

RTI INTERNATIONAL METALS INC

Form 10-Q

August 04, 2010

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: **001-14437**

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

Ohio
(State or other jurisdiction of incorporation or organization)

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

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

15108-2973
(Zip Code)

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

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

Yes No

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

Yes No

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

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

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

Yes No

Number of shares of the Corporation's common stock (Common Stock) outstanding as of July 30, 2010 was 30,080,908.

RTI INTERNATIONAL METALS, INC AND CONSOLIDATED SUBSIDIARIES

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 106,651 | \$ 104,354 | \$ 214,536 | \$ 210,408 |
| Cost and expenses: | | | | |
| Cost of sales | 89,702 | 90,859 | 170,064 | 180,621 |
| Selling, general, and administrative expenses | 16,418 | 14,595 | 32,057 | 31,142 |
| Research, technical, and product development expenses | 1,028 | 503 | 1,753 | 1,027 |
| Asset and asset-related charges (income) | (2,590) | | (3,111) | |
| Operating income (loss) | 2,093 | (1,603) | 13,773 | (2,382) |
| Other income | 233 | 855 | 366 | 1,754 |
| Interest income | 133 | 427 | 231 | 1,068 |
| Interest expense | (291) | (2,355) | (564) | (4,776) |
| Income (loss) before income taxes | 2,168 | (2,676) | 13,806 | (4,336) |
| Benefit from income taxes | (8,071) | (2,801) | (7,831) | (3,002) |
| Net Income (loss) | \$ 10,239 | \$ 125 | \$ 21,637 | \$ (1,334) |
| Earnings (loss) per share: | | | | |
| Basic | \$ 0.34 | \$ 0.01 | \$ 0.72 | \$ (0.06) |
| Diluted | \$ 0.34 | \$ 0.01 | \$ 0.72 | \$ (0.06) |
| Weighted-average shares outstanding: | | | | |
| Basic | 29,903,061 | 22,898,490 | 29,885,280 | 22,887,743 |
| Diluted | 30,100,762 | 22,971,124 | 30,117,232 | 22,887,743 |

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

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

| | June 30, 2010 | December 31, 2009 |
|--|--------------------------|------------------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 104,327 | \$ 56,216 |
| Short-term investments | 20,152 | 65,042 |
| Receivables, less allowance for doubtful accounts of \$670 and \$646 | 62,624 | 60,924 |
| Inventories, net | 269,333 | 266,887 |
| Deferred income taxes | 21,324 | 21,237 |
| Other current assets | 21,845 | 21,410 |
| Total current assets | 499,605 | 491,716 |
| Property, plant, and equipment, net | 252,535 | 252,301 |
| Goodwill | 41,068 | 41,068 |
| Other intangible assets, net | 13,814 | 14,299 |
| Deferred income taxes | 54,975 | 53,814 |
| Other noncurrent assets | 1,196 | 1,537 |
| Total assets | \$ 863,193 | \$ 854,735 |
| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 36,230 | \$ 39,193 |
| Accrued wages and other employee costs | 14,003 | 9,796 |
| Unearned revenues | 15,434 | 21,832 |
| Current liability for post-retirement benefits | 2,476 | 2,476 |
| Current liability for pension benefits | 140 | 140 |
| Other accrued liabilities | 19,281 | 30,518 |
| Total current liabilities | 87,564 | 103,955 |
| Long-term debt | 71 | 81 |
| Noncurrent liability for post-retirement benefits | 35,084 | 34,530 |
| Noncurrent liability for pension benefits | 28,805 | 28,102 |
| Deferred income taxes | | 244 |
| Other noncurrent liabilities | 7,476 | 8,617 |
| Total liabilities | 159,000 | 175,529 |

Commitments and Contingencies

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Shareholders' equity:

| | | |
|---|------------|------------|
| Common stock, \$0.01 par value; 50,000,000 shares authorized; 30,804,117 and 30,724,351 shares issued; 30,079,436 and 30,010,998 shares outstanding | 308 | 307 |
| Additional paid-in capital | 441,672 | 439,361 |
| Treasury stock, at cost; 724,681 and 713,353 shares | (17,281) | (16,996) |
| Accumulated other comprehensive loss | (32,240) | (33,563) |
| Retained earnings | 311,734 | 290,097 |
| Total shareholders' equity | 704,193 | 679,206 |
| Total liabilities and shareholders' equity | \$ 863,193 | \$ 854,735 |

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

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

| | Six Months Ended June 30, | |
|--|--------------------------------------|-------------|
| | 2010 | 2009 |
| <u>OPERATING ACTIVITIES:</u> | | |
| Net income (loss) | \$ 21,637 | \$ (1,334) |
| Adjustment for non-cash items included in net income: | | |
| Depreciation and amortization | 10,978 | 10,762 |
| Asset and asset-related charges (income) | (2,081) | |
| Deferred income taxes | (1,521) | (3,862) |
| Stock-based compensation | 2,086 | 2,466 |
| Excess tax benefits from stock-based compensation activity | (189) | (437) |
| Gain on sale of property, plant and equipment | (272) | |
| Other | 432 | 41 |
| Changes in assets and liabilities: | | |
| Receivables | (2,224) | 24,408 |
| Inventories | (4,367) | (2,837) |
| Accounts payable | (3,997) | 3,557 |
| Income taxes payable | 181 | (683) |
| Unearned revenue | (1,824) | (807) |
| Other current assets and liabilities | (4,256) | (13,818) |
| Other assets and liabilities | 1,704 | 1,524 |
| Cash provided by operating activities | 16,287 | 18,980 |
| <u>INVESTING ACTIVITIES:</u> | | |
| Proceeds from disposal of property, plant, and equipment | 468 | |
| Purchase of short-term investments | (111) | (40,000) |
| Sale of short-term investments | 45,000 | |
| Capital expenditures | (13,565) | (45,167) |
| Cash provided by (used in) investing activities | 31,792 | (85,167) |
| <u>FINANCING ACTIVITIES:</u> | | |
| Proceeds from exercise of employee stock options | 252 | 27 |
| Excess tax benefits from stock-based compensation activity | 189 | 437 |
| Borrowings on long-term debt | | 1,181 |
| Repayments on long-term debt | (10) | (686) |
| Purchase of common stock held in treasury | (286) | (88) |
| Cash provided by financing activities | 145 | 871 |

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| | | |
|--|------------|------------|
| Effect of exchange rate changes on cash and cash equivalents | (113) | 1,936 |
| Increase (decrease) in cash and cash equivalents | 48,111 | (63,380) |
| Cash and cash equivalents at beginning of period | 56,216 | 284,449 |
| Cash and cash equivalents at end of period | \$ 104,327 | \$ 221,069 |

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

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

| | Common Stock | | Additional | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) Net Unrealized Gain (Loss) From | | | Total |
|---|-----------------------|--------|--------------------|-------------------|----------------------|---|---------------------------------|------------------------------------|------------|
| | Shares Outstanding | Amount | Paid-In Capital | | | Available For Sale Investments | Minimum Pension Liability | Foreign Currency Translation | |
| Balance at December 31, 2009 | 30,010,998 | \$ 307 | \$ 439,361 | \$ (16,996) | \$ 290,097 | \$ 42 | \$ (39,932) | \$ 6,327 | \$ 679,200 |
| Net Income | | | | | 21,637 | | | | 21,637 |
| Foreign currency translation | | | | | | | | (74) | (74) |
| Recognized loss on investments | | | | | | (15) | | | (15) |
| Benefit plan amortization | | | | | | | 1,412 | | 1,412 |
| <i>Comprehensive income</i> | | | | | | | | | 22,900 |
| Shares issued for Directors' compensation | 16,763 | | | | | | | | |
| Shares issued for restricted stock award plans | 49,770 | 1 | | | | | | | |
| Stock-based compensation expense recognized | | | 2,086 | | | | | | 2,086 |
| Treasury stock purchased at cost | (11,328) | | | (285) | | | | | (11,613) |
| Exercise of employee stock options | 10,767 | | 252 | | | | | | 11,019 |
| Forfeiture of restricted stock awards | | | | | | | | | |
| Net benefits from stock-based compensation activity | | | (91) | | | | | | (91) |
| Shares issued for employee stock purchase plan | 2,466 | | 64 | | | | | | 2,530 |

Balance at June 30,
20

30,079,436 \$ 308 \$ 441,672 \$ (17,281) \$ 311,734 \$ 27 \$ (38,520) \$ 6,253 \$ 704,19

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

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

Note 1 BASIS OF PRESENTATION:

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

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

Note 2 ORGANIZATION:

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

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

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

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

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

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

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

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

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

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

During the three and six months ended June 30, 2010, the Company recorded asset and asset-related charges (income) totaling \$(2.6) million and \$(3.1) million, respectively. These amounts were comprised of the favorable settlement of several previously accrued contractual commitments resulting in recognition of income totaling \$5.9 million and \$6.4 million during the three and six months ended June 30, 2010, respectively, including \$1.9 million of vendor refunds of which \$1.0 million was received in cash and \$0.9 was recorded as a receivable at June 30, 2010. Offsetting this income was a write-down of sponge-plant related assets totaling \$1.4 million during the three and six months ended June 30, 2010, respectively, related to the settlement of these contractual obligations as the Company's contractors were able to return these assets to their vendors for credit, thereby reducing the Company's contractual liability. In addition, during the three and six months ended June 30, 2010, the Company recognized additional asset impairments totaling \$1.9 million reflecting the decrease in the expected future cash flows of the sponge plant assets.

A summary of the status of the Company's accrual for additional contractual commitments as of June 30, 2010, and the activity for the six months then ended is as follows:

| | Sponge-Plant Contractual Commitments |
|---------------------------------|---|
| Balance as of December 31, 2009 | \$ 7,809 |
| Settlements/adjustments | (4,474) |

| | |
|-----------------------------|----------|
| Payments | (1,402) |
| Balance as of June 30, 2010 | \$ 1,933 |

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

A summary of the status of the Company's stock options as of June 30, 2010, and the activity during the six months then ended, is presented below:

| Stock Options | Options |
|----------------------------------|----------------|
| Outstanding at December 31, 2009 | 475,581 |
| Granted | 99,580 |
| Forfeited | (767) |
| Expired | (133) |
| Exercised | (10,767) |
| Outstanding at June 30, 2010 | 563,494 |
| Exercisable at June 30, 2010 | 345,376 |

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

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

The weighted-average grant date fair value of stock option awards granted during the six months ended June 30, 2010 was \$12.99.

Restricted Stock

A summary of the status of the Company's nonvested restricted stock as of June 30, 2010, and the activity during the six months then ended, is presented below:

| Nonvested Restricted Stock Awards | Shares |
|--|---------------|
| Nonvested at December 31, 2009 | 171,387 |
| Granted | 66,533 |
| Vested | (73,331) |
| Nonvested at June 30, 2010 | 164,589 |

The fair value of restricted stock grants was calculated using the market value of the Company's Common Stock on the date of issuance. The weighted-average grant date fair value of restricted stock awards granted during the six months ended June 30, 2010 was \$25.73.

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

A summary of the Company's performance share award activity during the six months ended June 30, 2010 is presented below:

| Performance Share Awards | Awards Activity | Maximum Shares Eligible to Receive |
|----------------------------------|----------------------------|---|
| Outstanding at December 31, 2009 | 73,380 | 146,760 |
| Granted | 49,450 | 98,900 |
| Forfeited | (1,300) | (2,600) |
| Outstanding at June 30, 2010 | 121,530 | 243,060 |

The fair value of the performance share awards granted was estimated by the Company at the grant date using a Monte Carlo model. The weighted-average grant-date fair value of performance shares awarded during the six months ended June 30, 2010 was \$38.79.

Note 5 INCOME TAXES:

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

For the six months ended June 30, 2010, the estimated annual effective tax rate applied to ordinary income was (52.1)% compared to a rate of 83.3% for the six months ended June 30, 2009. The negative effective tax rate is principally the result of the mix of foreign and domestic operating results and their relative tax rates. Although these factors are present in both years, the level of expected annual operating results in each period amplifies the rate impact and determines its direction in such period, resulting in a negative rate in 2010 and a positive rate in 2009. To the extent that actual 2010 results for the Company's domestic and foreign subsidiaries varies from the estimates applied at the end of the most recent interim period, the actual provision for (benefit from) income taxes could differ materially from the forecasted amount used to estimate the tax provision for the six months ended June 30, 2010.

Inclusive of discrete items, the Company recognized a benefit from income taxes of \$7,831, or (56.7)% of pretax income, and \$3,002, or 69.2% of the pretax loss, for federal, state, and foreign income taxes for the six months ended June 30, 2010 and 2009, respectively. The current year-to-date benefit is expected to reverse in the second half of

2010 based on the Company's most recent forecast. Discrete items totaling \$638 increased the benefit from income taxes for the six months ended June 30, 2010 and were comprised of a \$1.6 million charge associated with the recently enacted healthcare legislation with the remainder associated with adjustments to unrecognized tax benefits due to the effective settlement of an income tax examination and other immaterial items. Discrete items totaling \$610 reduced the benefit from income taxes for the six months ended June 30, 2009 and were comprised primarily of adjustments to unrecognized tax benefits based upon data that became public during the period.

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Notes to Consolidated Financial Statements
(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)****Note 6 EARNINGS PER SHARE:**

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

Actual weighted-average shares of Common Stock outstanding used in the calculation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2010 and 2009 were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Numerator: | | | | |
| Net income (loss) | \$ 10,239 | \$ 125 | \$ 21,637 | \$ (1,334) |
| Denominator: | | | | |
| Basic weighted-average shares outstanding | 29,903,061 | 22,898,490 | 29,885,280 | 22,887,743 |
| Effect of diluted securities | 197,701 | 72,634 | 231,952 | |
| Diluted weighted-average shares outstanding | 30,100,762 | 22,971,124 | 30,117,232 | 22,887,743 |
| Earnings (loss) per share: | | | | |
| Basic | \$ 0.34 | \$ 0.01 | \$ 0.72 | \$ (0.06) |
| Diluted | \$ 0.34 | \$ 0.01 | \$ 0.72 | \$ (0.06) |

For the three and six months ended June 30, 2010, options to purchase 276,603 and 261,727 shares of Common Stock, at an average price of \$46.61 and \$47.82, respectively, have been excluded from the calculation of diluted earnings per share because their effects were antidilutive. For the three and six months ended June 30, 2009, options to purchase 417,715 and 493,220 shares of Common Stock, at an average price of \$35.16 and \$31.66, respectively, have been excluded from the calculations of diluted earnings per share because their effects were antidilutive.

Note 7 RECEIVABLES:

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

| | June 30, 2010 | December 31, 2009 |
|---------------------------------------|--------------------------|------------------------------|
| Trade and commercial customers | \$ 63,294 | \$ 61,570 |
| Less: Allowance for doubtful accounts | (670) | (646) |
| Total receivables | \$ 62,624 | \$ 60,924 |

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Notes to Consolidated Financial Statements
(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)****Note 8 INVENTORIES:**

Inventories are valued at cost as determined by the last-in, first-out (LIFO) method for approximately 62% and 64% of the Company's inventories as of June 30, 2010 and December 31, 2009, respectively. The remaining inventories are valued at cost determined by a combination of the first-in, first-out (FIFO) and weighted-average cost methods. Inventory costs generally include materials, labor, and manufacturing overhead (including depreciation). When market conditions indicate an excess of carrying cost over market value, a lower-of-cost-or-market provision is recorded. Inventories consisted of the following:

| | June 30, 2010 | December 31, 2009 |
|------------------------------------|--------------------------|------------------------------|
| Raw materials and supplies | \$ 139,369 | \$ 145,062 |
| Work-in-process and finished goods | 194,285 | 197,840 |
| LIFO reserve | (64,321) | (76,015) |
| Total inventories | \$ 269,333 | \$ (266,887) |

As of June 30, 2010 and December 31, 2009, the current cost of inventories exceeded their carrying value by \$64,321 and \$76,015, respectively. The Company's FIFO inventory value is used to approximate current costs.

Note 9 GOODWILL AND OTHER INTANGIBLE ASSETS:

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

While there have been no impairments during 2010, uncertainties or other factors that could result in a potential impairment in future periods include continued long-term production delays or a significant decrease in expected demand related to the Boeing 787 Dreamliner® program, as well as any cancellation of one of the other major aerospace programs the Company currently supplies, including the Joint Strike Fighter program or the Airbus family of aircraft, including the A380 and A350XWB programs. In addition, the Company's ability to ramp up its production of these programs in a cost efficient manner may also impact the results of a future impairment test.

Goodwill. The carrying amount of goodwill attributable to each segment at December 31, 2009 and June 30, 2010 was as follows:

| | | |
|-----------------|--------------------|---------------------|
| Titanium | Fabrication | Distribution |
|-----------------|--------------------|---------------------|

| | Group | Group | Group | Total |
|---|--------------|--------------|--------------|--------------|
| Balance at December 31, 2009 and June 30, 2010: | | | | |
| Goodwill | \$ 2,548 | \$ 37,386 | \$ 9,833 | \$ 49,767 |
| Accumulated impairment loss | | (8,699) | | (8,699) |
| Net goodwill | \$ 2,548 | \$ 28,687 | \$ 9,833 | \$ 41,068 |

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

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

There were no intangible assets attributable to our Titanium Group and Distribution Group at December 31, 2009 and June 30, 2010. The carrying amount of intangible assets attributable to our Fabrication Group at December 31, 2009 and June 30, 2010 was as follows:

| | December 31, 2009 | Amortization | Translation Adjustment | June 30, 2010 |
|-------------------|----------------------|--------------|---------------------------|------------------|
| Fabrication Group | \$ 14,299 | \$ (491) | \$ 6 | \$ 13,814 |

Note 10 UNEARNED REVENUE:

The Company reported a liability for unearned revenue of \$15,434 and \$21,832 as of June 30, 2010 and December 31, 2009, respectively. These amounts primarily represent payments received in advance from commercial aerospace, defense, and energy market customers on long-term orders, which the Company has not recognized as revenues.

Note 11 OTHER INCOME:

Other income for the three months ended June 30, 2010 and 2009 was \$233 and \$855, respectively. Other income for the six months ended June 30, 2010 and 2009 was \$366 and \$1,754, respectively. Other income consists primarily of foreign exchange gains and losses from international operations and fair value adjustments related to the Company's foreign currency forward contracts. See Note 15 to the Company's Condensed Consolidated Financial Statements for further information on the Company's foreign currency forward contracts.

Note 12 EMPLOYEE BENEFIT PLANS:

Components of net periodic pension and other post-retirement benefit cost for the three and six months ended June 30, 2010 and 2009 for those salaried and hourly covered employees were as follows:

| | Pension Benefits | | | | Other Post-Retirement Benefits | | | |
|--------------------------------|---|---------|---|---------|---|--------|---|--------|
| | Three Months Ended June 30, 2010 | | Six Months Ended June 30, 2010 | | Three Months Ended June 30, 2010 | | Six Months Ended June 30, 2010 | |
| | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | |
| Service cost | \$ 451 | \$ 398 | \$ 902 | \$ 796 | \$ 178 | \$ 128 | \$ 356 | \$ 256 |
| Interest cost | 1,770 | 1,761 | 3,540 | 3,523 | 550 | 534 | 1,100 | 1,069 |
| Expected return on plan assets | (1,869) | (1,930) | (3,738) | (3,859) | | | | |
| | 131 | 209 | 262 | 418 | 304 | 304 | 607 | 607 |

| | | | | | | | | | |
|------------------------------------|----------|--------|----------|----------|----------|--------|----------|----------|--|
| Amortization of prior service cost | | | | | | | | | |
| Amortization of unrealized gains | 701 | 480 | 1,402 | 960 | | | | | |
| Net periodic benefit cost | \$ 1,184 | \$ 918 | \$ 2,368 | \$ 1,838 | \$ 1,032 | \$ 966 | \$ 2,063 | \$ 1,932 | |

Note 13 COMMITMENTS AND CONTINGENCIES:

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. In the Company's opinion, the ultimate liability, if any, resulting from these matters will have no significant effect on its Consolidated Financial Statements. Given the critical nature of many of the aerospace end uses for the Company's products, including specifically their use in critical rotating parts of gas turbine engines, the Company maintains aircraft products liability insurance of \$350 million, which includes grounding liability.

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

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

Tronox LLC Litigation

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

Environmental Matters

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

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

Based on available information, the Company believes that its share of possible environmental-related costs is in a range from \$826 to \$2,298 in the aggregate. At June 30, 2010 and December 31, 2009, the amounts accrued for future environmental-related costs were \$1,458 and \$1,546, respectively. Of the total amount accrued at June 30, 2010, \$203 is expected to be paid out within the next twelve months, and is included in the other accrued liabilities line of the balance sheet. The remaining \$1,255 is recorded in other noncurrent liabilities. During the three and six months ended June 30, 2010, the Company made payments totaling \$12 and \$90 related to its environmental liabilities.

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

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, who matched the Company's duty paid with the export shipments through filings with U.S. Customs and Border Protection (U.S. Customs), performed the recapture process.

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

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

Historically, the Company recognized a credit to Cost of Sales when it received notification from its agent that a claim had been filed and received by U.S. Customs. For the period January 1, 2001 through March 31, 2007, the Company recognized a reduction to Cost of Sales totaling \$14.5 million associated with the recapture of duty paid. This amount represents the total of all claims filed by the agent on the Company's behalf.

During 2007, the Company received notice from U.S. Customs that it was under formal investigation with respect to \$7.6 million of claims previously filed by the agent on the Company's behalf. The investigation relates to discrepancies in, and lack of supporting documentation for, claims filed through the Company's authorized agent. The Company revoked the authorized agent's authority and is fully cooperating with U.S. Customs to determine the extent to which any claims may be invalid or may not be supportable with adequate documentation. In response to the investigation noted above, the Company suspended the filing of new duty drawback claims through the third quarter of 2007. The Company is fully engaged and cooperating with U.S. Customs in an effort to complete this investigation in an expeditious manner.

Concurrent with the U.S. Customs investigation, the Company performed an internal review of the entire \$14.5 million of drawback claims filed with U.S. Customs to determine to what extent any claims may have been invalid or may not have been supported with adequate documentation. As a result, the Company recorded charges totaling \$10.5 million to Cost of Sales through December 31, 2009. No additional charges were recorded during the three or six months ended June 30, 2010.

These abovementioned charges represent the Company's current best estimate of probable loss. Of this amount, \$9.5 million was recorded as a contingent current liability and \$1.0 million was recorded as a write-off of an outstanding receivable representing claims filed which had not yet been paid by U.S. Customs. Through December 31, 2009, the Company repaid to U.S. Customs \$4.0 million for invalid claims. The Company made additional repayments totaling \$0.4 million and \$2.7 million during the three and six months ended June 30, 2010, respectively. As a result of these payments, the Company's liability totaled \$2.8 million as of June 30, 2010. While the Company's internal investigation into these claims is complete, there is not a timetable of which it is aware for when U.S. Customs will conclude its investigation.

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

Additionally, the Company is exposed to potential penalties imposed by U.S. Customs on these claims. In December 2009, the Company received formal pre-penalty notices from U.S. Customs imposing penalties in the amount of \$1.7 million. While the Company has the opportunity to negotiate with U.S. Customs to potentially obtain relief of these penalties, due to the inherent uncertainty of the penalty process, the Company has accrued the full amount of the penalties as of December 31, 2009. There was no change to the amount accrued for penalties during the six months ended June 30, 2010.

During the fourth quarter of 2007, the Company began filing new duty drawback claims through a new authorized agent. Claims filed through December 31, 2009 totaled \$3.0 million. During the three and six months ended June 30, 2010, the Company filed additional claims totaling \$1.6 million and \$1.8 million, respectively. As a result of the open investigation discussed above, the Company has not recognized any credits to cost of sales upon the filing of these new claims. The Company intends to record these credits when payment is received from U.S. Customs until a consistent history of receipts against claims filed has been established.

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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

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

Other Matters

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

Note 14 SEGMENT REPORTING:

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

The Titanium Group's products consist primarily of titanium mill products and ferro titanium alloys. The mill products are sold to a customer base consisting primarily of manufacturing and fabrication companies in the supply chain for the commercial aerospace, defense, and industrial and consumer markets. Customers include prime aircraft manufacturers and their family of subcontractors including fabricators, forge shops, extruders, casting producers, fastener manufacturers, machine shops, and metal distribution companies. Titanium mill products are semi-finished goods and usually represent the raw or starting material for these customers who then form, fabricate, machine, or further process the products into semi-finished and finished parts.

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

The Distribution Group stocks, distributes, finishes, cuts-to-size, and facilitates just-in-time delivery services of titanium, steel, and other specialty metal products, primarily nickel-based specialty alloys.

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

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------|--------------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net sales: | | | | |
| Titanium Group | \$ 30,556 | \$ 27,124 | \$ 69,397 | \$ 57,427 |
| Intersegment sales | 23,291 | 35,278 | 47,056 | 69,029 |
| Total Titanium Group net sales | 53,847 | 62,402 | 116,453 | 126,456 |
| Fabrication Group | 37,295 | 26,487 | 65,897 | 52,551 |
| Intersegment sales | 14,669 | 14,210 | 27,431 | 28,575 |
| Total Fabrication Group net sales | 51,964 | 40,697 | 93,328 | 81,126 |
| Distribution Group | 38,800 | 50,743 | 79,242 | 100,430 |
| Intersegment sales | 817 | 588 | 1,281 | 1,265 |
| Total Distribution Group net sales | 39,617 | 51,331 | 80,523 | 101,695 |
| Eliminations | 38,777 | 50,076 | 75,768 | 98,869 |
| Total consolidated net sales | \$ 106,651 | \$ 104,354 | \$ 214,536 | \$ 210,408 |
| Operating income (loss): | | | | |
| Titanium Group before corporate allocations | \$ 3,854 | \$ 4,496 | \$ 20,937 | \$ 11,475 |
| Corporate allocations | (2,022) | (2,386) | (4,113) | (5,144) |
| Total Titanium Group operating income | 1,832 | 2,110 | 16,824 | 6,331 |
| Fabrication Group before corporate allocations | 1,952 | (4,213) | (478) | (8,865) |
| Corporate allocations | (2,743) | (2,222) | (5,579) | (4,791) |
| Total Fabrication Group operating loss | (791) | (6,435) | (6,057) | (13,656) |
| Distribution Group before corporate allocations | 2,617 | 4,488 | 6,187 | 8,752 |
| Corporate allocations | (1,565) | (1,766) | (3,181) | (3,809) |

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| | | | | |
|--|----------|------------|-----------|------------|
| Total Distribution Group operating income | 1,052 | 2,722 | 3,006 | 4,943 |
| Total consolidated operating income (loss) | \$ 2,093 | \$ (1,603) | \$ 13,773 | \$ (2,382) |

| | June 30, 2010 | December 31, 2009 |
|---------------------------|--------------------------|------------------------------|
| Total assets: | | |
| Titanium Group | \$ 369,150 | \$ 365,725 |
| Fabrication Group | 245,849 | 239,847 |
| Distribution Group | 128,482 | 140,666 |
| General corporate assets | 119,712 | 108,497 |
| Total consolidated assets | \$ 863,193 | \$ 854,735 |

Table of Contents**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES****Condensed Notes to Consolidated Financial Statements
(Unaudited)****(In thousands, except share and per share amounts, unless otherwise indicated)****Note 15 FINANCIAL INSTRUMENTS:**

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

As of June 30, 2010, the Company maintained several foreign currency forward contracts, with notional amounts totaling 403, that are used to manage foreign currency exposure related to equipment purchases associated with the Company's ongoing capital expansion projects. These forward contracts settle throughout 2010. These forward contracts have not been designated as hedging instruments; therefore changes in the fair value of these forward contracts are recorded in current period earnings within other income (expense).

A summary of the Company's derivative instrument portfolio as of June 30, 2010, is below:

| | Designated as Hedging Instrument | Statement of Financial Position Location | Asset (Liability) Fair Value |
|------------------------------------|---|---|---|
| Foreign currency forward contracts | No | Other current liabilities | \$ (53) |

The Company had no interest rate swaps as of December 31, 2009 or June 30, 2010.

Note 16 FAIR VALUE MEASUREMENTS:

For certain of the Company's financial instruments and account groupings, including cash, short-term investments, accounts receivable, accounts payable, accrued wages and other employee costs, unearned revenue, other accrued liabilities, and long-term debt, the carrying value approximates the fair value of these instruments and groupings.

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

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

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

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Listed below are the Company's assets and liabilities, and their fair values, that are measured at fair value on a recurring basis as of June 30, 2010. There were no transfers between levels for the six months ended June 30, 2010.

| | Quoted Market Prices (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
|------------------------------------|---|--|--|--------------|
| Cash and cash equivalents | \$ 104,327 | \$ | \$ | \$ 104,327 |
| Short-term investments | 20,152 | | | 20,152 |
| Total assets | \$ 124,479 | \$ | \$ | \$ 124,479 |
| Foreign currency forward contracts | | | 53 | 53 |
| Total liabilities | \$ | \$ | 53 | \$ 53 |

As of June 30, 2010 the Company had no liabilities that were measured on a non-recurring basis.

Listed below are the Company's assets, and their fair values, that are measured and recorded on a non-recurring basis as of June 30, 2010, and the losses recorded during the three and six months ended June 30, 2010 on those assets:

| | Net Carrying Value as of June 30, 2010 | Quoted Market Prices (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Charges for Three Months Ended June 30, 2010 | Total Charges for Six Months Ended June 30, 2010 |
|--|---|---|--|--|---|---|
| Sponge plant construction-related assets | \$ 2,433 | \$ | \$ | \$ 2,433 | \$ (1,901) | \$ (1,901) |

The Company determined the fair value of its sponge plant-related assets using Level 3 inputs. The fair values of these assets were determined based upon quoted scrap metal prices multiplied by the estimated weight of various metallic components of the assets.

Note 17 CREDIT AGREEMENT:

The Company maintains a \$225 million revolving credit facility under our Amended and Restated Credit Agreement (the Credit Agreement) which matures on September 27, 2012. The Company had no borrowings outstanding under the Credit Agreement during the six months ended June 30, 2010. Borrowings under the Credit Agreement bear interest at the option of the Company at a rate equal to the London Interbank Offered Rate (the Libor Rate) plus an applicable margin or a prime rate plus an applicable margin. In addition, the Company pays a facility fee in connection with the Credit Agreement. Both the applicable margin and the facility fee vary based upon the Company's consolidated net debt to consolidated EBITDA, as defined in the Credit Agreement.

Note 18 NEW ACCOUNTING STANDARDS:

In January 2010, the FASB issued authoritative guidance to require new fair value measurement and classification disclosures, and to clarify existing disclosures. The guidance requires disclosures about transfers into and out of Levels 1 and 2 of the fair value hierarchy, and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 measurements. The guidance is effective for interim and annual periods beginning after December 15, 2009, with the exception that the Level 3 activity disclosure requirement

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

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will be effective for interim periods for fiscal years beginning after December 15, 2010. The adoption of the revised guidance did not have an effect on the Company's Consolidated Financial Statements.

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

Note 19 SUBSEQUENT EVENTS:

On July 10, 2010, the Company entered into an amended and restated long-term procurement frame contract with Airbus. Under the terms of the contract, the Company has been selected as a supplier for A350 seat track extrusions through 2020 and has been awarded a five-year work package for A320 flap tracks. Additionally, the Company had provided Airbus flexibility under previously required volumes in 2010 and 2011 and accelerated the move to a market share arrangement where the Company will receive orders for a certain percentage of Airbus-covered mill products.

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

Forward-Looking Statements

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

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

our order backlog and the conversion of that backlog into revenue, and

other statements contained herein that are not historical facts.

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

Overview

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

The Titanium Group melts, processes, and produces a complete range of titanium mill products which are further processed by its customers for use in a variety of commercial aerospace, defense, and industrial and consumer applications. With operations in Niles, Ohio; Canton, Ohio; and Hermitage, Pennsylvania; and the new facility under construction in Martinsville, Virginia, the Titanium Group has overall responsibility for the

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production of primary mill products including, but not limited to, bloom, billet, sheet, and plate. In addition, the Titanium Group produces ferro titanium alloys for its steel-making customers. The Titanium Group also focuses on the research and development of evolving technologies relating to raw materials, melting and other production processes, and the application of titanium in new markets.

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

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

Both the Fabrication and Distribution Groups access the Titanium Group as their primary source of titanium mill products. For the three months ended June 30, 2010 and 2009, approximately 43% and 57%, respectively, of the Titanium Group's sales were to the Fabrication and Distribution Groups. For the six months ended June 30, 2010 and 2009, approximately 40% and 55%, respectively, of the Titanium Group's sales were to the Fabrication and Distribution Groups.

Trends and Uncertainties

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

On July 20, 2010, we entered into an amended and restated long-term procurement frame contract with Airbus. Under the terms of the contract, we have been selected as a supplier for A350 seat track extrusions through 2020 and have been awarded a five year work package for A320 flap tracks. Additionally, we have provided Airbus flexibility under previously required volumes in 2010 and 2011 and accelerated the move to a market share arrangement to 2012 where we will receive orders for a certain percentage of Airbus-covered mill products.

The effects of the cyclicity of the commercial aerospace market are still negatively impacting spot market demand and capacity utilization. Both the Boeing and Airbus supply chains continue to have relatively high inventories created by slower than anticipated production levels over the past two years. We do not expect this inventory overhang to dissipate until at least the end of 2011. That imbalance, together with the recently announced production schedule push out on the F-35, is contributing to significant near-term uncertainty until production levels increase.

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Net Sales. Net sales for our reportable segments, excluding intersegment sales, for the three months ended June 30, 2010 and 2009 were as follows:

| <i>(In millions except percents)</i> | Three Months Ended | | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|--------------------------------------|---------------------------|-------------|--------------------------------|-------------------------------|
| | June 30, 2010 | 2009 | | |
| Titanium Group | \$ 30.6 | \$ 27.1 | \$ 3.5 | 12.9% |
| Fabrication Group | 37.3 | 26.5 | 10.8 | 40.8% |
| Distribution Group | 38.8 | 50.8 | (12.0) | (23.6)% |
| Total consolidated net sales | \$ 106.7 | \$ 104.4 | \$ 2.3 | 2.2% |

An increase of 36% in shipments, offset by a 27% decrease in the average realized selling prices of prime mill products to our trade customers, resulted in a \$0.2 million reduction in the Titanium Group's net sales. The decrease in average realized selling prices was primarily due to the continued high proportion of sales under long-term agreements with lower contract pricing versus the comparable period in the prior year. Offsetting these impacts was a strengthening in ferro-alloy demand from the specialty steel industry which resulted in a \$3.7 million increase in net sales.

The increase in Fabrication Group's net sales was principally the result of a \$5.7 million increase in sales to our energy market customers related to engineered components to support the containment of the oil spill in the Gulf of Mexico, as well as a \$5.9 million increase in commercial aerospace sales primarily driven by the Boeing 787 Dreamliner® Pi Box program. These sales increases were partially offset by declines in military programs such as the F-22 and C-17.

The decrease in the Distribution Group's net sales was principally related to lower demand resulting from the continued slowdown in the commercial aerospace market which has resulted in higher levels of titanium inventory throughout the supply chain. The combination of lower demand and lower realized pricing for the Distribution Group's titanium products resulted in a \$13.1 million reduction in net sales. This decrease was slightly offset by an increase of \$1.1 in net sales of the group's specialty alloys products which was mostly due to increased volume.

Gross Profit (Loss). Gross profit (loss) for our reportable segments for the three months ended June 30, 2010 and 2009 was as follows:

| <i>(In millions except percents)</i> | Three Months Ended | | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|--------------------------------------|---------------------------|-------------|--------------------------------|-------------------------------|
| | June 30, 2010 | 2009 | | |
| Titanium Group | \$ 3.9 | \$ 6.8 | \$ (2.9) | (42.6)% |
| Fabrication Group | 6.6 | (1.3) | 7.9 | 607.7% |

| | | | | |
|---------------------------------|---------|---------|--------|---------|
| Distribution Group | 6.4 | 8.0 | (1.6) | (20.0)% |
| Total consolidated gross profit | \$ 16.9 | \$ 13.5 | \$ 3.4 | 25.2% |

Excluding the \$2.3 million charge in the prior year period associated with the U.S. Customs investigation of our previously filed duty drawback claims, gross profit for the Titanium Group decreased \$5.2 million compared to the prior year. Lower average realized selling prices reduced gross profit by \$8.4 million. Further, the Titanium Group's gross profit was unfavorably impacted by \$0.3 million due to lower sales of Titanium Group-sourced inventory by our Fabrication and Distribution Group businesses. These decreases were partially offset by a higher margin sales mix which increased gross profit by \$3.0 million. Additionally, gross profit at the Titanium Group was favorably impacted \$0.7 million due to higher ferro-alloy demand.

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The increase in gross profit for the Fabrication Group was driven by the completion of several engineered components for our energy market customers to support the containment of the oil spill in the Gulf of Mexico and higher commercial aerospace volume, increasing gross profit by \$7.9 million. In addition, corrective actions taken to improve manufacturing efficiencies allowed us to achieve higher margins on our energy market projects in the current period.

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

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses (SG&A) for our reportable segments for the three months ended June 30, 2010 and 2009 were as follows:

| | Three Months Ended | | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|--------------------------------------|---------------------------|-------------|--------------------------------|-------------------------------|
| | June 30, 2010 | 2009 | | |
| <i>(In millions except percents)</i> | | | | |
| Titanium Group | \$ 3.6 | \$ 4.2 | \$ (0.6) | (14.3)% |
| Fabrication Group | 7.4 | 5.1 | 2.3 | 45.1% |
| Distribution Group | 5.4 | 5.3 | 0.1 | 1.9% |
| Total consolidated SG&A expenses | \$ 16.4 | \$ 14.6 | \$ 1.8 | 12.3% |

The \$1.8 million increase in SG&A was primarily related to a \$2.8 million increase in salaries and benefits in the current year compared to the prior year, partially offset by a reduction of \$0.4 million in professional and consulting expenses. SG&A expense for the three months ended June 30, 2009 included the reversal of \$2.2 million of incentive compensation accruals as a result of our decision to eliminate incentive compensation in 2009 in response to the challenging market conditions which existed at the time.

Research, Technical, and Product Development Expenses. Research, technical, and product development expenses were \$1.0 million and \$0.5 million for the three month periods ended June 30, 2010 and 2009, respectively. This spending reflects our continued focus on productivity and quality enhancements to our operations.

Asset and Asset-Related Charges (Income). Asset and asset-related charges (income) for the three months ended June 30, 2010 were (\$2.6) million. Asset and asset-related charges (income) consist of favorable settlements related to the Company's accrued contractual commitments at the Company's indefinitely delayed sponge plant which were offset in part due to the write-down of sponge-plant-related assets related to these settlements as our contractors were able to return these assets to their vendors for refunds.

Operating Income (Loss). Operating income (loss) for our reportable segments for the three months ended June 30, 2010 and 2009 was as follows:

| | Three Months Ended | | \$ Increase/ | % Increase/ |
|--|---------------------------|--|---------------------|--------------------|
| | June 30, | | | |
| | | | | |

| <i>(In millions except percents)</i> | 2010 | 2009 | (Decrease) | (Decrease) |
|--------------------------------------|-------------|-------------|-------------------|-------------------|
| Titanium Group | \$ 1.8 | \$ 2.1 | \$ (0.3) | (14.3)% |
| Fabrication Group | (0.8) | (6.4) | 5.6 | 87.5% |
| Distribution Group | 1.1 | 2.7 | (1.6) | (59.3)% |
| Total operating income (loss) | \$ 2.1 | \$ (1.6) | \$ 3.7 | 231.3% |

Excluding the \$2.3 million charge in the prior year period associated with the U.S. Customs investigation of our previously filed duty drawback claims, operating income decreased \$2.6 million for the Titanium Group compared to the prior year. The decrease was primarily attributable to lower gross profit due to lower realized selling prices, partially offset by a reduction in SG&A costs.

The reduced operating loss for the Fabrication Group was primarily the result of the completion of several engineered components for our energy market customers to support the containment of the oil spill in

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the Gulf of Mexico and higher volume on value-added fabricated parts. These increases were partially offset by higher production costs and SG&A expenses during the year as we continue to ramp up the Boeing 787 Dreamliner® Pi Box program.

The decrease in operating income for the Distribution Group was largely due to lower demand in the titanium and other specialty metals markets. The lower demand resulted in decreased realized selling prices that exceeded our decline in product cost.

Other Income. Other income for the three months ended June 30, 2010 and 2009 was \$0.2 million and \$0.9 million, respectively. Other income consists primarily of foreign exchange gains and losses from our international operations and fair value adjustments related to our foreign currency forward contracts.

Interest Income and Interest Expense. Interest income for the three months ended June 30, 2010 and 2009 was \$0.1 million and \$0.4 million, respectively. The decrease in interest income was principally related to lower returns on invested cash, as well as lower overall cash balances, compared to the prior year period. Interest expense was \$0.3 million and \$2.4 million for the three months ended June 30, 2010 and 2009, respectively. The decrease in interest expense was primarily attributable to the decrease in our long-term debt compared to the prior year as a result of the payoff of our \$225 million term loan in September 2009.

Provision for (Benefit from) Income Taxes. For the six months ended June 30, 2010, the estimated annual effective tax rate applied to ordinary income was (52.1)% compared to a rate of 83.3% for the six months ended June 30, 2009. The negative effective tax rate is principally the result of the mix of foreign and domestic operating results and their relative tax rates. Although these factors are present in both years, the level of expected annual operating results in each period amplifies the rate impact and determines its direction in such period, resulting in a negative rate in 2010 and a positive rate in 2009. To the extent that actual 2010 results for our domestic and foreign subsidiaries varies from the estimates applied at the end of the most recent interim period, the actual provision for (benefit from) income taxes could differ materially from the forecasted amount used to estimate the tax provision for the six months ended June 30, 2010.

Inclusive of discrete items, we recognized a benefit from income taxes of \$8.1 million, or (372.3)% of pretax income, and \$2.8 million, or 104.7% of the pretax loss, for federal, state, and foreign income taxes for the three months ended June 30, 2010 and 2009, respectively. The current year-to-date benefit is expected to reverse in the second half of 2010 based on our most recent forecast. Discrete items recognized during each of the three months periods were immaterial.

Six Months Ended June 30, 2010 Compared To Six Months Ended June 30, 2009

Net Sales. Net sales for our reportable segments, excluding intersegment sales, for the six months ended June 30, 2010 and 2009 were as follows:

| | Six Months Ended | | \$ | % |
|--------------------------------------|------------------|---------------|---------|-------|
| | June 30, 2010 | June 30, 2009 | | |
| <i>(In millions except percents)</i> | | | | |
| Titanium Group | \$ 69.4 | \$ 57.4 | \$ 12.0 | 20.9% |

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| | | | | |
|------------------------------|----------|----------|--------|---------|
| Fabrication Group | 65.9 | 52.6 | 13.3 | 25.3% |
| Distribution Group | 79.2 | 100.4 | (21.2) | (21.1)% |
| Total consolidated net sales | \$ 214.5 | \$ 210.4 | \$ 4.1 | 1.9% |

Excluding the \$15.4 million related to the resolution of Airbus 2009 contractual obligations, the Titanium Group's net sales decreased \$3.4 million. For our prime mill products, a 25% decrease in average realized selling prices, partially offset by a 14% increase in shipments, resulted in an \$8.5 million reduction in the Titanium Group's net sales. The decrease in average realized selling prices was primarily due to the continued high proportion of sales under long-term agreements with lower contract pricing versus the comparable period in the prior year. Partially offsetting these impacts was an increase in ferro-alloy demand from the specialty steel industry which resulted in a \$5.1 million increase in net sales.

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Excluding the \$4.2 million of nonrecurring engineering funds received related to the Boeing 787 Dreamliner® program that were previously paid by the customer, the Fabrication Group's net sales increased \$9.1 million compared to the prior year. The nonrecurring engineering funds were received to offset certain agreed upon tooling expenses to support the Boeing 787 Dreamliner® program. A corresponding amount was recorded in cost of sales during the current period. The increase in net sales was primarily the result of the ramp up in deliveries related to the Boeing 787 Dreamliner® Pi Box program, as well as an increase in deliveries related to other Boeing programs, which have increased net sales \$7.1 million. In addition, we have completed several engineered components for our energy market customers in support of the containment of the oil spill in the Gulf of Mexico resulting in a \$5.7 million increase in net sales compared to the prior year. These increases were partially offset by decreases in sales supporting various military aircraft programs.

The decrease in the Distribution Group's net sales was principally related to lower demand resulting from the continued slowdown in the commercial aerospace market which has resulted in higher levels of titanium inventory throughout the supply chain. The combination of lower demand and lower realized pricing for the Distribution Group's titanium products resulted in a \$21.9 million reduction in net sales, partially offset by a \$0.7 million increase in net sales for the Group's specialty alloys products, mostly due to increased volume.

Gross Profit (Loss). Gross profit (loss) for our reportable segments for the six months ended June 30, 2010 and 2009 was as follows:

| | Six Months Ended | | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|--------------------------------------|-----------------------------|-------------|--|---------------------------------------|
| | June 30, 2010 | 2009 | | |
| <i>(In millions except percents)</i> | | | | |
| Titanium Group | \$ 22.9 | \$ 16.2 | \$ 6.7 | 41.4% |
| Fabrication Group | 8.3 | (2.6) | 10.9 | 419.2% |
| Distribution Group | 13.3 | 16.2 | (2.9) | (17.9)% |
| Total consolidated gross profit | \$ 44.5 | \$ 29.8 | \$ 14.7 | 49.3% |

Excluding the \$15.4 million related to the resolution of Airbus' 2009 contractual obligations and the \$2.5 million charge in the prior year associated with the U.S. Customs investigation of our previously filed duty drawback claims, the Titanium Group's gross profit decreased \$11.2 million. The decrease in the Titanium Group's gross profit was the result of lower sales levels of prime products reducing gross profit by \$2.2 million and lower average realized selling prices reducing gross profit by \$15.2 million. Additionally, gross profit at the Titanium Group was unfavorably impacted \$0.2 million due to lower sales of Titanium Group-sourced inventory by our Fabrication and Distribution Group businesses. Partially offsetting these decreases, gross profit was favorably impacted by \$4.3 million due to a higher margin sales mix and \$2.1 million due to higher ferro-alloy demand.

The increase in gross profit for the Fabrication Group was driven by the completion of several engineered components to support the containment of the oil spill in the Gulf of Mexico and higher commercial aerospace volume, increasing gross profit by \$9.0 million. In addition, corrective actions taken to improve manufacturing efficiencies allowed us to achieve higher margins on our energy market projects in the current period. These increases were partially offset by incremental ramp up costs as we increase production related to the Boeing 787 Dreamliner® program.

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

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Selling, General, and Administrative Expenses. SG&A for our reportable segments for the six months ended June 30, 2010 and 2009 were as follows:

| | Six Months Ended | | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|--------------------------------------|-----------------------------|-------------|--|---------------------------------------|
| | June 30, 2010 | 2009 | | |
| <i>(In millions except percents)</i> | | | | |
| Titanium Group | \$ 7.4 | \$ 8.8 | \$ (1.4) | (15.9)% |
| Fabrication Group | 14.3 | 11.0 | 3.3 | 30.0% |
| Distribution Group | 10.4 | 11.3 | (0.9) | (8.0)% |
| Total consolidated SG&A expenses | \$ 32.1 | \$ 31.1 | \$ 1.0 | 3.2% |

The change in SG&A was primarily related to a \$1.9 million increase in salaries and benefits in the current year compared to the prior year partially offset by a \$0.9 million reduction in professional and consulting expenses. SG&A expense for the six months ended June 30, 2009 included the reversal of \$2.2 million of incentive compensation accruals as a result of our decision to eliminate incentive compensation in 2009 in response to the challenging market conditions which existed at the time.

Research, Technical, and Product Development Expenses. Research, technical, and product development expenses were \$1.8 million and \$1.0 million for the six month periods ended June 30, 2010 and 2009, respectively. This spending reflects our continued focus on productivity and quality enhancements to our operations.

Asset and Asset-Related Charges (Income). Asset and asset-related charges (income) for the six months ended June 30, 2010 were (\$3.1) million. Asset and asset-related charges (income) consist of favorable settlements related to the Company's accrued contractual commitments at the Company's indefinitely delayed sponge plant which were offset in part due to the write-down of sponge-plant-related assets related to these settlements as our contractors were able to return these assets to their vendors for refunds.

Operating Income (Loss). Operating income (loss) for our reportable segments for the six months ended June 30, 2010 and 2009 was as follows:

| | Six Months Ended | | \$ Increase/ (Decrease) | % Increase/ (Decrease) |
|--------------------------------------|-----------------------------|-------------|--|---------------------------------------|
| | June 30, 2010 | 2009 | | |
| <i>(In millions except percents)</i> | | | | |
| Titanium Group | \$ 16.8 | \$ 6.3 | \$ 10.5 | 166.7% |
| Fabrication Group | (6.1) | (13.6) | 7.5 | 55.1% |
| Distribution Group | 3.1 | 4.9 | (1.8) | (36.7)% |
| Total operating income (loss) | \$ 13.8 | \$ (2.4) | \$ 16.2 | 675.0% |

Excluding the \$15.4 million related to the resolution of Airbus 2009 contractual obligations and the \$2.5 million charge in the prior year associated with the U.S. Customs investigation of our previously filed duty drawback claims, operating income decreased \$7.4 million for the Titanium Group compared to the prior year. The decrease was primarily attributable to lower gross profit due to lower volume and realized selling prices, partially offset by a reduction in SG&A costs.

The reduced operating loss for the Fabrication Group was the result of the completion of several engineered components for our energy market customers to support the containment of the oil spill in the Gulf of Mexico and higher volume on value-added fabricated parts. These increases were partially offset by higher production costs and SG&A expenses during the year as we continue to ramp up the Boeing 787 Dreamliner® Pi Box program.

The decrease in operating income for the Distribution Group was largely due to lower demand in the titanium market. The lower demand resulted in decreased realized selling prices that exceeded our decline in

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product cost. This decrease was partially offset by a decrease in compensation-related expenses and other cost management actions.

Other Income. Other income for the six months ended June 30, 2010 and 2009 was \$0.4 million and \$1.8 million, respectively. Other income consists primarily of foreign exchange gains and losses from our international operations and fair value adjustments related to our foreign currency forward contracts.

Interest Income and Interest Expense. Interest income for the six months ended June 30, 2010 and 2009 was \$0.2 million and \$1.1 million, respectively. The decrease was principally related to lower returns on invested cash, as well as lower overall cash balances, compared to the prior year period. Interest expense was \$0.6 million and \$4.8 million for the six months ended June 30, 2010 and 2009, respectively. The decrease in interest expense was primarily attributable to the decrease in our long-term debt compared to the prior year as a result of the payoff of our \$225 million term loan in September 2009.

Provision for (Benefit from) Income Taxes. For the six months ended June 30, 2010, the estimated annual effective tax rate applied to ordinary income was (52.1)% compared to a rate of 83.3% for the six months ended June 30, 2009. The negative effective tax rate is principally the result of the mix of foreign and domestic operating results and their relative tax rates. Although these factors are present in both years, the level of expected annual operating results in each period amplifies the rate impact and determines its direction in such period, resulting in a negative rate in 2010 and a positive rate in 2009. To the extent that actual 2010 results for our domestic and foreign subsidiaries varies from the estimates applied at the end of the most recent interim period, the actual provision for (benefit from) income taxes could differ materially from the forecasted amount used to estimate the tax provision for the six months ended June 30, 2010.

Inclusive of discrete items, we recognized a benefit from income taxes of \$7.8 million, or (56.7)% of pretax income, and \$3.0 million, or 69.2% of the pretax loss, for federal, state, and foreign income taxes for the six months ended June 30, 2010 and 2009, respectively. The current year-to-date benefit is expected to reverse in the second half of 2010 based on our most recent forecast. Discrete items totaling \$0.6 million increased the benefit from income taxes for the six months ended June 30, 2010 and were comprised of a \$1.6 million charge associated with the recently enacted healthcare legislation with the remainder associated with adjustments to unrecognized tax benefits due to the effective settlement of an income tax examination and other immaterial items. Discrete items totaling \$0.6 million reduced the benefit from income taxes for the six months ended June 30, 2009 and were comprised primarily of adjustments to unrecognized tax benefits based upon data that became public during the period.

Liquidity and Capital Resources

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

We maintain a \$225 million revolving credit facility under our Amended and Restated Credit Agreement (the Credit Agreement) which matures on September 27, 2012. We had no borrowings outstanding under the Credit Agreement during the six months ended June 30, 2010. Borrowings under the Credit Agreement bear interest, at our option, at a rate equal to the London Interbank Offered Rate (the Libor Rate) plus an applicable margin or a prime rate plus an applicable margin. In addition, we pay a facility fee in connection with the Credit Agreement. Both the applicable margin and the facility fee vary based upon our consolidated net debt to consolidated EBITDA, as defined in the Credit Agreement.

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The Credit Agreement financial covenants and rates are described below:

Our leverage ratio (the ratio of Net Debt to Consolidated EBITDA, as defined in the Credit Agreement) was (2.7) at June 30, 2010. If this ratio were to exceed 3.25 to 1, we would be in default under our Credit Agreement and our ability to borrow under our Credit Agreement would be impaired.

Our interest coverage ratio (the ratio of Consolidated EBITDA to Net Interest, as defined in the Credit Agreement) was 167.1 at June 30, 2010. If this ratio were to fall below 2.0 to 1, we would be in default under our Credit Agreement and our ability to borrow under our Credit Agreement would be impaired.

Consolidated EBITDA, as defined in the Credit Agreement, allows for adjustments related to unusual gains and losses, certain noncash items, and certain non-recurring charges. Based on our Consolidated EBITDA for the twelve months ended June 30, 2010, we could borrow up to \$72 million plus any additional amount that may be available as a result of our Net Debt position (as defined in the Credit Agreement). At June 30, 2010, we were in compliance with our financial covenants under the Credit Agreement.

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

Provided we continue to meet our financial covenants under the Credit Agreement, we expect that our cash and cash equivalents of \$104.3 million, short-term investments of \$20.2 million, and our undrawn \$225 million revolving credit facility will provide us sufficient liquidity to meet our operating needs and current capital expansion plans.

Cash provided by operating activities. Cash provided by operating activities for the six months ended June 30, 2010 and 2009 was \$16.3 million and \$19.0 million, respectively. This decrease in cash provided by operating activities was primarily due to increased cash used for working capital purposes, primarily due to increases in inventory and accounts receivable and a decrease in accounts payable.

Cash provided by (used in) investing activities. Cash provided by (used in) investing activities for the six months ended June 30, 2010 and 2009, was \$31.8 million and \$(85.2) million, respectively. The increase in cash provided by (used in) investing activities is principally related to the sale of \$45 million in short-term investments and a significant decrease in our capital expenditures compared to the same period in the prior year as we have slowed the pace of construction at our Martinsville, Virginia rolling facility to match market conditions.

Cash provided by financing activities. Cash provided by financing activities for the six months ended June 30, 2010 and 2009, was \$0.1 million and \$0.9 million, respectively. This decrease was primarily due to no borrowings on our credit facility during the six months ended June 30, 2010 as compared to \$1.2 million in borrowings during the same period in the prior year.

Duty Drawback Investigation

We maintained a program through an authorized agent to recapture duty paid on imported titanium sponge as an offset against exports for products shipped outside the U.S. by the Company or its customers. The agent, who matched the Company's duty paid with the export shipments through filings with U.S. Customs and Border Protection (U.S. Customs), performed the recapture process.

Historically, the Company recognized a credit to cost of sales when it received notification from its agent that a claim had been filed and received by U.S. Customs. For the period January 1, 2001 through March 31,

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2007, the Company recognized a reduction to cost of sales totaling \$14.5 million associated with the recapture of duty paid. This amount represents the total of all claims filed by the agent on the Company's behalf.

During 2007, the Company received notice from U.S. Customs that it was under formal investigation with respect to \$7.6 million of claims previously filed by the agent on the Company's behalf. The investigation relates to discrepancies in, and lack of supporting documentation for, claims filed through the Company's authorized agent. The Company revoked the authorized agent's authority and is fully cooperating with U.S. Customs to determine the extent to which any claims may be invalid or may not be supportable with adequate documentation. In response to the investigation noted above, the Company suspended the filing of new duty drawback claims through the third quarter of 2007. The Company is fully engaged and cooperating with U.S. Customs in an effort to complete the investigation in an expeditious manner.

Concurrent with the U.S. Customs investigation, we performed an internal review of the entire \$14.5 million of drawback claims filed with U.S. Customs to determine to what extent any claims may have been invalid or may not have been supported with adequate documentation. As a result, we recorded charges totaling \$10.5 million to cost of sales through December 31, 2009. No additional charges were recorded during the three and six months ended June 30, 2010.

These abovementioned charges represent our current best estimate of probable loss. Of this amount, \$9.5 million was recorded as a contingent current liability and \$1.0 million was recorded as a write-off of an outstanding receivable representing claims filed which had not yet been paid by U.S. Customs. Through December 31, 2009, we had repaid to U.S. Customs \$4.0 million for invalid claims. We made additional repayments totaling \$0.4 million and \$2.7 million during the three and six months ended June 30, 2010, respectively. As a result of these payments, the Company's liability totaled \$2.8 million as of June 30, 2010. While our internal investigation into these claims is complete, there is not a timetable of which we are aware for when U.S. Customs will conclude its investigation.

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

Additionally, we are exposed to potential penalties imposed by U.S. Customs on these claims. In December 2009, we received formal pre-penalty notices from U.S. Customs imposing penalties in the amount of \$1.7 million. While we have the opportunity to negotiate with U.S. Customs to potentially obtain relief of these penalties, due to the inherent uncertainty of the penalty process, we have accrued the full amount of the penalty as of December 31, 2009. There was no change to the amount accrued for penalties during the six months ended June 30, 2010.

During the fourth quarter of 2007, we began filing new duty drawback claims through a new authorized agent. Claims filed through December 31, 2009 totaled \$3.0 million. During the three and six months ended June 30, 2010, we filed additional claims totaling \$1.6 million and \$1.8 million, respectively. 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 when payment is received from U.S. Customs until a consistent history of receipts against claims filed has been established.

Backlog

The Company's order backlog for all markets was approximately \$288 million as of June 30, 2010, as compared to \$342 million at December 31, 2009. Of the backlog at June 30, 2010, approximately \$157 million is likely to be realized over the remainder of 2010. We define backlog as firm business scheduled for release into our production process for a specific delivery date. We have numerous contracts that extend multiple years, including the Airbus, JSF and Boeing 787 Dreamliner® long-term supply agreements, which are not included in backlog until a specific release into production or a firm delivery date has been established.

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Environmental Matters

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

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

Based on available information, we believe our share of possible environmental-related costs is in a range from \$0.8 million to \$2.3 million in the aggregate. At both June 30, 2010 and December 31, 2009, the amount accrued for future environmental-related costs was \$1.5 million. Of the total amount accrued at June 30, 2010, \$0.2 million is expected to be paid out within the next twelve months and is included in the other accrued liabilities line of the balance sheet. The remaining \$1.3 million recorded in other noncurrent liabilities. During the six months ended June 30, 2010, we made payments totaling \$0.1 million related to our environmental liabilities.

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

New Accounting Standards

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

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

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Item 4. Controls and Procedures.

As of June 30, 2010, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management concluded that the Company's disclosure controls and procedures were effective as of June 30, 2010.

There were no changes in the Company's internal control over financial reporting during the quarter ended June 30, 2010 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1A. Risk Factors.

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

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

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

In addition to the share repurchase program, employees may surrender shares to the Company to pay tax liabilities associated with the vesting of restricted stock awards under the 2004 Stock Plan. The number of shares of Common Stock surrendered to satisfy tax liabilities for the three months ended June 30, 2010 and June 30, 2009 were 11,328 and 226 shares, respectively.

Item 6. Exhibits.

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

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SIGNATURES

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

RTI INTERNATIONAL METALS, INC.

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

Dated: August 4, 2010

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INDEX TO EXHIBITS

| Exhibit No. | Description |
|------------------------|---|
| 10.1* | Employment agreement, dated May 17, 2010, between the Company and James L. McCarley, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A for the event dated May 17, 2010. |
| 10.2* | Form of indemnification agreement, incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K/A for the event dated May 17, 2010. |
| 31.1 | Certification of Chief Executive Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of Sarbanes-Oxley Act of 2002, filed herewith. |
| 31.2 | Certification of Principal Financial Officer required by Item 307 of Regulation S-K as promulgated by the Securities and Exchange Commission and pursuant to Section 302 of Sarbanes-Oxley Act of 2002, filed herewith. |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 32.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. |

* Denotes management contract or compensatory plan, contract or arrangement.