

RTI INTERNATIONAL METALS INC

Form 10-K

February 28, 2007

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

**FORM 10-K**

(Mark One)

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

**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

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 of Incorporation)

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

**1000 Warren Avenue, Niles, Ohio**  
(Address of principal executive offices)

**44446**  
(Zip code)

Registrant's telephone number, including area code:  
**330-544-7700**

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

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

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

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

**Yes  No**

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

Yes  No

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$1,252 million as of June 30, 2006. The closing price of the Corporation's common stock ( Common Stock ) on June 30, 2006, as reported on the New York Stock Exchange was \$55.84.

The number of shares of Common Stock outstanding at February 9, 2007 was 22,975,618.

**Documents Incorporated by Reference:**

Selected Portions of the Proxy Statement for the 2007 Annual Meeting of Shareholders are incorporated by reference into Part III of this Report.

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**RTI INTERNATIONAL METALS, INC. AND CONSOLIDATED SUBSIDIARIES**

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

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**PART I**

**Item 1. Business**

**The Company**

RTI International Metals, Inc. (the Company or RTI) is a leading U.S. producer of titanium mill products and fabricated metal components for the global market. The Company is a successor to entities that have been operating in the titanium industry since 1951. The Company first became publicly traded on the New York Stock Exchange in 1990 under the name RMI Titanium Co., and was reorganized into a holding company structure in 1998 under the symbol RTI. The Company conducts business in two segments: the Titanium Group and the Fabrication & Distribution Group (F&D). The Titanium Group melts and produces a complete range of titanium mill products, which are further processed by its customers for use in a variety of commercial aerospace, defense, and industrial and consumer applications. The titanium mill products consist of basic mill shapes including ingot, slab, bloom, billet, bar, plate and sheet. The Titanium Group also produces ferro titanium alloys for steel-making customers and processes and distributes titanium powder. The F&D Group is comprised of companies that fabricate, machine, assemble, and distribute titanium and other specialty metal parts and components. Its products, many of which are engineered parts and assemblies, serve commercial aerospace, defense, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets.

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

**Industry Overview**

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

Historically, the cyclical nature of the aerospace and defense industries has been the principal cause of the fluctuations in performance of companies engaged in the titanium industry. The U.S. titanium industry's reported shipments were approximately 42 million pounds in 2004, 53 million pounds in 2005, and are estimated to be approximately 65 million pounds in 2006. Due to continuing strong demand from all major market segments, the U.S. titanium industry's shipments in 2007 are estimated to increase over 2006 levels.

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

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

***Commercial Aerospace***

The Company's sales to the commercial aerospace market were approximately 45% of total sales in 2006 compared to 42% in 2005 and 35% in 2004. Growth in this market is the result of increased world-wide air travel, driving increased plane production, and increased usage of titanium in new aircraft design. According to *Aerospace Market News*, the leading manufacturers of commercial aircraft, Airbus and Boeing, reported an aggregate of 4,988

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aircraft on order at the end of 2006, a 25% increase from the prior year. The backlog represents more than five years of production at current build rates.

*Aerospace Market News* reported that 1,892 new orders for large commercial airlines were placed with Airbus and Boeing combined. Deliveries of large commercial aircraft by Airbus and Boeing totaled 831 in 2006, 668 in 2005, and 605 in 2004. According to *The Airline Monitor* forecast deliveries of large commercial jets to airlines are predicted to reach 925 aircraft in 2007, 1,037 aircraft in 2008, and 1,086 aircraft in 2009.

Airbus is now producing the largest commercial aircraft, the A380, and Boeing has launched the 787. Airbus has also announced the launch of another new aircraft, the A350XWB, to compete with Boeing's 787 models. All three of these new aircraft will use substantially more titanium per aircraft than the preceding models. The A380 is scheduled to go into service in early 2008. One version of the 787 is expected to go into service in 2008 and two other models in 2010. The A350XWB is expected to go into service in 2013. As production of these new aircraft increases, the demand for titanium is expected to grow to levels significantly above previous peak markets for commercial aerospace applications.

According to Airbus, Boeing, and other industry forecast sources, the long term outlook for this segment is approximately 21,860 large jets and 4,000 regional jets over the next 20 years as new and replacement aircraft will be required to support the expected demand of increased passenger and freight traffic.

### ***Defense***

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

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

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

Military demand is expected to remain at high levels in 2007 due to strong defense budgets and significant hardware purchases by the U.S. Government and European nations.

### ***Industrial & Consumer***

Industrial & Consumer markets provided approximately 23% of RTI's revenue in 2006, consisting of shipments to the energy sector from the F&D Group and continued shipments of ferro titanium to the steel industry from the Titanium Group.

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



In the energy sector, the demand for RTI's products for oil and gas extraction, including deepwater exploration and production increased in 2006. This demand is expected to grow over the next several years as a consequence of further development of energy from deepwater and difficult-to-reach locations around the globe.

RTI Energy was selected by BP to provide titanium stress joints for its Shah Deniz project located in the Caspian Sea, Azerbaijan. This project was delivered complete in 2006. Titanium was chosen for its strength, flexibility, and corrosion resistance to deal with the strong ocean currents in the development field.

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

### **Products and Segments**

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

#### ***Titanium Group***

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

The mill products are sold to a customer base consisting primarily of manufacturing and fabrication companies in the aerospace, defense, and industrial and consumer markets. Customers include prime aircraft manufacturers and their family of subcontractors including fabricators, forge shops, extruders, fastener manufacturers, machine shops, and metal distribution companies. Titanium mill products are semi-finished goods and usually represent the raw or starting material for these customers who then form, fabricate, machine, or further process the products into semi-finished and finished parts. Approximately 43% of titanium mill products in 2006, compared to 42% in 2005, were sold to the Company's F&D Group where value-added services such as those mentioned above are performed for ultimate shipment of parts to the customer. The Titanium Group also processes and distributes titanium powders.

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

#### ***Fabrication & Distribution Group***

The F&D Group consists primarily of businesses engaged in the fabrication and distribution of titanium mill products and other specialty metals such as stainless steel and nickel-based alloys in 15 locations, principally in the United States, Europe, and Canada.

The Company owns and operates a number of distribution facilities with domestic and international locations. These facilities stock titanium and specialty metal mill products to fill customer needs for smaller quantity and quick delivery requirements from inventory. These facilities also provide cutting, machining and light fabrication services. In addition, four locations: St. Louis, Missouri; Los Angeles, California; Birmingham, England; and Villette, France; operate significant stocking and cut-to-size programs designed to meet the needs of commercial aerospace, defense, and industrial and consumer customers for multi-year requirements. The RTI Europe business unit operates distribution facilities in Europe which stock and deliver cut-to-size titanium products and other specialty metals. An example of this is the agreement with Airbus awarded to RTI in 2006 to provide value-added flat-rolled titanium products for their commercial and military aircraft programs through 2015.

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

example, RTI won agreements with Fuji Heavy Industries, Ltd. and Kawasaki Heavy Industries, Ltd. awarded to RTI in 2006 to provide extruded and machined structural component parts for the Boeing 787 program through 2011. These agreements are discussed under the Outlook section of Management's Discussion and Analysis.

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

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

When titanium products and fabrications are involved in a project, the Titanium Group and the F&D Group coordinate their varied capabilities to provide the best solution for a customer. An example is RTI's Howitzer program. The Titanium Group is providing the titanium mill products to the F&D Group, which in turn is providing extrusions, hot formed parts, and machined components that are packaged as a kit at RTI's operation in the UK and sent to BAE Systems for final assembly. This contract was awarded to RTI in 2005 for delivery over the next four years.

The amount of net sales and percentage of the Company's consolidated net sales from continuing operations represented by each Group during each of the years beginning in 2004 were as follows:

<i>(dollars in millions)</i>	<b>2006</b>		<b>2005</b>		<b>2004</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Titanium Group(1)(2)	\$ 204.9	40.5%	\$ 130.2	37.5%	\$ 48.7	23.2%
Fabrication & Distribution Group(2)	300.5	59.5%	216.7	62.5%	161.0	76.8%
Total consolidated net sales	\$ 505.4	100.0%	\$ 346.9	100.0%	\$ 209.7	100.0%

Operating income (loss) from continuing operations and the percentage of consolidated operating income (loss) contributed by each Group during each of the years beginning in 2004 were as follows:

<i>(dollars in millions)</i>	<b>2006</b>		<b>2005</b>		<b>2004</b>	
	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>
Titanium Group(2)	\$ 78.5	68.1%	\$ 40.8	72.8%	\$ (11.1)	76.0%
Fabrication & Distribution Group(2)	36.8	31.9%	15.3	27.2%	(3.5)	24.0%
Total consolidated operating income (loss)	\$ 115.3	100.0%	\$ 56.1	100.0%	\$ (14.6)	100.0%

The amount of the Company's total consolidated assets identified with each Group as of December 31 were as follows:

<i>(in millions)</i>	<b>2006</b>	<b>2005</b>
Titanium Group	\$ 228.3	\$ 230.5
Fabrication & Distribution Group	294.4	231.7
General Corporate(3)	121.2	39.6
Total consolidated assets	\$ 643.9	\$ 501.8

- (1) Excludes \$152 million, \$96 million and \$57 million of intercompany sales primarily to the F&D Group in 2006, 2005 and 2004, respectively.
- (2) Excludes the effect of discontinued operations in both current and prior years.
- (3) Consists primarily of unallocated cash, short term investments and deferred tax assets.

***RTI Sales by Market***

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Commercial Aerospace	45%	42%	35%
Defense	32%	27%	29%
Industrial and Consumer	23%	31%	36%

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### **Exports**

The majority of the Company's exports consist of titanium mill products and extrusions used in aerospace markets. Also, significant exports to energy market customers are beginning to occur as deepwater oil and gas exploration increases. The Company's export sales were 22%, 19%, and 21% of net sales for the years ended December 31, 2006, 2005, and 2004, respectively. Such sales were made primarily to the European market where the Company is a leader in supplying flat-rolled titanium alloy mill products. Most of the Company's export sales are denominated in U.S. dollars, which minimizes exposure to foreign currency fluctuations. For further information about geographic areas, see Note 12, "Segment Reporting" to the consolidated financial statements included in this report.

The Company supplies flat-rolled titanium alloy mill products to the European market through RTI Europe, the Company's network of European distribution companies, which secures contracts to furnish mill products to the major European aerospace manufacturers. To enhance its presence in the European market, in 1992 the Company acquired a 40% ownership interest in its French distributor, Reamet. In 2000, RTI purchased the remaining 60% of Reamet. In addition, the Company expanded its operations in the United Kingdom to include a distribution and service facility in Birmingham, England. RTI, through its French subsidiary, Reamet, was chosen by Airbus in 2006 as a major supplier of titanium flat-rolled products through 2015.

### **Backlog**

The Company's order backlog for all market segments increased 34.7% to \$606 million as of December 31, 2006, up from \$450 million at December 31, 2005. Of the backlog at December 31, 2006, approximately \$498 million is likely to be realized in 2007. The Company defines backlog as firm business scheduled for release into the production process for a specific delivery date. The Company has numerous requirement contracts that extend multiple years for a variety of programs that are not included in backlog until a specific release into production or a firm delivery date has been established.

### **Raw Materials**

The principal raw materials used in the production of titanium mill products are titanium sponge (a porous metallic material, so called due to its appearance), titanium scrap, and alloying agents. RTI acquires its raw materials from a number of domestic and foreign suppliers under long-term contracts and other negotiated transactions. The majority of sponge requirements are sourced from foreign suppliers. Requirements for sponge, scrap, and alloys vary depending upon the volume and mix of final products. The Company's cold-hearth melting facility permits the Company flexibility to consume a wider range of metallics in its primary melting facility thus reducing the need for purchased titanium sponge. Based on the current levels of customer demand, current production schedules, and the level of inventory on hand, the Company estimates its purchases of sponge, scrap, and alloys will increase during 2007.

The Company currently has supply agreements for raw materials. These contracts are with suppliers located in Japan and Kazakhstan and allow the Company to purchase certain quantities of raw materials at negotiated prices. These contracts are based upon fixed or variable price provisions and expire at various periods up through 2016. In addition, the Company makes spot purchases of raw materials from other sources. While the Company believes it has adequate sources of supply for titanium sponge, scrap, alloying agents, and other raw materials, it continually monitors its raw material supply status.

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

**Competition and Other Market Factors**

The titanium metals industry is highly competitive on a worldwide basis. Titanium competes with other materials of construction, including certain stainless steel, nickel-based high temperature, and corrosion resistant alloys and composites. A metal manufacturing company with rolling and finishing facilities could participate in the

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mill product segment of the industry. It would either need to acquire intermediate product from an existing source or further integrate to include vacuum melting and forging operations to provide the starting stock for further rolling. In addition, many end use applications, especially in aerospace, require rigorous testing and approvals prior to purchase which would require a significant investment of time and capital coupled with extensive technical expertise.

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

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

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

## **Trade and Legislative Factors**

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

The United States Government is required by the Berry Amendment Specialty Metals Clause of 1973 to require the use of domestically-melted titanium in all military procurement. The 2007 Defense Authorization Act reinforced the Berry requirements while also making significant changes to existing Berry Amendment provisions in place since 1972. The new law, 10 U.S.C. §2533b, Requirement to buy strategic materials critical to national security from American sources, codifies pre-existing Department of Defense (DoD) policy that mandates compliance with domestic source requirements at the prime contract and subcontract level and requires strict compliance. However, it also eliminates requirements for electronic components in which specialty metals are de minimis. A one-time waiver (expiring on September 30, 2010) allows for acceptance of non-complying end items or components manufactured prior to the effective date of the law, if it would not be practical or economical to replace the non-compliant metal. However, this waiver provision also mandates that corrective action plans be put into place to bring inventories into compliance.



Although DoD has issued interim guidance that appears to closely follow Congressional intent, any assessment of the impact of the new law must await review of the final DoD rules, as well as DoD practices with respect to granting future waivers, called domestic non-availability determinations. Under the prior law, the number of such waivers grew significantly starting around 1999 and were granted with relative frequency. There also is the possibility of future legislative proposals that would broaden domestic source restrictions to allow foreign-sourced titanium to be used on military aircraft and other military equipment. During the recent legislative sessions, RTI,

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along with TIE and ATI, successfully opposed such broad modifications of the law. If broad waivers continue to be granted, or if the domestic source requirements are further weakened to allow foreign titanium to be used on military aircraft, it could have a negative effect on future military business. We believe that improvidently granted waivers of the Specialty Metals Clause and legislative attempts to weaken the existing domestic source requirements are harmful to national security.

## **Marketing and Distribution**

RTI markets its titanium mill and related products and services worldwide. The majority of the Company's sales are made through its own sales force primarily assigned to the F&D Group. RTI's domestic sales force has offices in Niles, Ohio; Houston, Texas; Los Angeles, California; Indianapolis, Indiana; Hartford, Connecticut; Salt Lake City, Utah; and Montreal, Canada. Technical marketing personnel are available to service these offices and to assist in new product applications and development. In addition, the Company's Customer Technical Service and Research and Development departments, both located in Niles, Ohio, provide extensive customer support. Sales of products and services provided by business units in the F&D Group are made by personnel at each plant location as well as a group level sales force. F&D Group locations include: Hartford, Connecticut; Montreal, Canada; Indianapolis, Indiana; Los Angeles, California; Houston, Texas; Sullivan and Washington, Missouri; Birmingham, England; Villette, France; Dusseldorf, Germany; Milan, Italy; and Guangzhou, China.

## **Research, Technical, and Product Development**

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

The Company is currently partnered with American Engineering and Manufacturing Company (AEM) to develop lower cost titanium production for the U.S. Army Industrial base under the Advanced Materials and Processes for Armament Structures Program (AMPAS). The Company and AEM were jointly awarded research and development funds in the fiscal years 2006 and 2007 DoD Appropriations bills in the amounts of \$6.4 and \$4.4 million, respectively.

RTI also participates in several other federal and state-funded research projects to develop lower cost titanium, advanced melting technology, and cast extrusions, as well as improved flat product research. The principal goals of the Company's research program, aside from U.S. Army and DoD projects, are advancing technical expertise in the production of titanium mill and fabricated products and providing technical support in the development of new markets and products. Research, technical, and product development costs borne by the Company totaled \$1.5 million in 2006, \$1.6 million in 2005, and \$1.2 million in 2004.

## **Patents and Trademarks**

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

## **Employees**

As of December 31, 2006 the Company and its subsidiaries employed 1,362 persons, 435 of whom were classified as administrative and sales personnel. Of the total number of employees, 651 employees were in the Titanium Group,

686 were in the F&D Group, and 25 were in the RTI corporate headquarters group.

The United Steelworkers of America represents 356 of the hourly, clerical and technical employees at RMI's plant in Niles, Ohio. The current Labor Agreement entered into on December 1, 2004 with the United Steelworkers of America expires on January 31, 2010. Hourly employees at the RTI Tradco facility in Washington, MO voted to become members of the International Association of Machinists and Aerospace Workers in May of 2006. There are

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164 employees in the bargaining unit. Recent negotiations have resulted in an agreement for a four year contract that expires February 19, 2011. No other Company employees are represented by a union.

**Executive Officers of the Registrant**

Listed below are the executive officers of the Company, together with their ages and titles as of December 31, 2006.

<b>Name</b>	<b>Age</b>	<b>Title</b>
Timothy G. Rupert	60	President and Chief Executive Officer
John H. Odle	64	Executive Vice President
Dawne S. Hickton	49	Senior Vice President and Chief Administrative Officer, General Counsel and Secretary (Principal Financial Officer)
William T. Hull	49	Vice President and Chief Accounting Officer
Stephen R. Giangjordano	48	Senior Vice President Titanium Group
Michael C. Wellham	41	Senior Vice President Fabrication & Distribution Group

As previously reported, Mr. Rupert announced that he will step down as President and Chief Executive Officer effective April 27, 2007 and will retire from the Company on July 31, 2007. Mr. Odle announced that he will retire, consistent with the Company's mandatory retirement policy, in September 2007 when he becomes 65 years of age. Pursuant to the succession plan adopted by the Board of Directors, Ms. Hickton was appointed Vice Chairman and Chief Executive Officer, Mr. Wellham was appointed President and Chief Operating Officer, Mr. Giangjordano was appointed Executive Vice President, and Mr. Hull was appointed Senior Vice President and Chief Financial Officer, each effective on April 27, 2007. In addition, Chad Whalen (32) was appointed Vice President and General Counsel effective February 19, 2007.

***Biographies***

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

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

Ms. Hickton was elected Senior Vice President, Chief Administrative Officer and Principal Financial Officer in July 2005. She was elected Secretary in April, 2004 and Vice President and General Counsel in June 1997. Ms. Hickton had been an Assistant Professor of Law at The University of Pittsburgh School of Law, was associated with the Pittsburgh law firm of Burns, White and Hickton, and was employed in the law department of USX Corporation from 1983 through 1994.

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

Mr. Giangiordano was elected Senior Vice President, Titanium Group in October 2002. He had previously served as Vice President Titanium Group since July 1999.

Mr. Wellham was elected Senior Vice President, Fabrication & Distribution Group in September 2002. He previously served as Vice President, Fabrication & Distribution Group since January 1999.

Mr. Whalen was elected Vice President and General Counsel effective February 19, 2007. Mr. Whalen was a practicing attorney at the law firm of Buchanan Ingersoll & Rooney PC from 1999 until joining RTI. Buchanan Ingersoll & Rooney PC provides certain legal services to RTI.

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**Available Information**

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

**Item 1A. Risk Factors**

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