets provided approximately 16% of the Company s revenue in 2008, compared to 17% in 2007 and 23% in 2006. These sales consist of shipments to the energy sector from the Fabrication Group and continued shipments of ferro titanium to the steel industry from the Titanium Group.

In the energy sector, the demand for the Company s products for oil and gas extraction, including deep-drilling exploration and production, increased in 2008. This demand is expected to grow over the next several years from further development of energy from deepwater and difficult-to-reach locations around the globe. As the complexity

Table of Contents

of oil and gas exploration and production increases, the expected scope of potential uses for titanium based structures and components is expected to increase.

Growth in developing nations, such as China, India, and the Middle East, has stimulated increased demand from the Chemical Process Industry CPI for heat exchangers, tubing for power plant construction, and specialty metals for desalinization plants.

Titanium is also being used extensively in global medical markets for orthopedic implants in hip and knee replacements; sporting goods such as golf clubs and tennis racquets; and other diverse applications including eyeglass frames and architectural structures.

Products and Segments

Effective July 1, 2008, we introduced a new operating and financial reporting structure. Under the new structure, we separated our fabrication and distribution businesses into two segments in order to better position the Company to produce and offer customers a full range of value-added mill products, provide greater accountability for these individual operations, and drive increased transparency. As such, we now conduct our operations in three reportable segments: the Titanium Group, the Fabrication Group, and the Distribution Group.

Titanium Group

The Titanium Group s products consist primarily of titanium mill products and ferro titanium alloys (for use in steel and other industries). Its titanium furnaces (as well as other processing equipment) and products are certified and approved for use by all major domestic and most international manufacturers of commercial and military airframes and related jet engines. The attainment of such certifications is often time consuming and expensive and can serve as a barrier to entry into the titanium mill product market. Titanium mill products are fabricated into parts and utilized in aircraft structural sections such as landing gear, fasteners, tail sections, wing support and carry-through structures, and various engine components including rotor blades, vanes and discs, rings, and engine cases.

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, castings 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. Approximately 43% of titanium mill products in 2008, compared to 42% in 2007, were sold to the Company s Fabrication and Distribution groups, where value-added services are performed on such parts prior to their ultimate shipment of parts to the customer.

In connection with the Group s long-term supply agreements for the JSF program and the Airbus family of commercial aircraft, including the A380 and A350XWB programs, the Company commenced several capital expansion projects in 2007 and 2008: a new titanium forging and rolling facility in Martinsville, Virginia and new melting facilities in Niles, Ohio with anticipated capital spending of approximately $100 million; and a premium-grade titanium sponge facility in Hamilton, Mississippi with anticipated capital spending of approximately $300 million. The melting expansion in Niles, Ohio should be completed in 2009, pending final customer certifications. The new forging and rolling facility in Martinsville, Virginia is under construction and is expected to become fully operational in 2011. The sponge project in Hamilton, Mississippi has completed engineering studies and environmental permitting as well as certain equipment ordering. While the Company expects this facility to be operational in 2011, the ramp up of production will be continually monitored against current demand trends.

Fabrication Group

The Fabrication Group is comprised of companies with significant hard-metal expertise that fabricate, machine, and assemble, titanium and other specialty metal parts and components. Its products, many of which are 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; and Montreal, Canada; and a representative office in China; the Fabrication Group provides value-added products and services such as engineered tubulars and

Table of Contents

extrusions, fabricated and machined components and sub-assemblies, as well as engineered systems for deepwater oil and gas exploration and production infrastructure. The Titanium Group is the primary source of mill products for the Fabrication Group.

Distribution Group

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; Houston, Texas; Indianapolis, Indiana; 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.

When titanium products and fabrications are involved in a project, the Titanium Group and the Fabrication Group coordinate their varied capabilities to provide the best materials solution for its customers. An example is the Company s Howitzer program. The Titanium Group is providing the titanium mill products to the Fabrication Group, which in turn is providing extrusions, hot formed parts, and machined components that are packaged as a kit and sent to BAE Systems for final assembly. This contract was awarded to the Company in 2005 for deliveries which extend through the third quarter 2010.

The amount and percentage of the Company s consolidated net sales represented by each Group for the past three years are summarized in the following table:

	2008		**2007**		**2006**	
(dollars in millions)	**$**	**%**	**$**	**%**	**$**	**%**
Titanium Group	$ 202.0	33.1%	$ 253.1	40.4%	$ 204.9	40.5%
Fabrication Group	146.8	24.1%	132.0	21.1%	83.1	16.4%
Distribution Group	261.1	42.8%	241.7	38.5%	217.4	43.1%
Total consolidated net sales	$ 609.9	100.0%	$ 626.8	100.0%	$ 505.4	100.0%

Operating income and the percentage of consolidated operating income contributed by each Group for the past three years are summarized in the following table:

	2008		**2007**		**2006**	
(dollars in millions)	**$**	**%**	**$**	**%**	**$**	**%**
Titanium Group	$ 61.8	70.7%	$ 102.6	72.7%	$ 78.5	68.1%
Fabrication Group	2.0	2.3%	3.5	2.5%	8.0	6.9%
Distribution Group	23.6	27.0%	35.1	24.8%	28.8	25.0%
Total consolidated operating income	$ 87.4	100.0%	$ 141.2	100.00%	$ 115.3	100.00%

The Company s total consolidated assets identified with each Group as of December 31 are summarized in the following table:

(In millions)	**2008**	**2007**
Titanium Group	$ 375.0	$ 281.2
Fabrication Group	224.5	226.4
Distribution Group	155.8	146.0
General Corporate(1)	273.9	101.7
Total consolidated assets	$ 1,029.2	$ 755.3

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

Exports

The majority of the Company s exports consist of titanium mill products, extrusions, and machined extrusions used in aerospace markets. Also, significant exports to energy market customers are beginning to occur as

deepwater oil and gas exploration increases beyond the Gulf of Mexico and Northern Atlantic Ocean regions. The Company s export sales were 31%, 26%, and 22% of net sales for the years ended December 31, 2008, 2007, and 2006, respectively. Such sales were made primarily into Europe, where the Company is a leader in supplying flat-rolled titanium alloy mill products. In addition, sales to the Asian market continue to accelerate. Most of the Company s export sales are denominated in U.S. Dollars. For further information about geographic areas, see Note 11, Segment Reporting to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

The Company supplies titanium alloy mill products and extrusions to the European market through the Company s network of European distribution companies, which secures contracts to furnish mill products to the major European aerospace manufacturers. The Company, through its French subsidiary, Reamet, was chosen by Airbus in 2006 as a major supplier of titanium flat-rolled products through 2015. In 2007, the Company, through its European subsidiaries, entered into a supplemental agreement with Airbus to supply a minimum of 45 million pounds of titanium mill products through 2020.

Backlog

The Company s order backlog for all markets was approximately $400 million as of December 31, 2008, as compared to $545 million at December 31, 2007. Of the backlog at December 31, 2008, approximately $358 million is likely to be realized in 2009. The Company defines backlog as firm business scheduled for release into the production process for a specific delivery date. The Company has numerous requirements contracts that extend over multiple years, including the Airbus, JSF, and Boeing 787 long-term supply agreements signed in 2007, which are not included in backlog until a specific release into production or a firm delivery date has been established.

Raw Materials

The principal raw materials used in the production of titanium mill products are titanium sponge (a porous metallic material, so called due to its appearance), titanium scrap, and various alloying agents. The Company sources its raw materials from a number of domestic and foreign titanium suppliers under long-term contracts and other negotiated transactions. Currently, the majority of the Company s titanium sponge requirements are sourced from foreign suppliers. Requirements for titanium sponge, scrap, and alloys vary depending upon the volume and mix of final products. The Company s cold-hearth melting process provides it with the flexibility to consume a wider range of metallics, thereby reducing its need for purchased titanium sponge.

The Company currently has supply agreements for certain critical raw materials. These contracts are with suppliers located in Japan, Kazakhstan, and the United States, and allow the Company to purchase certain quantities of raw materials at annually negotiated prices. Purchases under these contracts are U.S. Dollar denominated. These contracts expire at various periods through 2016. The Company purchases the balance of its raw materials opportunistically on the spot market as needed.

While the Company believes it has adequate sources of supply for titanium sponge, scrap, alloying agents, and other raw materials to meet its current raw material needs, it has begun construction on a new premium-grade sponge facility in Hamilton, Mississippi to meet its future raw material requirements in support of several long-term titanium supply agreements. The facility will have a total annual production capacity of up to 20 million pounds of titanium sponge and, pending market conditions, is expected to begin operations in 2011. Up to 100% of the output from this new sponge facility is expected to be consumed by the Company in support of its long-term titanium supply agreements. In March 2008, the Company signed a twenty-year agreement with Tronox Incorporated (Tronox) to supply this facility with titanium tetrachloride, the main ingredient of titanium sponge. In January 2009, Tronox filed for Chapter 11 bankruptcy protection. The Company is monitoring Tronox s bankruptcy proceedings and is reviewing its contingency plans for alternative raw material supply options, as necessary.

Business units in the Fabrication and Distribution Groups obtain the majority of their titanium mill product requirements from the Titanium Group. Other metallic requirements are generally sourced from the best available supplier at competitive market prices.

Competition and Other Market Factors

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

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

Producers of titanium mill products are located primarily in the U.S., Japan, Russia, Europe, and China. The Company participates directly in the titanium mill product business primarily through its Titanium Group. The Company s principal competitors in the aerospace titanium market are Allegheny Technologies Incorporated (ATI) and Titanium Metals Corp. (TIE), both based in the United States, and Verkhnaya Salda Metallurgical Production Organization (VSMPO), based in Russia. TIE and certain Japanese producers are the Company s principal competitors in the industrial and emerging markets. The Company competes primarily on the basis of price, quality of products, technical support, and the availability of products to meet customers delivery schedules.

Competition for the Fabrication and Distribution Groups is primarily on the basis of price, quality, timely delivery, and customer service. The Company believes that the business units in the Fabrication and Distribution Groups are well positioned to continue to compete and grow due to the range of goods and services offered and the increasing synergy with the Titanium Group for product and technical support.

Trade and Legislative Factors

Imports of titanium mill products from countries that receive the normal trade relations (NTR) tariff rate are subject to a 15% tariff. The tariff rate applicable to imports from countries that do not receive NTR treatment is 45%. A 15% tariff exists on unwrought titanium products entering the U.S., including titanium sponge. Currently, the Company s imported titanium sponge from Kazakhstan and Japan is subject to this 15% tariff. Competitors of the Company that do not rely on imported titanium sponge are not subject to the additional 15% tariff in the cost of their products. The Company has sought relief from this tariff through the Offices of the U.S. Trade Representative but has been unsuccessful in having the tariff removed. The Company believes the U.S. Trade laws as currently applied to the domestic titanium industry create a competitive disadvantage to the Company.

U.S. Customs and Border Protection (U.S. Customs) administers a duty drawback program whereby duty paid on imported items can be recovered. In the event materials on which duty has been paid are used in the manufacture of products in the United States and such manufactured products are then exported, duties paid may be refunded as drawback provided various requirements are met. The Company participates in U.S. Customs duty drawback program.

The United States Government is required by 10 U.S.C. § 2533b, Requirement to buy strategic materials critical to national security from American sources (the Specialty Metals Clause), to use domestically melted titanium in all military procurement. The law, which dates back to the Berry Amendment of 1973, is important to the Company in that it supports the domestic specialty metals industry. Although the Specialty Metals Clause was revised

comprehensively in the 2007 Defense Authorization Act (the 2007 Act), the subject was reopened in the 2007-2008 legislative session as a result of dissatisfaction, on both sides of the debate, with how the 2007 Act was being implemented by the Department of Defense. Consequently, new provisions under the National Defense Authorization Act for Fiscal Year 2008 (2008 Act) reflect a compromise on domestic source requirements for specialty metals.

The 2008 Act provides an important clarification for the specialty metals industry. It affirms that the Specialty Metals Clause does apply to commercial off-the-shelf-items such as: specialty metals mill products like titanium bar, billet, slab, and sheet; forgings and castings of specialty metals (unless incorporated into a commercial off-the-shelf item or subassembly); and fasteners (unless incorporated into commercial off-the-shelf end items or subassemblies). As an accommodation to the concerns of military suppliers and the Department of Defense, the 2008 Act provides for a new *de minimis* exception whereby defense agencies may accept an item containing up to 2% noncompliant metal, based on the total weight of all of the specialty metals in an item. This exception might apply, for example, to small specialty metal parts in a jet engine if the source of the parts cannot be ascertained. Finally, the 2008 Act revises the rules for granting compliance waivers when compliant materials are not available. It requires that the Department of Defense reexamine previously granted waivers (which the specialty metals industry challenged as overly broad) and amend them, if necessary, to comply with the 2008 Act. The 2008 Act also requires greater transparency in the use of the waiver process and requires the Department of Defense to report to Congress on the first and second anniversaries of the legislation concerning the types of items that are being procured under the new commercial off-the-shelf exception.

The Company believes that the compromises contained in the 2008 Act provide a fair and workable solution bridging the biggest concerns on both sides of the debate. The Company, together with the specialty metals industry as a whole, will be closely monitoring the implementation of the 2008 Act to see that the Specialty Metals Clause continues to ensure a reliable, domestic source of supply for products that are critical to national security.

Environmental Liabilities

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 impossible 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 obligations for environmental related costs on a quarterly basis and make adjustments in accordance with provisions of Statement of Position 96-1, *Environmental Remediation Liabilities* and SFAS No. 5, *Accounting for Contingencies*.

Based on available information, the Company believes that its share of possible environmental-related costs is in a range from $1.6 million to $3.1 million in the aggregate. At December 31, 2008 and 2007, the amounts accrued for future environmental-related costs were $2.3 million and $2.9 million, respectively. Of the total amount accrued at December 31, 2008, $2.1 million is expected to be paid out within one year and is included in the other accrued liabilities line on the balance sheet. The remaining $0.2 million is recorded in other noncurrent liabilities.

Historically, the Company has received contributions from various third parties, including prior owners of the Company s property and prior customers of the Company, that have agreed to partially reimburse the Company for certain environmental-related costs. The Company has been receiving contributions from such third parties for a number of years as partial reimbursement for costs incurred by the Company. At December 31, 2008, the Company has not recorded any amounts for expected contributions from such third parties.

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.

Marketing and Distribution

The Company markets its titanium mill and related products and services worldwide. The majority of the Company s sales are made through its own sales force. The Company s sales force has offices in Niles, Ohio; Houston, Texas; Los

Angeles, California; Indianapolis, Indiana; Hartford, Connecticut; and Montreal, Canada. Technical Marketing personnel are available to service these offices. Customer support for new product applications and development is provided by the Company s Customer Technical Service personnel at each business unit, as well as the corporate-level through the Company s Technical Business Development and Research and Development organizations-located in Pittsburgh, Pennsylvania and Niles, Ohio, respectively. Sales of the Fabrication and Distribution Groups products and services are made by our corporate-level sales force and personnel at the locations set forth below. Fabrication Group locations include: Houston, Texas; Washington, Missouri; and Montreal, Canada. Distribution Group facilities are located at Garden Grove, California; Windsor, Connecticut;

Table of Contents

Houston, Texas; Indianapolis, Indiana; Sullivan, Missouri; Birmingham, England; Rosny-Sur-Siene, France; and Guangzhou, China.

Research, Technical, and Product Development

The Company conducts research, technical, and product development activities for both the Titanium Group and the Fabrication Group. Research includes not only new product development, but also new or improved technical and manufacturing processes.

The Company is conducting research for the U.S. Army and has entered into discussions with both the U.S. Army and the Department of Defense on other research projects. The Company is currently partnered with American Engineering and Manufacturing Company (AEM) to develop lower cost titanium production for the U.S. Army Industrial base under the Advanced Materials and Processes for Armament Structures Program. AEM was awarded research and development funds in the fiscal year 2008 from the Department of Defense Appropriations bills in the amount of $5.6 million.

The Company also participates in several other federal and state-funded research projects to develop lower cost titanium, advanced melting technology, and as cast extrusions, as well as improved flat product research. The principal goals of the Company s research program, aside from U.S. Army and Department of Defense projects, are advancing technical expertise in the production of titanium mill and fabricated products and providing technical support in the development of new markets and products. Research, technical, and product development costs borne by the Company totaled $2.1 million in 2008, $1.7 million in 2007, and $1.5 million in 2006.

Patents and Trademarks

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

Employees

At December 31, 2008, the Company and its subsidiaries employed 1,643 persons, 605 of whom were classified as administrative and sales personnel. Of the total number of employees, 721 employees were in the Titanium Group, 682 in the Fabrication Group, 179 in the Distribution Group and 61 located at RTI corporate headquarters.

The United Steelworkers of America represents 343 of the hourly, clerical and technical employees at the Company s plant in Niles, Ohio. The current Labor Agreement entered into on December 1, 2004 with the United Steelworkers of America was originally set to expire on January 31, 2010, however, on February 2, 2008, the Company and the union agreed to an extension through June 30, 2013. Hourly employees at the RTI Tradco facility in Washington, Missouri voted to become members of the International Association of Machinists and Aerospace Workers in May of 2006. There are 163 employees in the bargaining unit. The current labor contract with the International Association of Machinists and Aerospace Workers expires on February 19, 2011. No other Company employees are represented by a union.

Executive Officers of the Registrant

Listed below are the executive officers of the Company, together with their ages and titles as of December 31, 2008.

Name	Age	Title
Dawne S. Hickton	51	Vice Chairman and Chief Executive Officer
Michael C. Wellham	43	President and Chief Operating Officer
Stephen R. Giangiordano	50	Executive Vice President of Technology and Innovation
William T. Hull	51	Senior Vice President and Chief Financial Officer
William F. Strome	53	Senior Vice President Strategic Planning and Finance
Chad Whalen	34	Vice President, General Counsel and Secretary

Table of Contents

Biographies

Ms. Hickton was appointed Vice Chairman and Chief Executive Officer in April 2007. She had served as Senior Vice President and Chief Administrative Officer since July 2005, Secretary since April 2004, and Vice President and General Counsel since June 1997. Prior to joining the Company, Ms. Hickton had been an Assistant Professor of Law at The University of Pittsburgh School of Law, and was employed at U.S. Steel Corporation from 1983 through 1994.

Mr. Wellham was appointed President and Chief Operating Officer in April 2007. He had served as Senior Vice President, Fabrication & Distribution Group since September 2002 and Vice President, Fabrication & Distribution Group since January 1999.

Mr. Giangiordano was appointed Executive Vice President of Technology and Innovation in July 2008. He had served as Executive Vice President since April 2007, Senior Vice President, Titanium Group since October 2002 and Vice President, Titanium Group since July 1999. Prior to that assignment, he served as Vice President, Technology since 1994.

Mr. Hull was appointed Senior Vice President and Chief Financial Officer in April 2007. He had served as Vice President and Chief Accounting Officer since August 2005. Prior to joining the Company, Mr. Hull served as Corporate Controller of Stoneridge, Inc., of Warren, Ohio, where he was employed since 2000. Mr. Hull is a Certified Public Accountant.

Mr. Strome was appointed Senior Vice President, Strategic Planning and Finance in November 2007. Prior to joining the Company, Mr. Strome served as a Principal focusing on development projects at Laurel Mountain Partners, L.L.C. Prior to joining Laurel in 2006, Mr. Strome served as Senior Managing Director and Group Head, Investment Banking at the investment banking firm Friedman, Billings, Ramsey & Co., Inc. From 1981 to 2001, Mr. Strome was employed by PNC Financial Services Group, Inc. in various legal capacities and most recently managed PNC s corporate finance advisory activities and its mergers and acquisitions services.

Mr. Whalen was appointed Vice President, General Counsel and Secretary in February 2007. Mr. Whalen practiced corporate law at the law firm of Buchanan Ingersoll & Rooney PC (which performs certain legal services for RTI) from 1999 until joining the Company.

Available Information

Our Internet address is www.rtiintl.com. We make available, free of charge through our website, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such documents are electronically filed with or furnished to the SEC. All filings are available at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. In addition, all filings are available via the SEC s website (www.sec.gov). We also make available on our website our corporate governance documents, including the Company s Code of Business Ethics, governance guidelines, and the charters for various board committees.

Item 1A. Risk Factors.

In addition to the factors discussed elsewhere in this report and in Management s Discussion and Analysis, the following are some of the potential risk factors that could cause our actual results to differ materially from those projected in any forward-looking statements. Any of these individual risks, or any number of these risks occurring

simultaneously, could have a material effect on our Consolidated Financial Statements. You should carefully consider these factors, as well as the other information contained in this document, when evaluating your investment in our securities. The below list of important factors is not all-inclusive or necessarily in order of importance.

We are subject to risks associated with global economic and political uncertainties

Like other companies, we are susceptible to macroeconomic downturns in the United States or abroad that may affect the general economic climate and our performance and the performance of our customers. The global

financial crisis may have an impact on our business and financial condition in ways that we currently cannot predict. The continuing credit crisis and related turmoil in the global financial system has had and may continue to have an impact on our business and our financial condition. In addition to the impact that the global financial crisis has already had, we may face significant challenges if conditions in the financial markets do not improve or continue to worsen. For example, an extension of the credit crisis to other industries could adversely impact overall demand for our products, which could have a negative effect on our revenues. In addition, our ability to access the capital markets may be severely restricted at a time when we would like, or need, to access additional sources of capital, which could have an impact on our flexibility and ability to react to changing economic and business conditions.

In addition, we are subject to various domestic and international risks and uncertainties, including changing social conditions and uncertainties relating to the current and future political climate. Changes in policy resulting from the new Presidential administration could have an adverse effect on the financial condition and the level of business activity of a certain segment of our market, specifically the defense industry, which may reduce our customers demand for our products and/or depress pricing of those products used in the defense industry or which have other military applications, resulting in a material adverse impact on our business, prospects, results of operations, revenues, and cash flows.

A significant amount of our future revenue is based on long-term contracts for new aircraft programs

We have signed several long-term contracts in recent years to produce titanium mill products and complex engineered assemblies for several new aircraft programs, including the Boeing 787, the JSF by Lockheed Martin, and the Airbus family of aircraft, including the A380 and the A350XWB. In order to meet the delivery requirements of these contracts, we have invested in significant capital expansion projects. A significant delay or cancellation in any one of these programs could have a material adverse impact on our business, prospects, results of operations, revenues, and cash flows.

The ability to successfully expand our operations in a timely and cost effective manner

In connection with several of our long-term commercial contracts, we are undertaking several major capital expansion projects which are currently estimated to continue through 2011, including the construction of our new titanium sponge plant and titanium rolling mill and forging press facilities. The inability to successfully expand our operations in a timely and cost effective manner could have a material adverse effect on our business, financial condition and results of operations. This growth places a significant demand on management and operational resources. Our success will depend upon the ability of key financial and operational management to ensure the necessary internal and external resources are in place to properly complete and operate these expansion projects.

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

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

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

Our business is substantially derived from titanium mill products and fabricated metal parts, which are primarily used by our customers as components in the manufacture of their products. The ability or inability to meet our financial expectations could be directly impacted by our customers abilities or inabilities to meet their own financial expectations. A downturn in demand for our customers products and services could occur for reasons beyond their

control such as unforeseen spending constraints, competitive pressures, rising prices, the inability to contain costs, and other domestic as well as global economic, environmental or political factors. A slowdown in demand by or complete loss of business from these customers could have a material impact on our economic situation.

A substantial amount of revenue is derived from the commercial aerospace and defense industries and a limited number of customers

Approximately 84% of our annual revenue is derived from the commercial aerospace and defense industries. Within those industries are a small number of consumers of titanium products. Those industries have shown the potential for sudden and dramatic changes in forecasted spending which can negatively impact the needs for our products and services. Some of our customers are particularly sensitive to the level of government spending on defense-related products. Sudden reductions in defense spending could occur due to economic or political changes which could result in a downturn in demand for defense-related titanium products. In addition, changes to existing defense procurement laws and regulations, such as the domestic preference for specialty metals, could adversely affect our results of operations. Many of our customers are dependent on the commercial airline industry which has shown to be subject to significant economic and political challenges due to threats or acts of terrorism, rising or volatile fuel costs, aggressive competition, and other factors. Any one or combination of these factors could occur suddenly and result in a reduction or cancellation in orders of new airplanes and parts which could have an adverse impact on our business. Neither the Company nor its customers may be able to project or plan in a timely manner for the impact of these events that could have a negative impact on our results of operations.

We may be subject to competitive disadvantages

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

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

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

We are subject to changes in product pricing

From time-to-time, excess supply and competition may result in fluctuations in the prices at which we are able to sell certain of our products. Price reductions may have a negative impact on our operating results. In addition, our ability to implement price increases is dependent on market conditions, often beyond our control. Given the long manufacturing lead times for certain products, financial benefits from increased prices may be delayed.

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

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

Our business could be harmed by strikes or work stoppages

The 343 hourly, clerical and technical employees at our Niles, Ohio facility are represented by the United Steelworkers of America. Our current labor agreement with this union expires June 30, 2013. The 163 hourly employees at our RTI Tradco facility in Washington, Missouri are represented by the International Association of Machinists and Aerospace Workers. Our current labor agreement with this union expires February 19, 2011.

We cannot be certain that we will be able to negotiate new bargaining agreements upon expiration of the existing agreements on the same or more favorable terms as the current agreements, or at all, without production interruptions caused by a labor stoppage. If a strike or work stoppage were to occur in connection with the negotiation of a new collective bargaining agreement, or as a result of a dispute under our collective bargaining agreements with the labor unions, our business, financial condition and results of operations could be materially adversely affected.

Our business is subject to the risks of international operations

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

We are dependent on services that are subject to price and availability fluctuations

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

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

Much of our future success depends on the continued service and availability of skilled personnel, including members of our executive team, management, metallurgists, and staff positions. The loss of key personnel could adversely affect our Company s ability to perform until suitable replacements are found. There can be no assurance that the Company will be able to continue to successfully attract and retain key personnel.

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

War, terrorism, natural disasters, and public health issues including pandemics whether in the U.S. or abroad, have caused and could cause damage or disruption to international commerce by creating economic and political

uncertainties that may have a negative impact on the global economy as a whole. Our business operations, as well as our suppliers and customers business operations, are subject to interruption by those factors as well as other events beyond our control such as governmental regulations, fire, power shortages, and others. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for the Company s products, make it difficult or impossible for us to deliver products to our customers or to receive materials from our suppliers, and create delays and inefficiencies in our supply chain. Our operating results and financial condition may be adversely affected by these events.

Table of Contents

The outcome of the U.S. Customs investigation of our previously filed duty drawback claims is uncertain

During 2007, the Company received notice from U.S. Customs indicating that certain duty drawback claims previously filed by the Company s agent, on behalf of the Company, are under formal investigation. The investigation relates to discrepancies in, and lack of supporting documentation for, claims filed through the Company s authorized agent. For additional detail regarding this investigation, see Duty Drawback Investigation in Item 3. Legal Proceedings. The ultimate outcome of the U.S. Customs investigation cannot be determined, however, the outcome of this investigation could have an adverse impact on our financial performance.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Manufacturing Facilities

The Company has approximately 1.7 million square feet of manufacturing facilities, exclusive of distribution facilities and office space. The Company s principal manufacturing plants, the principal products produced at such locations and their aggregate capacities are set forth below.

Facilities

Location	**Owned / Leased**	**Products**	**Annual Rated Capacity**
Titanium Group			
Niles, OH	Owned	Ingot (million pounds)	30.0
Niles, OH	Owned	Mill products (million pounds)	22.0
Canton, OH	Owned	Ferro titanium and specialty alloys (million pounds)	16.0
Hermitage, PA	Owned	Metal processing (million pounds)	5.0
Hamilton, MS	Owned	Titanium sponge production (facility under construction)	
Martinsville, VA	Owned	Titanium forging and rolling (facility under construction)	
Fabrication Group			
Washington, MO	Owned	Hot and superplastically formed parts (thousand press hours)	50.0
Montreal, Canada	Owned	Machining/assembly of aerospace parts (thousand man hours)	400
Houston, TX	Leased	Extruded, Hot Stretch Formed products (million pounds)	4.2
Houston, TX	Owned	Machining/fabricating oil/gas products (thousand man hours)	300
Distribution Group			
Birmingham, England	Leased	Cut parts and components (thousand man hours)	45.0
Rosny-Sur-Siene, France	Leased	Cut parts and components (thousand man hours)	16.0

Sullivan, MO	Leased	Cut parts (thousand man hours)	23.0
Los Angeles, CA (2 locations)	Leased	Metal warehousing and distribution	N/A
Hartford, CT	Leased	Metal warehousing and distribution	N/A
Indianapolis, IN	Leased	Metal warehousing and distribution	N/A
Houston, TX	Leased	Metal warehousing and distribution	N/A

In addition to the leased facilities noted above, the Company leases certain buildings and property at the Washington, Missouri and Canton, Ohio operations as well as a sales office in Guangzhou, China. All other facilities are owned. The plants have been constructed at various times over a long period. Many of the buildings have been remodeled or expanded and additional buildings have been constructed from time to time.

Item 3. Legal Proceedings.

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. There are currently no material pending or threatened claims against the Company other than the matters discussed below.

Table of Contents

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 customers. The agent performed the recapture process by matching the Company s duty paid with the export shipments through filings with the U.S. Customs and Border Protection (U.S. Customs).

Historically, the Company recognized a credit to Cost of Sales when it received notification from the 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 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 supported by 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 is currently performing an internal review of the entire $14.5 million of drawback claims filed with U.S. Customs to determine the extent to which any claims may have been invalid or may not have been supported with adequate documentation. The Company is attempting to provide additional or supplemental documentation to U.S. Customs to support such previously filed claims. As of the date of this filing, this review is not complete due to the extensive amount of documentation which must be examined. However, as a result of this review to date, the Company recorded charges totaling $0.8 million and $7.2 million to Cost of Sales in 2008 and 2007, respectively. These charges were determined in accordance with SFAS No. 5, *Accounting for Contingencies*, and represent the Company s current best estimate of probable loss. Of these amounts, $7.3 million was recorded as a contingent current liability and $0.7 million was recorded as a write-off of an outstanding receivable representing claims filed which had not yet been paid by U.S. Customs. The Company has repaid $1.1 million to U.S. Customs for invalid claims through December 31, 2008. As a result of these payments, the Company s liability totaled $6.2 million as of December 31, 2008. While the ultimate outcome of the U.S. Customs investigation and the Company s own internal review is not yet known, the Company believes there is an additional possible risk of loss between $0 and $3.9 million based on current facts, exclusive of amounts imposed for interest and penalties, if any, which cannot be quantified at this time.

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 significant impact on the results of the operations, cash flows, or the financial position of the Company.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Range of High and Low Stock Prices of Common Stock

Quarter	2008 High	2008 Low	2007 High	2007 Low
First	$ 70.33	$ 43.40	$ 94.30	$ 67.82
Second	$ 51.84	$ 35.25	$ 101.49	$ 73.04
Third	$ 36.12	$ 17.15	$ 88.32	$ 58.42
Fourth	$ 19.45	$ 7.91	$ 85.20	$ 64.59

Principal market for Common Stock: New York Stock Exchange

Holders of record of Common Stock at January 30, 2009: 627

The Company has not paid dividends on its Common Stock.

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, and which authorizes the repurchase of up to $15 million of RTI Common Stock. During the year-ended December 31, 2008 the Company invested $9.0 million to repurchase 176,976 shares of RTI Common Stock at an average price of $50.83 per share. No shares were repurchased under this program during the year ended December 31, 2007. At December 31, 2008, 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 in 2008 and 2007 were 1,860 and 32,195 shares, respectively.

Table of Contents

Item 6. Selected Financial Data.

The following table sets forth selected historical financial data and should be read in conjunction with the Consolidated Financial Statements and notes related hereto and other financial information included elsewhere herein.

The selected historical data was derived from our Consolidated Financial Statements (in thousands, except per share data).

	Years Ended December 31,				
	2008	2007	2006	2005	2004
Income Statement Data(1):					
Net sales	$ 609,900	$ 626,799	$ 505,389	$ 346,906	$ 209,643
Operating income (loss)	87,392	141,161	115,253(2)	56,134	(14,566)
Income (loss) from continuing operations before income taxes	87,975	142,467	118,291	57,412	(4,996)(3)
Income (loss) from continuing operations	55,695	92,631	75,700	37,344	(2,319)
Income (loss) from discontinued operations, net of tax provision				1,591	(638)
Net income (loss)	55,695	92,631	75,700	38,935	(2,957)
Basic earnings (loss) per share:					
Continuing operations	$ 2.44	$ 4.04	$ 3.34	$ 1.68	$ (0.11)
Discontinued operations				0.07	(0.03)
Net income (loss)	$ 2.44	$ 4.04	$ 3.34	$ 1.75	$ (0.14)
Diluted earnings (loss) per share:					
Continuing operations	$ 2.42	$ 4.00	$ 3.29	$ 1.66	$ (0.11)
Discontinued operations				0.07	(0.03)
Net income (loss)	$ 2.42	$ 4.00	$ 3.29	$ 1.73	$ (0.14)

	December 31,				
	2008	2007	2006	2005	2004
Balance Sheet Data:					
Working capital	$ 559,601	$ 405,907	$ 365,711	$ 282,670	$ 218,444
Total assets	1,029,203	755,284	643,913	501,751	409,411
Long-term debt	238,550	16,506	13,270		
Total shareholders equity	601,934	575,784	462,181(4)	379,652	323,958

(1) All years presented have been adjusted for the impacts of the discontinued operations which occurred in 2005 and 2004.

(2) The adoption of SFAS 123(R) on January 1, 2006 resulted in an additional $2.6 million of compensation expense in 2006.

(3) Includes the effect of an approximately $9 million gain for settlement of a contractual claim.

(4) The adoption of SFAS 158 as of December 31, 2006 resulted in a decrease in equity of $10.8 million.

Table of Contents

Item 7. 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 report, the following factors and risks should also be considered, including, without limitation,

- the effect of the slowdown in U.S and global economic activity and policy changes following the U.S. Presidential election,
- statements regarding the future availability and prices of raw materials,
- competition in the titanium industry,
- demand for the Company s products,
- the historic cyclicality of the titanium and commercial aerospace industries,
- changes in defense spending,
- the success of new market development,
- long-term supply agreements,
- the impact of Boeing 787 production delays,
- legislative challenges to the Specialty Metals Clause of the Berry Amendment,
- labor matters,
- outcome of the pending 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 Annual Report on Form 10-K, as well as in our other filings with 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.

Overview

RTI International Metals, Inc. (the Company, RTI, we, us, or our) is a leading U.S. producer and supplier of tita mill products and a supplier of fabricated titanium and specialty metal parts for the global market.

Effective July 1, 2008, we introduced a new operating and financial reporting structure. Under the new structure, we separated our fabrication and distribution businesses into two segments in order to better position the Company to produce and offer customers a full range of value-added mill products, provide greater accountability for these individual operations, and drive increased transparency. As such, we now conduct our operations in three reportable 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, the Titanium Group has overall responsibility for the production of primary mill products including, but not limited to, bloom,

billet, sheet, and plate. This 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, and chemical process industries, as well as a number of other industrial and consumer markets. With operations located in Houston, Texas; Washington, Missouri; Laval, Quebec; and a representative office in China, the Fabrication Group concentrates its efforts on maximizing its profitability by offering value-added products and services such as engineered tubulars and extrusions, fabricated and machined components and sub-assemblies, as well as engineered systems for energy-related markets by accessing the Titanium Group as its primary source of mill products.

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; Houston, Texas; Indianapolis, Indiana; Sullivan, Missouri; Staffordshire, England; and Rosny-Sur-Seine, France; the Distribution Group services a 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 mill products. Approximately 43%, 42%, and 43% of the Titanium Group s sales in 2008, 2007, and 2006, respectively, were to the Fabrication and Distribution Groups.

Approximately 50% of our sales in 2008 were directed to the commercial aerospace market. Air traffic demand, which drives new aircraft production along with aircraft titanium content, remained strong, and, not withstanding current global economic conditions, we believe that long-term demand for new aircraft should remain stable; especially with the increasing demand for air travel in the rising economic markets of Brazil, Russia, India, and China. The global demand for environmentally improved aircraft from both a noise pollution and fuel efficiency standpoint also supports the demand for the recently designed aircraft, including the Boeing 787 and Airbus A350XWB.

Over the past several years, through both our Fabrication group and our Distribution Group, we have focused much of our development activities and marketing initiatives on value-added titanium processing (i.e., engineering, designing, extruding, machining, and fabricating.) This focus positions us to be closer to the primary contractors as final systems integrators. As we move up the value chain, we become a more valuable supply partner. It also positions us to be less dependent on commodity titanium as our sole end product.

Like all titanium mill producers, a significant amount of our capital supports inventory, primarily work-in-process, which is driven by the nature of processing titanium to demanding metallurgical and physical specifications which often results in double or triple melting of the material. Further, as the Fabrication and Distribution Groups businesses expand and their requirements for additional product from the Titanium Group grow, additional capital will be needed to support inventories. However, management is focused on reducing inventory levels and has dedicated additional resources to improve our internal supply chain management, resulting in a significant reduction in inventory during 2008. This is especially important in light of the continuing global economic uncertainties.

Much of our deployed capital relates to work-in-process inventory necessitated by the nature of processing titanium; however, significant investments in raw materials, such as titanium sponge and various master alloys, have also been made in an effort to secure an uninterrupted supply and to accommodate surges in demand. As a result, management has put in place various goals aimed at optimizing inventory levels and continually monitoring appropriate levels of required inventory.

Executive Summary

2008 was a challenging year, not only in the titanium industry, but also for our aerospace and energy customers. Our 2008 business plan was disrupted by the production delays for Boeing s new 787 Dreamliner, followed by a worldwide economic crisis that reduced the near-term demand for our products. Nonetheless, we finished the year with our third highest operating income ever, and our second highest year in revenues. Despite the

current global liquidity crisis, we ended the year with a strong balance sheet with over $284 million in cash and cash equivalents. During 2009, we intend to focus on balancing our cash needs and expenditures with the near and medium-term demand for our products and services.

Results of Operations

For the Year Ended December 31, 2008 Compared to the Year Ended December 31, 2007

Net Sales. Net sales for our reportable segments, excluding intersegment sales, for the years ended December 31, 2008 and 2007 are summarized in the following table:

	Years Ended			
	December 31,		$ Increase/	% Increase/
(In millions)	2008	2007	(Decrease)	(Decrease)
Titanium Group	$ 202.0	$ 253.1	$ (51.1)	–20.2%
Fabrication Group	146.8	132.0	14.8	11.2%
Distribution Group	261.1	241.7	19.4	8.0%
Total consolidated net sales	$ 609.9	$ 626.8	$ (16.9)	–2.7%

The decrease in the Titanium Group s net sales was primarily the result of a 20% decrease in average realized selling prices of prime mill products to trade customers due to changes in the sales mix between periods. During 2008, a higher percentage of our sales related to long-term supply agreements which generally carry lower overall sales prices and are subject to annual pricing adjustments. In addition, excess inventory in the market due to the announced Boeing 787 delays and the lower overall titanium demand profile resulted in lower spot market volume and lower realized selling prices.

The increase in the Fabrication Group s net sales was primarily related to an increase in shipments on our current long-term contracts in the commercial aerospace and defense markets, including increases in Boeing 787-related shipments, as well as better pricing on certain of our commercial aerospace programs and the completion of significant projects for our energy market customers.

The increase in the Distribution Group s net sales was primarily related to higher sales under our long-term supply agreement with Airbus supporting the Airbus family of commercial aircraft and higher demand from certain military programs. These increases were partially offset by a softening in realized prices for certain specialty metals products.

Gross Profit. Gross profit for our reportable segments for the year ended December 31, 2008 and 2007 are summarized in the following table:

	Years Ended			
	December 31,		$ Increase/	% Increase/
(In millions)	2008	2007	(Decrease)	(Decrease)

Titanium Group	$ 86.6	$ 121.4	$ (34.8)	−28.7%
Fabrication Group	31.4	28.1	3.3	11.7%
Distribution Group	49.3	58.6	(9.3)	−15.9%
Total consolidated gross profit	$ 167.3	$ 208.1	$ (40.8)	−19.6%

Excluding the $0.8 million charge in 2008 and $7.2 million charge in 2007 associated with the U.S. Customs investigation of our previously filed duty drawback claims, gross profit for the Titanium Group decreased $41.2 million. The decrease in gross profit was primarily attributable to higher raw material costs and lower absorption of production costs, lower trade shipments volume, a lower margin product mix, and lower average realized selling prices in 2008 compared to 2007. These decreases were partially offset by favorable impacts associated with the sale of Titanium Group-sourced inventory by our Fabrication Group and Distribution Group businesses as well as favorable ferro-alloys margins in 2008.

The increase in gross profit for the Fabrication Group was largely due to increased sales across the commercial aerospace, defense, and energy markets, somewhat offset by lower utilization and other inefficiencies in the current

year related to delays in the ramp-up of the Boeing 787 Program. The gross profit percentage in 2008 of 21.4% slightly exceeded the 21.3% gross profit percentage in 2007.

The decrease in gross profit for the Distribution Group was primarily due to a decrease in realized prices for certain specialty metals that exceeded our decline in product cost and lower margins on certain military programs, coupled with an increase in lower margin shipments under our long-term supply agreements. As a result, gross profit percentage for the Distribution Group decreased to 18.8% in 2008 from 24.2% in 2007.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses (SG&A) for our reportable segments for the years ended December 31, 2008 and 2007 are summarized in the following table:

(In millions)	**Years Ended December 31, 2008**	**2007**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Titanium Group	$ 22.8	$ 17.3	$ 5.5	31.8%
Fabrication Group	29.3	24.1	5.2	21.6%
Distribution Group	25.7	23.9	1.8	7.5%
Total consolidated SG&A	$ 77.8	$ 65.3	$ 12.5	19.1%

The increase in SG&A was largely the result of increased compensation-related expenses, reflecting additional personnel and increased professional and consulting fees. These personnel include engineering and technology professionals to support long-term strategic growth projects and initiatives, including our announced expansion projects in Hamilton, Mississippi and Martinsville, Virginia. In addition, 2008 SG&A included the resolution of a commercial dispute with a customer that resulted in a bad debt write-off of $1.5 million and an employee benefit plan settlement charge of $2.0 million related to lump sum pension payments made in 2008 caused by two executives who retired in 2007.

Research, Technical, and Product Development Expenses. Total research, technical, and product development costs for the Company were $2.1 million in 2008 as compared to $1.7 million in 2007. This spending, primarily related to our Titanium Group, reflects the Company s continued efforts to make productivity and quality improvements to current manufacturing processes.

Operating Income. Operating income for our reportable segments for the year ended December 31, 2008 and 2007 are summarized in the following table:

(In millions)	**Years Ended December 31, 2008**	**2007**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Titanium Group	$ 61.8	$ 102.6	$ (40.8)	−39.8%
Fabrication Group	2.0	3.5	(1.5)	−42.9%
Distribution Group	23.6	35.1	(11.5)	−32.8%

Total consolidated operating income	$	87.4	$	141.2	$	(53.8)	−38.1%

Excluding the $0.8 million charge in 2008 and $7.2 million charge in 2007 associated with the U.S. Customs investigation of our previously filed duty drawback claims, operating income for the Titanium Group decreased $47.2 million. This decrease was primarily the result of higher raw material costs and lower absorption of production costs, lower gross profit due to the lower margin product mix and lower average realized selling prices, coupled with higher SG&A costs primarily due to increased compensation-related expenses.

The decrease in operating income for the Fabrication Group was principally related to higher SG&A costs due to increases in compensation-related expenses and the settlement of a commercial dispute with a customer resulting in a bad debt write-off of $1.5 million. This increase in SG&A costs was offset to some extent by increased gross margin in our Fabrication Group due to increased sales across the commercial aerospace, defense, and energy markets.

The decrease in operating income for the Distribution Group was largely due to the continued softening in realized prices for certain specialty metals and lower margins on certain military programs, coupled with an increase in lower margin shipments under our long-term supply agreements and higher SG&A costs primarily due to increased compensation-related expenses.

Other Income (Expense). Other income (expense) increased to $1.5 million in 2008 as compared to $(2.1) million in the prior year. Other income (expense) consists mostly of foreign exchange gains and losses from our international operations, and was significantly impacted by the large fluctuations of the U.S. Dollar compared to the Canadian Dollar, the Euro, and the British Pound during 2008 compared to 2007. Our foreign currency exposure principally relates to the remeasurement of assets and liabilities of our international operations that are recorded in a currency other than the U.S. Dollar. Included in other income (expense) in 2007 was a gain of $1.0 million from the settlement of litigation against a former material supplier.

Interest Income and Interest Expense. Interest income decreased to $3.3 million in 2008 as compared to $4.8 million in the prior year. The decrease in interest income was principally related to lower returns on invested cash due to a more conservative investment philosophy in light of the continuing credit market uncertainties. This decrease was partially offset by an increase in our cash balances due to the funding received from our $225 million term loan during September 2008. The average effective rate earned in 2008 was 1.9% compared to 4.8% in 2007. Interest expense increased to $4.2 million in 2008 as compared to $1.3 million in the prior year. The increase in interest expense was primarily attributable to our increase in long-term debt compared to the prior year as a result of borrowing on our $225 million term loan in September 2008 to enhance our financial flexibility in anticipation of tightening credit markets.

Provision for Income Tax. We recognized income tax expense of $32.3 million, or 36.7% of pretax income in 2008 compared to $49.8 million, or 35.0% of pretax income, in 2007 for federal, state, and foreign income taxes. The $17.5 million decrease in tax expense is primarily attributable to lower U.S. income. The increase in the effective tax rate was primarily the result of changes in the relative mix of U.S. and foreign income, an absence of tax exempt investment income in 2008 that was present in 2007, and an increase in unrecognized tax benefits.

For the Year Ended December 31, 2007 Compared to the Year Ended December 31, 2006

Net Sales. Net sales for our reportable segments, excluding intersegment sales, for the years ended December 31, 2007 and 2006 are summarized in the following table:

	Years Ended December 31,			
(In millions)	**2007**	**2006**	**$ Increase/ (Decrease)**	**% Increase/ (Decrease)**
Titanium Group	$ 253.1	$ 204.9	$ 48.2	23.5%
Fabrication Group	132.0	83.1	48.9	58.8%
Distribution Group	241.7	217.4	24.3	11.2%
Total consolidated net sales	$ 626.8	$ 505.4	$ 121.4	24.0%

The Titanium Group s net sales increased by $48.2 million due to an increase in average selling prices driven by strong demand from the commercial aerospace markets offset by a slight decrease in trade shipments. The increases in selling

price led to improved prime product sales of $71.2 million, offset by a slight decrease in volume of 364 thousand pounds, representing $7.4 million in trade sales. The Titanium Group s net sales were also impacted by decreases in trade sales from non-prime products, principally ferro-alloys, representing a $15.6 million decrease from the same period in the prior year.

The increase in the Fabrication Group s net sales of $48.9 million was primarily the result of continued strong demand from customers in most of the Group s businesses and product lines as well as increased selling prices. Although most of the increased sales were in the commercial aerospace market, we also completed significant projects for our energy market customers during 2007 that resulted in increased net sales of $10.1 million.

The increase in the Distribution Group s net sales was primarily related to higher sales under our long-term supply agreement with Airbus supporting the Airbus family of commercial aircraft and higher demand from certain military programs partially offset by a softening in realized selling prices for certain specialty metals.

Gross Profit. Gross profit for our reportable segments for the years ended December 31, 2007 and 2006 are summarized in the following table:

(In millions)	Years Ended December 31, 2007	2006	$ Increase/ (Decrease)	% Increase/ (Decrease)
Titanium Group	$ 121.4	$ 94.1	$ 27.3	29.0%
Fabrication Group	28.1	28.0	0.1	0.4%
Distribution Group	58.6	50.8	7.8	15.4%
Total consolidated gross profit	$ 208.1	$ 172.9	$ 35.2	20.4%

Excluding the $7.2 million charge associated with the U.S. Customs investigation of our previously filed duty drawback claims, gross profit for the Titanium Group increased by $34.5 million and gross profit percentage increased to 50.8% from 45.9% in the prior year. The increases in gross profit and gross profit percentage were primarily attributable to the increase in average selling prices driven by strong demand in the commercial aerospace markets.

The slight increase in gross profit for the Fabrication Group of $0.1 million was largely due to increased sales in all markets, as discussed above. The gross profit percentage for the Fabrication Group, however, decreased to 21.3% as compared to 33.7% in the prior year. The decrease in gross profit percentage was primarily due to startup costs relating to the new Claro facility, as we ramped-up to meet the demands of the Boeing 787 contract.

Gross profit for the Distribution Group increased to $58.6 million in 2007 from $50.8 million in 2006. The increase in gross profit was driven by overall increases in shipment volumes, as discussed above. Gross profit percentage also increased to 24.2% in 2007 from 23.4% in 2006 primarily due to new contract pricing.

Selling, General, and Administrative Expenses. SG&A for our reportable segments for the years ended December 31, 2007 and 2006 are summarized in the following table:

(In millions)	Years Ended December 31, 2007	2006	$ Increase/ (Decrease)	% Increase/ (Decrease)
Titanium Group	$ 17.3	$ 14.1	$ 3.2	22.7%
Fabrication Group	24.1	20.4	3.7	18.1%
Distribution Group	23.9	21.6	2.3	10.6%
Total consolidated SG&A	$ 65.3	$ 56.1	$ 9.2	16.4%

Total SG&A for the Company increased $9.2 million in 2007 compared to 2006. The increase in SG&A expenses primarily reflects increases in compensation-related expenses of $7.6 million. The increase largely reflects additional personnel to support business growth opportunities and one-time stock-based compensation and pension costs of

$1.7 million related to the retirement of key executives. Increases related to other administrative expenses were offset by a decrease in audit and accounting fees of $2.7 million, principally due to improved efficiencies made in our Sarbanes-Oxley compliance program, and a decrease in bad debt expense.

Research, Technical, and Product Development Expenses. Total research, technical, and product development expenses were $1.7 million in 2007 compared to $1.5 million in 2006. This spending, primarily related to our Titanium Group, reflects the Company s continued efforts in making productivity and quality improvements to current manufacturing processes.

Operating Income. Operating income for our reportable segments for the years ended December 31, 2007 and 2006 are summarized in the following table:

(In millions)	Years Ended December 31, 2007	2006	$ Increase/ (Decrease)	% Increase/ (Decrease)
Titanium Group	$ 102.6	$ 78.5	$ 24.1	30.7%
Fabrication Group	3.5	8.0	(4.5)	56.3%
Distribution Group	35.1	28.8	6.3	21.9%
Total consolidated operating income	$ 141.2	$ 115.3	$ 25.9	22.5%

Excluding the $7.2 million charge associated with the U.S. Customs investigation of our previously filed duty drawback claims, operating income for the Titanium Group increased by $31.3 million and operating income percentage increased to 43.4% from 38.3% in the prior year. The increases in operating income and operating income percentage were largely attributable to the increase in average selling prices driven by strong demand in the commercial aerospace markets slightly offset by increased SG&A expenses.

The decrease in operating income for the Fabrication Group of $4.5 million reflects a slight gross margin improvement of $0.1 million largely offset by increased SG&A expenses related to additional personnel to support the Boeing 787 program. Operating income percentage for the Fabrication Group decreased from 9.6% in 2006 to 2.7% reflecting startup costs associated with the Boeing 787 program, including both operating inefficiencies and incremental administrative personnel to support the program.

Operating income for the Distribution Group increased by $6.3 million primarily due to an increase in gross profit of $7.8 million. This is as a result of strong volumes and increased selling prices partially offset by increased SG&A due to compensation-related expenses.

Other Income. Other income (expense) decreased to $(2.1) million in 2007 as compared to $0.5 million in the prior year. Other income (expense) consists mostly of foreign exchange gains and losses from our international operations and was significantly impacted by the weakening of the U.S. Dollar compared to the Canadian Dollar, the Euro, and the British Pound during 2007 compared to 2006. Our foreign currency exposure principally relates to the remeasurement of assets and liabilities of our international operations that are recorded in a currency other than the U.S. Dollar. Also included in other income (expense) in 2007 was a gain of $1.0 million from the settlement of litigation against a former material supplier.

Interest Income and Interest Expense. Interest income increased to $4.8 million in 2007 compared to $3.2 million in 2006. The increase in interest income was due to an overall increase in the level of cash and short-term investments on hand compared to the prior year. The average effective rate was 4.8% in 2007 compared to 5.0% in 2006. Interest expense increased to $1.3 million in 2007 compared to $0.7 million in the prior year.

Provision for Income Taxes. Income tax expense increased by $7.2 million as a result of pretax income of $142.5 million in 2007 compared to pretax income from continuing operations of $118.3 million in 2006. The effective income tax rate for 2007 was 35.0% compared to 36.0% in 2006. The decrease in the 2007 effective rate is primarily the result of a favorable deduction for qualified domestic production activities partially offset by higher

relative state taxes associated with greater U.S. income. The effective tax rate for 2006 was greater than the Federal statutory rate primarily due to the effect of state income taxes.

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 customers. The agent performed the recapture process by matching the Company s duty paid with the export shipments through filings with the U.S. Customs and Border Protection (U.S. Customs).

Historically, the Company recognized a credit to Cost of Sales when it received notification from the 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 the second quarter of 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 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 supported by 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 is currently performing an internal review of the entire $14.5 million of drawback claims filed with U.S. Customs to determine the extent to which any claims may have been invalid or may not have been supported with adequate documentation. The Company is attempting to provide additional or supplemental documentation to U.S. Customs to support such previously filed claims. As of the date of this filing, this review is not complete due to the extensive amount of documentation which must be examined. However, as a result of this review to date, the Company recorded charges totaling $0.8 million and $7.2 million to Cost of Sales during 2008 and 2007, respectively. These charges were determined in accordance with SFAS No. 5, *Accounting for Contingencies*, and represent the Company s current best estimate of probable loss. Of these amounts, $7.3 million was recorded as a contingent current liability and $0.7 million was recorded as a write-off of an outstanding receivable representing claims filed which had not yet been paid by U.S. Customs. The Company has repaid $1.1 million to U.S. Customs for invalid claims through December 31 2008. As a result of these payments, the Company s liability totaled $6.2 million as of December 31, 2008. While the ultimate outcome of the U.S. Customs investigation and the Company s own internal review is not yet known, the Company believes there is an additional possible risk of loss between $0 and $3.9 million based on current facts, exclusive of amounts imposed for interest and penalties, if any, which cannot be quantified at this time.

During the fourth quarter of 2007, the Company began filing new duty drawback claims through a new authorized agent. Claims filed during the fourth quarter of 2007 totaled $1.7 million. Claims filed during 2008 totaled $1.3 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.

Outlook

We believe that 2009 will be a challenging year. We anticipate that our operating income for 2009, as compared to 2008, will be negatively impacted by lower mill product shipments, lower average realized selling prices, and our continued infrastructure investments as we position the Company to support the ramp-up of our long-term supply agreements.

Backlog. Our order backlog for all markets was approximately $400 million as of December 31, 2008, compared to $545 million at December 31, 2007. Of the backlog at December 31, 2008, approximately $358 million is likely to be realized during 2009. We define backlog as firm business scheduled for release into our production process for a specific delivery date. We have numerous requirements contracts that extend over multiple years, including the Airbus, JSF and Boeing 787 long-term supply agreements, that are not included in backlog until a specific release into production or a firm delivery date has been established.

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 undertaking several capital expansions. During 2007, we announced plans to construct a premium-grade titanium sponge facility in Hamilton, Mississippi, with anticipated capital spending of approximately $300 million. In addition, we announced plans to construct 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 $100 million. In light of current economic uncertainties and the overall softening within the industry, we have delayed the construction of these

facilities and now expect them to become operational, pending market conditions, during 2011. We anticipate the majority of the capital expenditures related to these facilities, pending market conditions, will occur in 2010 and 2011.

In connection with these capital expansion programs and the continuing uncertainties in the credit markets, we completed the first amendment of our $240 million credit agreement in September 2008. The amendment replaced our $240 million revolving credit facility with a $225 million term loan, on which we have fully borrowed, and a $200 million revolving credit facility. The principal on the term loan will be repaid in quarterly installments beginning in 2010 with 20% of the principal balance being repaid in both 2010 and 2011 and the remaining 60% being repaid in 2012. The credit agreement contains covenants which, among other things, require us to maintain a leverage ratio of no greater than 3.25 to 1.00 and an interest coverage ratio of not less than 2.0 to 1.0. As of December 31, 2008, we were in compliance with these covenants.

We expect that our cash and cash equivalents of $284 million, our cash flows from operations, and our undrawn $200 million revolving credit facility will provide us sufficient liquidity to meet our operating needs, debt service requirements, and complete our capital expansion projects.

Cash provided by (used in) operating activities. Cash provided by operating activities was $83.0 million and $45.6 million for the years ended December 31, 2008 and 2007, respectively. The increase was the result of significant improvements in the level of working capital, principally related to the reduction of our inventories and the collection of our receivables, as well as increased advance payments received on long-term projects during 2008 compared to the prior year.

Cash provided by operating activities was $45.6 million and $83.7 million for the years ended December 31, 2007 and 2006, respectively. The increase in our net earnings was offset by increased cash tax payments and increased inventory balances. Inventory balances increased due to the significant increase in titanium sponge prices, as well as increased quantities of titanium sponge on hand, due to the continued strong demand for titanium.

Cash provided by (used in) investing activities. Cash provided by (used in) investing activities was $(125.6) million and $20.6 million for the years ended December 31, 2008 and 2007, respectively. The increase in cash used by investing activities is principally related to increased capital spending on our capital expansion projects during 2008. Capital expenditures related to our new sponge plant and our new rolling and forging facility totaled $48.0 million and $16.3 million, respectively, in 2008. Cash provided (used in) investing activities was impacted in 2007 by the liquidation of our variable rate demand securities (VRDS) due to the continuing credit market uncertainties and reinvestment of those proceeds into highly liquid Money Market Funds that are classified as cash equivalents.

Cash provided by (used in) investing activities was $20.6 million and $(118.3) million for the years ended December 31, 2007 and 2006, respectively. During 2007, we liquidated our VRDS due to the continuing credit market uncertainties and reinvested the proceeds into highly liquid Money Market Funds that are classified as cash equivalents. The cash increase from liquidating our VRDS portfolio was partially offset by increased spending related to our on-going capital expansion programs in support of the JSF, Airbus, and Boeing 787 programs.

Cash provided by financing activities. Cash provided by financing activities was $218.8 million and $3.7 million for the years ended December 31, 2008 and 2007, respectively. Cash provided by financing activities during 2008 was primarily driven by the proceeds from the $225 million term loan, offset by repayments made on the Claro Credit Agreement and financing fees paid in connection with the new term loan. For further information on our credit agreements, see the section titled Credit Agreements below.

Cash provided by financing activities was $3.7 million and $21.6 million for the years ended December 31, 2007 and 2006, respectively. Cash provided by financing activities during 2007 was primarily driven by the proceeds from the

exercise of employee stock options and borrowings on our interest-free loan agreement, offset by repayments made on the Claro Credit Agreement and financing fees paid in connection with our $240 million credit facility.

Contractual Obligations, Commitments and Other Post-Retirement Benefits

Following is a summary of the Company s contractual obligations, commercial commitments and other post-retirement benefit obligations as of December 31, 2008 (in millions):

	Contractual Obligations						
	2009	2010	2011	2012	2013	Thereafter	Total
Long-term debt(1)(7)	$ 9.3	$ 53.9	$ 52.6	$ 140.6	$ 1.7	$ 8.1	$ 266.2
Operating leases(2)	4.0	3.1	2.0	1.6	0.7		11.4
Capital leases(2)	0.1						0.1
Total contractual obligations	$ 13.4	$ 57.0	$ 54.6	$ 142.2	$ 2.4	$ 8.1	$ 277.7

	Commercial Commitments Amount of Commitment Expiration per Period						
	2009	2010	2011	2012	2013	Thereafter	Total
Long-term supply agreements(3)(8)	$ 64.0	$ 83.4	$ 88.1	$ 90.7	$ 92.1	$ 138.6	$ 556.9
Purchase obligations(4)	95.9	64.8	8.5	9.1	9.1		187.4
Standby letters of credit(5)	2.5						2.5
Total commercial commitments	$ 162.4						