

Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-Q

RTI INTERNATIONAL METALS INC  
Form 10-Q  
November 14, 2005

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005.

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 52-2115953  
(State or other jurisdiction of (I.R.S. Employer Identification  
incorporation or organization) No.)

1000 WARREN AVENUE, NILES, OHIO 44446  
(Address of principal executive offices)

(330) 544-7700  
(Registrant's telephone number, including area code)

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

YES X NO \_\_\_\_

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES X NO \_\_\_\_

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

YES \_\_\_\_ NO X

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At November 1, 2005, 23,023,648 shares of common stock of the registrant were outstanding.

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RTI INTERNATIONAL METALS, INC.

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2005

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PART I--FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF OPERATIONS  
(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

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|   | QUARTER ENDED<br>SEPTEMBER 30, |            | NINE MONTHS E<br>SEPTEMBER 3 |    |
|---|--------------------------------|------------|------------------------------|----|
|   | 2005                           | 2004       | 2005                         |    |
| Sales.....  | \$ 81,167                      | \$ 50,951  | \$ 249,694                   | \$ |
| Operating costs:  |                                |            |                              |    |
| Cost of sales.....  | 54,283                         | 43,302     | 172,295                      |    |
| Selling, general and administrative expenses.....                     | 12,914                         | 10,064     | 34,598                       |    |
| Research, technical and product development expenses.....             | 392                            | 281        | 1,175                        |    |
| Total operating costs.....  | 67,589                         | 53,647     | 208,068                      |    |
| Other operating income.....   | --                             | 420        | --                           |    |
| Operating income (loss).....  | 13,578                         | (2,276)    | 41,626                       |    |
| Other income (Note 10).....   | 78                             | 149        | 531                          |    |
| Interest income.....  | 274                            | 67         | 670                          |    |
| Income (loss) from continuing operations before income taxes.....     | 13,930                         | (2,060)    | 42,827                       |    |
| Provision for income taxes (Note 5).....                              | 5,268                          | 8          | 15,186                       |    |
| Income (loss) from continuing operations.....                         | 8,662                          | (2,068)    | 27,641                       |    |
| (Loss) Income from discontinued operations, net of tax (Note 15)..... | --                             | (99)       | --                           |    |
| Net income (loss).....  | \$ 8,662                       | \$ (2,167) | \$ 27,641                    | \$ |
| Basic earnings per common share (Note 6):                             |                                |            |                              |    |
| Continuing operations.....  | \$ 0.38                        | \$ (0.10)  | \$ 1.24                      | \$ |
| Discontinued operations.....  | \$ --                          | \$ --      | \$ --                        | \$ |
| Net income (loss).....  | \$ 0.38                        | \$ (0.10)  | \$ 1.24                      | \$ |
| Diluted earnings per common share (Note 6):                           |                                |            |                              |    |
| Continuing operations.....  | \$ 0.38                        | \$ (0.10)  | \$ 1.22                      | \$ |
| Discontinued operations.....  | \$ --                          | \$ --      | \$ --                        | \$ |
| Net income (loss).....  | \$ 0.38                        | \$ (0.10)  | \$ 1.22                      | \$ |
| Weighted average shares used to compute earnings per share:           |                                |            |                              |    |
| Basic.....  | 22,526,194                     | 21,220,933 | 22,251,556                   | 21 |
| Diluted.....  | 22,944,670                     | 21,509,070 | 22,692,283                   | 21 |

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

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(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

|   | SEPTEMBER 30,<br>2005 | DECEMBER 31,<br>2004 |
|---|-----------------------|----------------------|
|   | -----                 | -----                |
| <b>ASSETS</b>   |                       |                      |
| <b>ASSETS:</b>  |                       |                      |
| Cash and cash equivalents.....  | \$ 37,648             | \$ 62,701            |
| Receivables, less allowance for doubtful<br>accounts of \$1,660 and \$1,485.....  | 53,701                | 44,490               |
| Inventories (Note 7).....   | 208,820               | 133,512              |
| Current deferred income tax asset.....  | 1,145                 | 1,145                |
| Income tax receivable.....  | 2,462                 | 3,321                |
| Other current assets.....   | 6,445                 | 3,597                |
|   | -----                 | -----                |
| Total current assets.....   | 310,221               | 248,766              |
| Property, plant and equipment, net.....   | 81,393                | 82,593               |
| Goodwill (Note 8).....  | 48,733                | 46,618               |
| Other intangible assets, net (Note 8).....  | 16,788                | 16,040               |
| Noncurrent deferred income tax asset.....   | 3,012                 | 3,012                |
| Intangible pension asset.....   | 3,365                 | 3,365                |
| Other noncurrent assets.....  | 2,570                 | 3,099                |
|   | -----                 | -----                |
| Total assets.....   | \$466,082             | \$403,493            |
|   | =====                 | =====                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                      |
| <b>LIABILITIES:</b>   |                       |                      |
| Accounts payable.....   | \$ 24,894             | \$ 14,253            |
| Accrued wages and other employee costs.....   | 9,445                 | 4,863                |
| Billings in excess of costs and estimated<br>revenues (Note 9).....   | 12,262                | 4,708                |
| Other accrued liabilities.....  | 6,100                 | 6,498                |
|   | -----                 | -----                |
| Total current liabilities.....  | 52,701                | 30,322               |
| Accrued postretirement benefit cost.....  | 20,827                | 20,811               |
| Accrued pension cost.....   | 14,798                | 21,090               |
| Other noncurrent liabilities.....   | 6,122                 | 7,312                |
|   | -----                 | -----                |
| Total liabilities.....  | 94,448                | 79,535               |
|   | -----                 | -----                |
| Commitments and contingencies (Note 12)   |                       |                      |
| <b>SHAREHOLDERS' EQUITY:</b>  |                       |                      |
| Common stock, \$0.01 par value, 50,000,000 shares<br>authorized; 23,102,531 and 22,194,344 shares<br>issued; 22,658,459 and 21,772,730 shares<br>outstanding..... | 233                   | 221                  |
| Additional paid-in capital.....   | 277,438               | 258,526              |
| Deferred compensation.....  | (3,346)               | (2,499)              |
| Treasury stock, at cost; 444,072 and 421,614<br>shares.....   | (4,389)               | (3,906)              |
| Accumulated other comprehensive loss.....   | (20,318)              | (22,759)             |
| Retained earnings.....  | 122,016               | 94,375               |
|   | -----                 | -----                |
| Total shareholders' equity.....   | 371,634               | 323,958              |

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|   |                             |                             |
|---|-----------------------------|-----------------------------|
| Total liabilities and shareholders' equity..... | -----<br>\$466,082<br>===== | -----<br>\$403,493<br>===== |
|---|-----------------------------|-----------------------------|

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

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RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)

(DOLLARS IN THOUSANDS)

|   | NINE MONTHS ENDED<br>SEPTEMBER 30, |                             |
|---|------------------------------------|-----------------------------|
|   | 2005                               | 2004                        |
|   |                                    | (RESTATED)<br>(SEE NOTE 17) |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                                    |                             |
| Net income.....   | \$ 27,641                          | \$ 1,041                    |
| Income from discontinued operations, net of tax.....  | --                                 | 139                         |
|   | -----                              | -----                       |
| Income from continuing operations.....  | 27,641                             | 902                         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                    |                             |
| Depreciation and amortization.....  | 9,750                              | 8,892                       |
| Stock-based compensation expense and other.....   | 881                                | 581                         |
| Gain on sale of property, plant and equipment.....  | (4)                                | (356)                       |
| Tax benefits from exercise of stock options.....  | 3,812                              | 766                         |
| Other.....  | (590)                              | 177                         |
| CHANGES IN ASSETS AND LIABILITIES (EXCLUDING CASH):   |                                    |                             |
| Receivables.....  | (10,151)                           | (7,068)                     |
| Inventories.....  | (75,166)                           | 14,127                      |
| Accounts payable.....   | 11,085                             | (3,498)                     |
| Income taxes receivable.....  | 380                                | (4,286)                     |
| Billings in excess of costs and estimated revenues.....                                     | 7,593                              | (2,228)                     |
| Accrued pension cost.....   | (6,292)                            | 1,737                       |
| Other current liabilities.....  | 4,366                              | 4,093                       |
| Other assets and liabilities.....   | (3,811)                            | (922)                       |
|   | -----                              | -----                       |
| Cash (used in) provided by continuing operating activities.....                             | (30,506)                           | 12,917                      |
| Cash provided by discontinued operating activities.....                                     | --                                 | 1,355                       |
|   | -----                              | -----                       |
| Cash (used in) provided by operating activities.....  | (30,506)                           | 14,272                      |
|   | -----                              | -----                       |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                                    |                             |
| Acquisitions, net of cash acquired, and other investing...                                  | (290)                              | (2,210)                     |
| Proceeds from disposal of property, plant and equipment...                                  | 5                                  | 579                         |
| Capital expenditures.....   | (7,640)                            | (4,209)                     |
|   | -----                              | -----                       |
| Cash used in investing activities.....  | (7,925)                            | (5,840)                     |

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|  |           |           |
|--|-----------|-----------|
| CASH FLOWS FROM FINANCING ACTIVITIES:                                |           |           |
| Proceeds from exercise of employee stock options.....                | 13,387    | 2,372     |
| Purchase of common stock held in treasury.....                       | (483)     | (288)     |
| Deferred charges related to credit facility.....                     | --        | (285)     |
|  | -----     | -----     |
| Cash provided by financing activities.....                           | 12,904    | 1,799     |
|  | -----     | -----     |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH<br>EQUIVALENTS..... | 474       | 168       |
|  | -----     | -----     |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS.....                | (25,053)  | 10,399    |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD.....                | 62,701    | 67,970    |
|  | -----     | -----     |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD.....                      | \$ 37,648 | \$ 78,369 |
|  | =====     | =====     |
| SUPPLEMENTAL CASH FLOW INFORMATION:                                  |           |           |
| Cash paid for interest, net of amounts capitalized.....              | \$ 378    | \$ 335    |
| Cash paid for income taxes.....                                      | \$ 10,678 | \$ 4,148  |
| NON-CASH FINANCING ACTIVITIES:                                       |           |           |
| Issuance of common stock for vested restricted stock<br>awards.....  | \$ 1,725  | \$ 1,301  |
| Capital lease obligations incurred.....                              | \$ 116    | \$ 6      |

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

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RTI INTERNATIONAL METALS, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

|  | SHARES<br>OUTSTANDING | COMMON<br>STOCK | ADDT'L<br>PAID-IN<br>CAPITAL | DEFERRED<br>COMPENSATION | TREASURY<br>COMMON<br>STOCK | RE<br>EA |
|--|-----------------------|-----------------|------------------------------|--------------------------|-----------------------------|----------|
|  | -----                 | -----           | -----                        | -----                    | -----                       | -----    |
| Balance at December 31, 2004.....  | 21,772,730            | \$221           | \$258,526                    | \$ (2,499)               | \$ (3,906)                  | \$       |
| Shares issued for restricted<br>stock award plans.....                             | 76,812                | 1               | 1,724                        | (1,725)                  | --                          |          |
| Compensation expense<br>recognized.....  | --                    | --              | --                           | 878                      | --                          |          |
| Treasury common stock purchased<br>at cost.....                                    | (22,458)              | --              | --                           | --                       | (483)                       |          |
| Exercise of employee stock<br>options including tax benefit<br>of stock plans..... | 831,375               | 11              | 17,188                       | --                       | --                          |          |
| Net income.....  | --                    | --              | --                           | --                       | --                          |          |
| Foreign currency translation, net<br>of tax.....                                   | --                    | --              | --                           | --                       | --                          |          |
| Comprehensive income.....  |                       |                 |                              |                          |                             |          |
|  | -----                 | -----           | -----                        | -----                    | -----                       | -----    |
| Balance at September 30, 2005....  | 22,658,459            | \$233           | \$277,438                    | \$ (3,346)               | \$ (4,389)                  | \$1      |
|  | =====                 | =====           | =====                        | =====                    | =====                       | =====    |

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COMPREHENSIVE  
INCOME

|  |          |
|--|----------|
|  | -----    |
| Balance at December 31, 2004.....  |          |
| Shares issued for restricted<br>stock award plans.....                             |          |
| Compensation expense<br>recognized.....  |          |
| Treasury common stock purchased<br>at cost.....                                    |          |
| Exercise of employee stock<br>options including tax benefit<br>of stock plans..... |          |
| Net income.....  | \$27,641 |
| Foreign currency translation, net<br>of tax.....                                   | 2,441    |
|  | -----    |
| Comprehensive income.....  | \$30,082 |
|  | =====    |
| Balance at September 30, 2005....  |          |

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

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RTI INTERNATIONAL METALS, INC.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1-- BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by RTI International Metals, Inc. (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. The consolidated financial statements include the accounts of RTI International Metals, Inc. and its majority owned subsidiaries. All significant intercompany transactions have been eliminated. The financial information presented reflects all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. The financial statements should be read in conjunction with accounting policies and notes to consolidated financial statements included in the Company's 2004 Annual Report (Consolidated Financial Statements) on Form 10-K, as amended. Certain prior period amounts have been reclassified to conform to the current period presentation. The results for the interim periods are not necessarily indicative of the results to be expected for the year.

NOTE 2-- ORGANIZATION

RTI International Metals, Inc. is a leading U.S. producer of titanium mill products and fabricated metal parts for the global market. The Company conducts business in two segments: the Titanium Group and the Fabrication and Distribution Group. 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 applications. The Fabrication and Distribution Group is comprised of companies that process and

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distribute titanium and other specialty metals. Its products, many of which are engineered parts and assemblies, serve aerospace, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets.

On September 30, 1998, the shareholders of the Company's now wholly-owned subsidiary RMI Titanium Company ("RMI") approved a proposal to reorganize into a holding company structure (the "1998 Reorganization"). Pursuant to this reorganization, the Company became the parent company of RMI, and shares of RMI common stock were automatically exchanged on a one-for-one (1:1) basis for shares of RTI. Shares of RTI began trading on the New York Stock Exchange on October 1, 1998.

The Company is a successor to entities that have been operating in the titanium industry since 1951. In 1990, USX Corporation ("USX") and Quantum Chemical Corporation ("Quantum") transferred their entire ownership interest in RMI's immediate predecessor, RMI Company, an Ohio general partnership, to the Company in exchange for shares of the Company's common stock (the "1990 Reorganization"). Quantum sold its shares of common stock to the public while USX retained ownership of its shares. USX terminated its ownership interest in RTI in 2000.

### NOTE 3-- ACQUISITIONS

On October 1, 2004, RTI acquired all of the stock of Claro Precision, Inc., ("Claro") of Montreal, Quebec, Canada. The aggregate purchase price was \$30.6 million consisting of cash of \$23.6 million less cash acquired of \$1.6 million and 358,908 shares of RTI common stock with a fair value of \$7.0 million. The purchase agreement provided for a post-closing audit period for adjustments to the purchase price to finalize and determine whether the target equity amount of \$9.7 million existed on the closing date. The Company has subsequently agreed that the target equity amount was achieved and has included \$0.2 million as additional purchase price allocation which was previously excluded, resulting in an increase to goodwill of \$0.2 million. At September 30, 2005 the Company has concluded its evaluation of pre-acquisition contingencies in accordance with Statement of Financial Accounting Standards "Business Combinations" SFAS No. 141

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(SFAS 141) and determined that the fair value of certain inventories should be reduced by \$0.4 million and goodwill increased by \$0.4 million.

The purchase was made with available cash on hand and newly issued common shares. Claro operates and reports under the Company's Fabrication and Distribution segment and was reflected in results of operations effective October 1, 2004.

Claro is a manufacturer of precision-machined components and complex mechanical and electrical assemblies for the aerospace industry.

The following is a summary of the allocation of the purchase price to the assets acquired and liabilities assumed from Claro based on their fair market values as of October 1, 2004 including adjustments determined at September 30, 2005. In accordance with SFAS 141, the purchase price was assigned to the assets and liabilities acquired based on fair value. Fair value is defined in SFAS 141 as the "amount at which that asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced liquidation sale."



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| (IN THOUSANDS)                               | ALLOCATED<br>PURCHASE<br>PRICE |
|--|--------------------------------|
| -----  | -----                          |
| Acquired assets:                             |                                |
| Receivables.....                             | \$ 2,802                       |
| Inventories.....                             | 4,328                          |
| Other assets.....                            | 46                             |
| Property, plant & equipment.....             | 3,836                          |
| Goodwill.....                                | 11,090                         |
| Intangible assets.....                       | 16,200                         |
|  | -----                          |
| Total assets.....                            | 38,302                         |
| Acquired liabilities:                        |                                |
| Accounts payable.....                        | 1,010                          |
| Income taxes payable.....                    | 1,543                          |
| Current deferred income taxes liability..... | 1,145                          |
| Other accrued liabilities.....               | 160                            |
| Noncurrent deferred income taxes.....        | 5,414                          |
|  | -----                          |
| Total liabilities.....                       | 9,272                          |
|  | -----                          |
| Net assets acquired.....                     | \$29,030                       |
|  | =====                          |
| Purchase price                               |                                |
| Cash.....                                    | 22,014                         |
| RTI common stock.....                        | 7,016                          |
|  | -----                          |
|  | \$29,030                       |
|  | =====                          |

The following unaudited pro forma information for RTI is provided to include the results of Claro as if the acquisition had been consummated at the beginning of the period presented,

| (IN THOUSANDS, EXCEPT PER SHARE DATA) | PRO FORMA<br>QUARTER<br>ENDED<br>SEPTEMBER 30,<br>2004 | PRO FORMA<br>NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2004 |
|---------------------------------------|--|--|
| -----                                 | -----  | -----  |
|                                       | (UNAUDITED)  | (UNAUDITED)  |
| Net sales.....                        | \$54,775   | \$164,761  |
| Net (loss) income.....                | \$(1,260)  | \$ 3,326   |
| Net (loss) income per common share    |  |  |
| Basic.....                            | (0.06)   | 0.16   |
| Diluted.....                          | (0.06)   | 0.15   |

The \$16.2 million of intangible assets represent the assigned value of customer relationships with an estimated useful life of approximately 20 years. Accumulated amortization at September 30, 2005 and December 31, 2004 related to these intangible assets was \$763 thousand and \$160 thousand, respectively. Goodwill of \$11.1 million resulted from the acquisition and is non-deductible

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for income tax purposes in Canada. Additionally, fixed assets were stepped-up to approximate fair market value and are being depreciated in accordance with the Company's accounting policies.

The pro forma combined financial results have been prepared for comparative purposes only and include certain adjustments as described above. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the combination occurred on January 1, 2004, or of future results of the consolidated entities.

### NOTE 4-- STOCK OPTION AND RESTRICTED STOCK AWARD PLANS

The 2004 Stock Plan, which was approved by a vote of the Company's shareholders at the 2004 Annual Meeting of Shareholders, replaced the 1995 Stock Plan and the 2002 Non-Employee Director Stock Option Plan.

The 2004 Plan limits the number of shares available for issuance to 2,500,000 (plus any shares covered by options already outstanding under the 1995 Plan and 2002 Plan that expire or are terminated without being exercised and any shares delivered in connection with the exercise of any outstanding awards under the 1995 Plan and 2002 Plan) during its ten-year term and limits the number of shares available for grants of restricted stock to 1,250,000. The plan expires after ten years and requires that the exercise price of stock options, stock appreciation rights and other similar instruments awarded under the plan is not less than the fair market value of RTI stock on the date of the grant award.

During the nine months ended September 30, 2005, options to purchase up to 84,500 shares were granted at an exercise price of \$21.50 per share and 10,000 shares at the price of \$34.90. All option exercise prices were equal to the common stock's fair market value on the date of the grant. Options are for a term of ten years from the date of the grant, and vest ratably over the three-year period beginning with the date of the grant. All 94,500 shares underlying options granted in 2005 were outstanding at September 30, 2005.

During the nine months ended September 30, 2005, 76,812 shares of restricted stock were granted under the 2004 Stock Plan. Compensation expense equal to the fair market value on the date of the grant is recognized ratably over the vesting period of each grant which is typically five years.

As permitted by the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company has elected to measure stock-based compensation under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and to adopt the disclosure-only alternative described in SFAS 123 as amended by SFAS No. 148. For restricted stock awards, the Company records deferred stock-based compensation based on the fair market value of common stock on the date of the award. Such deferred stock-based compensation is amortized over the vesting period of each individual award.

If compensation expense for the Company's stock options granted had been determined based on the fair value at the grant date for the awards in accordance with SFAS 123, the effect on the Company's net income

and earnings per share for the quarter and nine months ended September 30, 2005 and 2004 would have been as follows (dollars in thousands; except per share amounts):

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|   | QUARTER ENDED<br>SEPTEMBER 30, |           | NINE MONTHS ENDED<br>SEPTEMBER 30, |         |
|---|--------------------------------|-----------|------------------------------------|---------|
|   | 2005                           | 2004      | 2005                               | 2004    |
|   | (UNAUDITED)                    |           | (UNAUDITED)                        |         |
| Net income (loss).....  | \$8,662                        | \$(2,167) | \$27,641                           | \$1,041 |
| Add: Stock-based employee compensation expense included<br>in reported net income (loss), net of related tax<br>effects.....                      | 217                            | 134       | 554                                | 343     |
| Deduct: Total stock-based employee compensation expense<br>determined under fair value methods for all awards, net<br>of related tax effects..... | (367)                          | (276)     | (1,003)                            | (769)   |
| Pro forma net income (loss).....  | \$8,512                        | \$(2,309) | \$27,192                           | \$ 615  |
| Net income (loss) per share:  |                                |           |                                    |         |
| As reported -basic.....   | \$ 0.38                        | \$(0.10)  | \$ 1.24                            | \$ 0.05 |
| -diluted.....   | 0.38                           | (0.10)    | 1.22                               | 0.05    |
| Pro forma -basic.....   | 0.38                           | (0.11)    | 1.22                               | 0.03    |
| -diluted.....   | 0.37                           | (0.11)    | 1.20                               | 0.03    |

Included in the Company's income for the quarters ended September 30, 2005 and 2004 is stock-based compensation expense relating to restricted stock grants amounting to \$345 and \$227 respectively. Net of tax, these amounts were \$217 and \$134, respectively. (See Note 16--new accounting pronouncements--discussion on SFAS 123R)

NOTE 5-- INCOME TAXES

Income tax expense for the three and nine months ended September 30, 2005 was \$5.3 million and \$15.2 million, respectively. Included in the year to date amount is a \$0.8 million benefit, principally related to a change in the Company's Ohio tax status and legislation that phases out the Ohio income tax, the effects of which were recognized in the second quarter. The third quarter forecast of the annual effective tax rate applicable to ordinary income was 37% which exceeds the federal statutory rate of 35% due to state taxes, partially offset by the utilization of previously impaired foreign net operating losses and the deduction for qualified production activities.

Income tax expense for the three and nine months ended September 30, 2004 was zero and \$0.6 million, respectively, and was calculated as the actual tax expense related to income earned from continuing operations up to that date. In the third quarter of 2004, it was determined that a calculation of an annual effective tax rate would not result in the best estimate of the tax expense because relatively modest changes to the relationship between forecasted annual domestic and foreign income could have the potential to produce significant changes in the annual effective tax rate. The actual tax rate applicable to income from continuing operations for the nine month period in 2004 was 41% which exceeded the federal statutory rate of 35% principally due to state taxes. There was no tax expense in the three month period ended September 30, 2004 due to the cumulative effect of applying an annual effective tax rate approach in prior quarters.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the "Act"). The Company has estimated that the deduction attributable to qualified production on activities will decrease its annual effective tax rate by approximately 1 percentage point. In addition, other effects of the Act include the one-time deduction of 85% of foreign earnings that are repatriated to the United States, as defined by the Act. Although certain technical matters

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have been clarified, the Company is continuing to evaluate whether, and to what extent, the Company might repatriate up to \$3.0 million of un-remitted foreign earnings pursuant to this provision. We expect to be in a position to finalize this assessment by year end.

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### NOTE 6-- EARNINGS PER SHARE

A reconciliation of the income and weighted average number of outstanding common shares used in the calculation of basic and diluted earnings per share for the quarter ended and nine months ended September 30, 2005 and 2004 is as follows (in thousands except number of shares and per share amounts):

|                                      | QUARTER ENDED SEPTEMBER 30 |            |                       | NINE MONTHS ENDED SEPTEMBER 30 |            |                      |
|--------------------------------------|----------------------------|------------|-----------------------|--------------------------------|------------|----------------------|
|                                      | NET<br>INCOME              | SHARES     | EARNINGS<br>PER SHARE | NET<br>INCOME                  | SHARES     | EARNING<br>PER SHARE |
| <b>2005</b>                          |                            |            |                       |                                |            |                      |
| Basic EPS.....                       | \$ 8,662                   | 22,526,194 | \$ 0.38               | \$27,641                       | 22,251,556 | \$1.24               |
| Effect of potential common<br>stock: |                            |            |                       |                                |            |                      |
| Stock options.....                   | --                         | 418,476    | --                    | --                             | 440,727    | (0.02)               |
| Diluted EPS.....                     | \$ 8,662                   | 22,944,670 | \$ 0.38               | \$27,641                       | 22,692,283 | \$1.22               |
| <b>2004</b>                          |                            |            |                       |                                |            |                      |
| Basic EPS.....                       | \$(2,167)                  | 21,220,933 | \$(0.10)              | \$ 1,041                       | 21,176,706 | \$0.05               |
| Effect of potential common<br>stock: |                            |            |                       |                                |            |                      |
| Stock options.....                   | --                         | 288,137    | --                    | --                             | 299,541    | --                   |
| Diluted EPS.....                     | \$(2,167)                  | 21,509,070 | \$(0.10)              | \$ 1,041                       | 21,476,247 | \$0.05               |

There were no shares of common stock excluded from the calculation of diluted earnings per share for the current quarter. 605,415 shares of common stock issuable upon exercise of employee stock options have been excluded from the calculation of diluted earnings per share because the exercise price of the options exceeded the weighted average market price of the Company's common stock for the quarter ended September 30, 2004. 2,206 and 606,378 shares of common stock issuable upon exercise of employee stock options have been excluded from the calculation of diluted earnings per share for the nine months ended September 30, 2005 and 2004 respectively, because the exercise price of the options exceeded the weighted average market price of the Company's common stock.

### NOTE 7-- INVENTORIES

Inventories consisted of (dollars in thousands):

|                       |                      |
|-----------------------|----------------------|
| SEPTEMBER 30,<br>2005 | DECEMBER 31,<br>2004 |
|-----------------------|----------------------|

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|   |           |           |
|---|-----------|-----------|
| Raw material and supplies.....          | \$ 65,920 | \$ 40,459 |
| Work-in-process and finished goods..... | 177,701   | 112,010   |
| Adjustment to LIFO values.....          | (34,801)  | (18,957)  |
|   | -----     | -----     |
| Inventories, at LIFO cost.....          | \$208,820 | \$133,512 |
|   | =====     | =====     |

NOTE 8-- GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill and other intangible assets attributable to each segment at December 31, 2004 and September 30, 2005 is as follows (in thousands):

Goodwill

|  | DECEMBER 31, 2004 | ADJUSTMENT | TRANSLATION<br>ADJUSTMENT | SEPTEMBER |
|--|-------------------|------------|---------------------------|-----------|
|  | -----             | -----      | -----                     | -----     |
| Titanium Group.....                    | \$ 1,955          | \$ 636     | \$ --                     | \$ 2,5    |
| Fabrication and Distribution Group.... | 44,663            | 569        | 910                       | 46,1      |
|  | -----             | -----      | -----                     | -----     |
| Total.....                             | \$46,618          | \$1,205    | \$910                     | \$48,7    |
|  | =====             | =====      | =====                     | =====     |

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During the nine months ended September 30, 2005, additional goodwill was added to the Titanium Group through the finalization of the acquisition of the minority interest in Galt Alloys, Inc. For the Fabrication and Distribution group, translation of the purchase accounting for Claro in accordance with SFAS 141 resulted in additional goodwill of \$569 thousand.

Intangibles

Other intangible assets are comprised of customer relationships. Their estimated useful lives are as follows:

|  | ESTIMATED<br>USEFUL LIFE | DECEMBER 31, 2004 | AMORTIZATION | TRANSLATION<br>ADJUSTMENT | SEPTEMBER |
|--|--------------------------|-------------------|--------------|---------------------------|-----------|
|  | -----                    | -----             | -----        | -----                     | -----     |
| Titanium Group.....                        |                          | \$ --             | \$ --        | \$ --                     | \$        |
| Fabrication and<br>Distribution Group..... | 20 years                 | 16,040            | (603)        | 1,351                     | --        |
|  |                          | -----             | -----        | -----                     | -----     |
| Total.....                                 |                          | \$16,040          | \$(603)      | \$1,351                   | \$        |
|  |                          | =====             | =====        | =====                     | =====     |

For the five succeeding fiscal years, the Company estimates amortization expense to be approximately \$800 thousand per year.

NOTE 9-- BILLINGS IN EXCESS OF COSTS AND ESTIMATED REVENUES

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The Company reported a liability for billings in excess of costs and estimated revenues of \$12.3 million as of September 30, 2005 and \$4.7 million as of December 31, 2004. These amounts represent payments, received in advance from energy market customers, Titanium Group and Fabrication and Distribution Group customers on long-term orders, which the Company has not recognized as revenues.

### NOTE 10-- OTHER INCOME

For the quarter and nine months ended September 30, 2005 and 2004, the components of other income are as follows (dollars in thousands):

|  | QUARTER ENDED<br>SEPTEMBER 30, |       | NINE MONTHS<br>ENDED<br>SEPTEMBER 30, |             |
|--|--------------------------------|-------|---------------------------------------|-------------|
|  | 2005                           | 2004  | 2005                                  | 2004        |
| Other Income                               |                                |       |                                       |             |
| Gain on receipt of liquidated damages..... | \$--                           | \$ -- | \$ --                                 | \$9,138 (1) |
| Foreign exchange gains and other.....      | 78                             | 149   | 531                                   | 383         |
|  | \$78                           | \$149 | \$531                                 | \$9,521     |
|  | ===                            | ===== | =====                                 | =====       |

- (1) The gain resulted from a financial settlement from Boeing Commercial Airplane Group ("Boeing") relating to minimum order requirements under terms of a long-term agreement between RTI and Boeing. Boeing satisfied the final claim under this agreement in the amount of \$9.1 million during the first quarter of 2004.

### NOTE 11-- PENSION AND OTHER POSTRETIREMENT BENEFITS

The Company provides defined benefit pension plans for certain of its salaried and represented workforce. Benefits for its salaried participants are generally based on participant's years of service and compensation. Benefits for represented pension participants are generally determined based on an amount for years of service. Other Company employees participate in 401(k) plans whereby the Company may provide a match of employee contributions. These plans are generally not significant to the Company. The policy of the Company with respect to its defined benefit plans is to contribute at least the minimum amounts required by applicable laws and regulations.

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In the third quarter of 2005, a voluntary contribution of \$9.0 million was made to the defined benefit pension plans.

The cost of the Company's retiree health care plans (Other Postretirement Benefits) is capped at predetermined out-of-pocket spending limits. Retiree health care is available to participants in the defined benefit pension plans. Benefit payments are made from Company assets and are not funded.

The 2005 and 2004 amounts shown below reflect the defined benefit pension and other postretirement benefit expense for the quarter and nine months ended September 30 for each year for those salaried and hourly covered employees (dollars in thousands):

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|   | PENSION BENEFITS               |         |                                    |          | OTHER POSTRETIREMENT BENEFITS  |       |                              |
|---|--------------------------------|---------|------------------------------------|----------|--------------------------------|-------|------------------------------|
|   | QUARTER ENDED<br>SEPTEMBER 30, |         | NINE MONTHS ENDED<br>SEPTEMBER 30, |          | QUARTER ENDED<br>SEPTEMBER 30, |       | NINE MONTHS<br>SEPTEMBER 30, |
|   | 2005                           | 2004    | 2005                               | 2004     | 2005                           | 2004  | 2005                         |
| Service cost.....                                   | \$ 550                         | \$ 589  | \$ 1,650                           | \$ 1,767 | \$ 96                          | \$ 95 | \$ 288                       |
| Interest cost.....                                  | 1,592                          | 1,587   | 4,776                              | 4,761    | 410                            | 407   | 1,230                        |
| Expected return on plan<br>assets.....              | (1,922)                        | (2,006) | (5,766)                            | (6,018)  | --                             | --    | --                           |
| Amortization of prior service<br>cost.....          | 160                            | 144     | 480                                | 432      | 44                             | 44    | 132                          |
| Amortization of unrealized<br>gains and losses..... | 510                            | 357     | 1,530                              | 1,071    | 93                             | 70    | 279                          |
| Net periodic benefit<br>cost.....                   | \$ 890                         | \$ 671  | \$ 2,670                           | \$ 2,013 | \$643                          | \$616 | \$1,929                      |

RTI International Metals also has a supplemental pension Program ("Program") for certain key employees. The Program is unfunded. The third quarter net periodic benefit cost related to the Program was \$93,195 for 2005 and \$128,982 for 2004 and for the nine months ended September 30, 2005 and 2004 was \$279,585 and \$386,946 respectively.

NOTE 12-- COMMITMENTS AND CONTINGENCIES

In connection with the 1990 Reorganization, the Company agreed to indemnify USX and Quantum against liabilities related to their ownership of RMI and its immediate predecessor, Reactive Metals, Inc., which was formed by USX and Quantum in 1964.

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 our opinion, the ultimate liability, if any, resulting from these matters will have no significant effect on our 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.

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. During the nine months ended September 30, 2005, the Company spent approximately \$0.3 million for environmental remediation, compliance, and related services. While the costs of compliance for these matters have not had a material adverse impact on the Company in the past, it is impossible to accurately predict the ultimate effect these changing laws and regulations may have on the Company in the future. The Company continues to evaluate its obligations for environmental related costs on a quarterly basis and makes adjustments in accordance with provisions of Statement of Position No. 96-1, "Environmental Remediation Liabilities."

The Company is involved in investigative or cleanup projects under federal

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or state environmental laws at a number of waste disposal sites, including the Fields Brook Superfund Site and the Ashtabula River Area of Concern. Given the status of the proceedings with respect to these sites, ultimate investigative and

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remediation costs cannot presently be accurately predicted, but could, in the aggregate, be material. Based on the information available regarding the current ranges of estimated remediation costs at currently active sites, and what the Company believes will be its ultimate share of such costs, provisions for environmental-related costs have been recorded.

Given the status of the proceedings at certain of these 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 its financial statements when an obligation becomes probable and a reasonable estimate of exposure can be determined.

At September 30, 2005 and December 31, 2004, the amount accrued for future environmental-related costs was \$3.6 million and \$3.8 million, respectively. Of the total amount accrued at September 30, 2005, \$1.4 million is expected to be paid out within one year and is included in the other accrued liabilities line of the balance sheet. The remaining \$2.2 million is recorded in other non-current liabilities.

Based on available information, RMI believes that its share of potential environmental-related costs, before expected contributions from third parties, is in a range from \$2.3 to \$7.5 million in the aggregate. The Company has included in its other noncurrent assets \$2.1 million as expected contributions from third parties. This amount represents the contributions from third parties in conjunction with the Company's most likely estimate of \$3.7 million. These third parties include prior owners of RMI property and prior customers of RMI, that have agreed to partially reimburse the Company for certain environmental-related costs. The Company has been receiving contributions from such third parties for a number of years as partial reimbursement for costs incurred by the Company.

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

### Former Ashtabula Extrusion Plant

The Company's former extrusion plant in Ashtabula, Ohio was used to extrude depleted uranium under a contract with the U.S. Department of Energy ("DOE") from 1962 through 1990. In accordance with that agreement, the DOE retained responsibility for the cleanup of the facility when the facility was no longer needed for processing government material. Processing ceased in 1990, and in 1993 RMI was chosen as the prime contractor for the remediation and restoration of the site by the DOE. Since then, contaminated buildings have been removed and approximately two-thirds of the site has been free released by the Ohio Department of Health, to RMI, at DOE expense.

In December, 2003, in accordance with its terms, the Department of Energy terminated the remediation contract with RMI "for convenience." Remaining soil removal is expected to take approximately 18-24 months. As license holder and owner of the site, RMI is responsible to the state of Ohio for complying with soil and water regulations. However, remaining cleanup cost is expected to be borne by the DOE in accordance with their contractual obligation. RMI will not



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participate in the remaining remediation except for oversight responsibilities for the new remediation contractor selected by DOE.

### Gain Contingency

As part of Boeing Commercial Airplane Group's long-term supply agreement with the Company, Boeing was required to order a minimum of 3.25 million pounds of titanium in each of the five years beginning in 1999. They failed to do so in all five years of the contract.

The Company made a claim against Boeing in accordance with the provisions of the long-term contract for each of the years in which the minimum was not achieved. Revenue under the provisions of Statement of Financial Accounting Standards No. 5 ("SFAS 5"), "Accounting for Contingencies" was deemed not realized until Boeing settled the claims. Accordingly, the claims were treated as a gain contingency dependent upon realization.

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As a result of the application of SFAS 5 as to gain contingencies, the Company recorded other income of approximately \$6.0 million in 2000 and 2001, and approximately \$7.0 million in 2002, \$8.0 million in 2003 and \$9.1 million in 2004. In all years, revenue recognized from these cash receipts was presented as other income in the financial statements. The agreement with Boeing has since expired and the final payment was received in 2004.

### Purchase Commitments

The Company has purchase commitments for materials, supplies, and machinery and equipments as part of the ordinary course of business. A few of these commitments extend beyond one year. The Company believes these commitments are not at prices in excess of current market.

### Other

The Company is currently investigating the impact of improper testing on a limited number of titanium plates. The improper testing was discovered during an internal quality review in the second quarter of 2005. The Company has no reason to believe that any of the material is defective, and is working closely with all affected customers to determine whether additional inspection may be necessary. Re-inspection of plates and/or process records to date has not found any plates that needed to be replaced or that were defective.

The Company is also the subject of, or a party to, a number of pending or threatened legal actions involving a variety of matters incidental to its business.

The ultimate resolution of these foregoing contingencies could, individually or in the aggregate, be material to the consolidated financial statements. However, management believes that the Company will remain a viable and competitive enterprise even though it is possible that these matters could be resolved unfavorably.

### NOTE 13-- TRANSACTIONS WITH RELATED PARTIES

In accordance with a stock purchase agreement dated October 1, 2004 the Company purchased all of the shares of Claro Precision Inc., from Mr. Jean-Louis Mourain and Mr. Daniel Molina. The purchase agreement provided for a lease agreement whereby the Company would lease space in two buildings, owned indirectly by Mr. Mourain and Mr. Molina, for three years from October 1, 2004 with an option to extend for an additional three years. The annual rental is

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approximately \$160,000 at current exchange rates. Rental expense of approximately \$40,000 was incurred in the quarter ended September 30, 2005 and approximately \$120,000 for the nine months ended September 30, 2005. The Company believes that the rental cost is representative of market conditions around the Montreal area. Mr. Mourain was engaged by the Company as a consultant and Mr. Molina was made President of Claro Precision Inc. Mr. Molina has since left the Company effective August 31, 2005.

The Company acquired Reamet S.A., located in Villette, France, in December 2000. In accordance with the purchase agreement, the Company was obligated to acquire a residence located on the previously acquired land. The owner of the residence and his immediate family have been involved in the management of the business before and since the acquisition. The residence was acquired for \$581,000 (the fair value as appraised) including closing costs in February 2004.

### NOTE 14-- SEGMENT REPORTING

The Company's reportable operating segments are the Titanium Group and the Fabrication and Distribution Group.

The Titanium Group manufactures and sells a wide range of titanium mill products to a customer base consisting primarily of manufacturing and fabrication companies in the aerospace and nonaerospace markets. Titanium mill products consist of basic mill shapes such as ingot, slab, bloom, billet, bar, plate and sheet. Titanium mill products are sold primarily to customers such as metal fabricators, forge shops and, to a lesser extent, metal distribution companies. Titanium mill products are usually raw or starting material for these

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customers, who then form, fabricate or further process mill products into finished or semi-finished components or parts. The Titanium Group includes the activities related to the clean up and remediation of a former titanium extrusion facility operated by the Company under a contract from the DOE.

The Fabrication and Distribution Group is engaged primarily in the fabrication of titanium, specialty metals and steel products, including pipe and engineered tubular products, for use in the oil and gas and geo-thermal energy industries; hot and superplastically formed parts; cut, forged, extruded and rolled shapes for aerospace and nonaerospace applications. This segment also provides warehousing, distribution, finishing, cut-to-size and just-in-time delivery services of titanium, steel and other metal products.

Intersegment sales are accounted for at prices which 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.

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Segment information for the quarter ended September 30, 2005 and 2004 and for the nine months ended September 30, 2005 and 2004 is as follows (dollars in thousands):

| QUARTER ENDED<br>SEPTEMBER 30, |      | NINE MONTHS ENDED<br>SEPTEMBER 30, |      |
|--------------------------------|------|------------------------------------|------|
| 2005                           | 2004 | 2005                               | 2004 |

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|  |           |            |           |            |
|--|-----------|------------|-----------|------------|
| TOTAL SALES  |           |            |           |            |
| Titanium Group.....  | \$ 86,366 | \$37,633   | \$240,826 | \$110,374  |
| Fabrication and Distribution Group.....  | 64,402    | 47,692     | 194,315   | 137,126    |
| Total.....   | 150,768   | 85,325     | 435,141   | 247,500    |
| INTER- AND INTRA-SEGMENT SALES   |           |            |           |            |
| Titanium Group.....  | 55,368    | 25,112     | 145,210   | 71,802     |
| Fabrication and Distribution Group.....  | 14,233    | 9,262      | 40,237    | 22,408     |
| Total.....   | 69,601    | 34,374     | 185,447   | 94,210     |
| TOTAL SALES TO EXTERNAL CUSTOMERS  |           |            |           |            |
| Titanium Group.....  | 30,998    | 12,521     | 95,616    | 38,572     |
| Fabrication and Distribution Group.....  | 50,169    | 38,430     | 154,078   | 114,718    |
| Total.....   | \$ 81,167 | \$50,951   | \$249,694 | \$153,290  |
| OPERATING INCOME (LOSS)  |           |            |           |            |
| Allocated corporate items included in segment<br>income before income taxes below: |           |            |           |            |
| Titanium Group.....  | \$ 2,372  | \$ 720     | \$ 5,153  | \$ 2,581   |
| Fabrication and Distribution Group.....  | 3,782     | 3,591      | 9,912     | 7,552      |
| Total.....   | \$ 6,154  | \$ 4,311   | \$ 15,065 | \$ 10,133  |
| Titanium Group.....  | \$ 10,961 | \$ (961)   | \$ 29,773 | \$ (7,211) |
| Fabrication and Distribution Group.....  | 2,617     | (1,315)    | 11,853    | (877)      |
| Total.....   | \$ 13,578 | \$ (2,276) | \$ 41,626 | \$ (8,088) |
| INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE<br>INCOME TAXES                    |           |            |           |            |
| Allocated corporate items included in segment<br>income before income taxes below: |           |            |           |            |
| Titanium Group.....  | \$ 2,166  | \$ (611)   | \$ 4,612  | \$ 6,843   |
| Fabrication and Distribution Group.....  | 3,574     | (3,669)    | 9,369     | (7,266)    |
| Total.....   | \$ 5,740  | \$ (4,280) | \$ 13,981 | \$ (423)   |
| Titanium Group.....  | \$ 11,128 | \$ (776)   | \$ 30,424 | \$ 2,367   |
| Fabrication and Distribution Group.....  | 2,802     | (1,284)    | 12,403    | (841)      |
| Total.....   | \$ 13,930 | \$ (2,060) | \$ 42,827 | \$ 1,526   |

NOTE 15-- DISCONTINUED OPERATIONS

In December 2004, the Company terminated operations at the Company's Tube Mill operations as it had determined that its raw material source was inadequate to maintain commercially viable operations. The

operating results of Tube Mill for the quarter and nine months ended September 30, 2004, as summarized below, have been reclassified and are presented as discontinued operations.

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| (IN THOUSANDS)                                      | QUARTER ENDED<br>SEPTEMBER 30,<br>2004 | NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2004 |
|---|--|---|
| -----   | -----                                  | -----   |
| Net sales.....                                      | \$2,965<br>=====                       | \$10,312<br>=====                             |
| (Loss) income before income taxes.....              | (142)                                  | 198   |
| (Benefit) provision for income taxes.....           | (43)                                   | 59  |
|   | -----                                  | -----   |
| Net (loss) income from discontinued operations..... | \$ (99)<br>=====                       | \$ 139<br>=====                               |

NOTE 16-- NEW ACCOUNTING PRONOUNCEMENTS

In December 2004 the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs (SFAS 151). The Company is required to adopt SFAS 151 on a prospective basis as of January 1, 2006. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling cost, and wasted material. SFAS 151 requires that those items, if abnormal, be recognized as expenses in the period incurred. SFAS 151 requires the allocation of fixed production overheads to the cost of conversion based upon the normal capacity of the production facilities. The Company has not yet determined what effect SFAS 151 will have on its financial statements.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which states that the FASB staff believes that the lack of clarification of certain provisions within the Act and the timing of the enactment necessitate a practical exemption to the FAS 109 requirement to reflect in the period of enactment the effect of a new tax law. Accordingly, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS 109. The Company is evaluating the impact of earnings repatriation and once concluded will apply its action in accordance with FAS 109.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), Share-Based Payment. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC Staff's interpretation of SFAS 123R and provides the Staff's views regarding interactions between SFAS 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. SFAS 123R requires the mandatory expensing of share-based payments, including employee stock options, based on their fair value. In April 2005, the SEC approved the delay for implementation of SFAS 123R. The delay will affect all awards granted subsequent to January 1, 2006. As a result the standard will be adopted for the Company's 2006 fiscal year. SFAS 123R provides alternative methods of adoption including modified prospective and modified retroactive applications. The Company is currently evaluating the financial impact, including the available alternatives under SFAS 123R and SAB 107.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. On May 19, 2004, FASB issued Staff Position FSP FAS 106-2 (FSP 106-2), which supercedes FSP 106-1 and provides guidance on accounting for the effects of the new Medicare prescription drug legislation for employers whose prescription drug benefits are

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actuarially equivalent to the drug benefit under Medicare Part D. The effect of the Act did not have a material impact on the Company.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle as well as to changes required by

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an accounting pronouncement that does not include specific transition provisions. SFAS 154 eliminates the requirement to include the cumulative effect of changes in accounting principle in the income statement and instead requires that changes in accounting principle be retroactively applied. A change in accounting estimate continues to be accounted for in the period of change and future periods if necessary. A correction of an error continues to be reported by restating prior period financial statements. SFAS 154 is effective for accounting changes and correction of errors made on or after January 1, 2006.

### NOTE 17--RESTATEMENT OF CASH FLOW STATEMENT FOR THE TAX EFFECTS OF STOCK OPTIONS EXERCISED

A restatement of the Company's Consolidated Statement of Cash Flows arose as a result of management's determination that the tax effect of employee stock options exercised were incorrectly reported as "cash flows from financing activities." These should have been reported as "cash flows from operating activities" as prescribed by Emerging Issues Task Force ("EITF") 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of Nonqualified Employee Stock Options." The Company has restated prior periods beginning with the 4th Quarter of 2003 through the 2nd Quarter of 2005 as noted below. Amounts prior to the 4th Quarter of 2003 were immaterial to the Company's Consolidated Statement of Cash Flows.

The restatement does not affect the net change in cash and cash equivalents for any of the periods presented and has no effect on the Company's consolidated balance sheet, the consolidated statement of operations and any related earnings per share amounts for any of the periods presented.

The effect of the above restatement for each of the prior periods is shown:

|   | AS PREVIOUSLY<br>REPORTED FOR THE<br>YEAR ENDED<br>DECEMBER 31,<br>2003 | EFFECT OF<br>RESTATEMENT | RESTATED FOR<br>THE YEAR ENDED<br>DECEMBER 31,<br>2003 |
|---|---|--------------------------|--|
|   | -----   | -----                    | -----  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>          |   |                          |  |
| Tax benefits from exercise of stock options.....      | \$ 0  | \$ 444                   | \$ 444   |
| Cash provided by continuing operating activities..... | \$25,181  | \$ 444                   | \$25,625   |
| Cash provided by operating activities.....            | \$30,321  | \$ 444                   | \$30,765   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>          |   |                          |  |
| Proceeds from exercise of employee stock options..... | \$ 1,534  | \$ (444)                 | \$ 1,090   |
| Cash provided by financing activities.....            | \$ 948  | \$ (444)                 | \$ 504   |

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|   | AS PREVIOUSLY<br>REPORTED FOR<br>THREE MONTHS<br>ENDED<br>MARCH 31,<br>2004 | EFFECT OF<br>RESTATEMENT | RESTATED FOR<br>THREE MONTHS<br>ENDED<br>MARCH 31,<br>2004 |
|---|---|--------------------------|--|
|   | -----   | -----                    | -----  |
| CASH FLOWS FROM OPERATING ACTIVITIES:                 |   |                          |  |
| Tax benefits from exercise of stock options.....      | \$ 0  | \$ 620                   | \$ 620   |
| Cash provided by continuing operating activities..... | \$3,119   | \$ 620                   | \$3,739  |
| Cash provided by operating activities....             | \$2,907   | \$ 620                   | \$3,527  |
| CASH FLOWS FROM FINANCING ACTIVITIES:                 |   |                          |  |
| Proceeds from exercise of employee stock options..... | \$2,388   | \$(620)                  | \$1,768  |
| Cash provided by financing activities....             | \$2,100   | \$(620)                  | \$1,480  |

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|   | AS PREVIOUSLY<br>REPORTED FOR<br>SIX MONTHS<br>ENDED<br>JUNE 30,<br>2004 | EFFECT OF<br>RESTATEMENT | RESTATED FOR<br>SIX MONTHS<br>ENDED<br>JUNE 30,<br>2004 |
|---|--|--------------------------|---|
|   | -----  | -----                    | -----   |
| CASH FLOWS FROM OPERATING ACTIVITIES:                 |  |                          |   |
| Tax benefits from exercise of stock options.....      | \$ 0   | \$ 650                   | \$ 650  |
| Cash provided by continuing operating activities..... | \$9,524  | \$ 650                   | \$10,174  |
| Cash provided by operating activities.....            | \$9,697  | \$ 650                   | \$10,347  |
| CASH FLOWS FROM FINANCING ACTIVITIES:                 |  |                          |   |
| Proceeds from exercise of employee stock options..... | \$2,607  | \$(650)                  | \$ 1,957  |
| Cash provided by financing activities.....            | \$2,034  | \$(650)                  | \$ 1,384  |

|   | AS PREVIOUSLY<br>REPORTED FOR<br>NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2004 | EFFECT OF<br>RESTATEMENT | RESTATED FOR<br>NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2004 |
|---|--|--------------------------|---|
|   | -----  | -----                    | -----   |
| CASH FLOWS FROM OPERATING ACTIVITIES:                 |  |                          |   |
| Tax benefits from exercise of stock options.....      | \$ 0   | \$ 766                   | \$ 766  |
| Cash provided by continuing operating activities..... | \$12,151   | \$ 766                   | \$12,917  |

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|   |          |         |          |
|---|----------|---------|----------|
| Cash provided by operating activities.....            | \$13,506 | \$ 766  | \$14,272 |
| CASH FLOWS FROM FINANCING ACTIVITIES:                 |          |         |          |
| Proceeds from exercise of employee stock options..... | \$ 3,138 | \$(766) | \$ 2,372 |
| Cash provided by financing activities.....            | \$ 2,565 | \$(766) | \$ 1,799 |

|   | AS PREVIOUSLY<br>REPORTED FOR<br>THE YEAR ENDED<br>DECEMBER 31,<br>2004 | EFFECT OF<br>RESTATEMENT | RESTATED FOR<br>THE YEAR ENDED<br>DECEMBER 31,<br>2004 |
|---|---|--------------------------|--|
|   | -----   | -----                    | -----  |
| CASH FLOWS FROM OPERATING ACTIVITIES:                 |   |                          |  |
| Tax benefits from exercise of stock options.....      | \$ 0  | \$ 1,336                 | \$ 1,336   |
| Cash provided by continuing operating activities..... | \$16,413  | \$ 1,336                 | \$17,749   |
| Cash provided by operating activities.....            | \$19,346  | \$ 1,336                 | \$20,682   |
| CASH FLOWS FROM FINANCING ACTIVITIES:                 |   |                          |  |
| Proceeds from exercise of employee stock options..... | \$ 5,359  | \$(1,336)                | \$ 4,023   |
| Cash provided by financing activities.....            | \$ 4,786  | \$(1,336)                | \$ 3,450   |

|   | AS PREVIOUSLY<br>REPORTED FOR<br>THREE MONTHS<br>ENDED<br>MARCH 31,<br>2005 | EFFECT OF<br>RESTATEMENT | RESTATED FOR<br>THREE MONTHS<br>ENDED<br>MARCH 31,<br>2005 |
|---|---|--------------------------|--|
|   | -----   | -----                    | -----  |
| CASH FLOWS FROM OPERATING ACTIVITIES:                           |   |                          |  |
| Tax benefits from exercise of stock options.....                | \$ 0  | \$ 1,217                 | \$ 1,217   |
| Cash (used in) provided by continuing operating activities..... | \$(3,685)   | \$ 1,217                 | \$(2,468)  |
| Cash (used in) provided by operating activities.....            | \$(3,685)   | \$ 1,217                 | \$(2,468)  |
| CASH FLOWS FROM FINANCING ACTIVITIES:                           |   |                          |  |
| Proceeds from exercise of employee stock options.....           | \$ 6,551  | \$(1,217)                | \$ 5,334   |
| Cash provided by financing activities.....                      | \$ 6,068  | \$(1,217)                | \$ 4,851   |

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|  | AS PREVIOUSLY<br>REPORTED FOR<br>SIX MONTHS<br>ENDED<br>JUNE 30,<br>2005 | EFFECT OF<br>RESTATEMENT | RESTATED FOR<br>SIX MONTHS<br>ENDED<br>JUNE 30,<br>2005 |
|--|--|--------------------------|---|
|  | -----  | -----                    | -----   |

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|   |          |           |         |
|---|----------|-----------|---------|
| CASH FLOWS FROM OPERATING ACTIVITIES:                 |          |           |         |
| Tax benefits from exercise of stock options.....      | \$ 0     | \$ 2,367  | \$2,367 |
| Cash provided by continuing operating activities..... | \$ 2,429 | \$ 2,367  | \$4,796 |
| Cash provided by operating activities.....            | \$ 2,429 | \$ 2,367  | \$4,796 |
| CASH FLOWS FROM FINANCING ACTIVITIES:                 |          |           |         |
| Proceeds from exercise of employee stock options..... | \$11,175 | \$(2,367) | \$8,808 |
| Cash provided by financing activities.....            | \$10,692 | \$(2,367) | \$8,325 |

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in connection with the information contained in the Consolidated Financial Statements and Condensed Notes to Consolidated Financial Statements. The following information contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, and is subject to the safe harbor created by that Act. Such forward-looking statements may be identified by their use of words like "expects," "anticipates," "intends," "projects," or other words of similar meaning. Forward-looking statements are based on expectations and assumptions regarding future events. In addition to factors discussed throughout this report, the following factors and risks should also be considered, including, without limitation, statements regarding the future availability and prices of raw materials, competition in the titanium industry, demand for the Company's products, the historic cyclicity of the titanium and aerospace industries, increased defense spending, the success of new market development, long-term supply agreements, the outcome of the Doha round of trade negotiations, challenges to Buy American Legislation, global economic conditions, the Company's order backlog and the conversion of that backlog into revenue, the continuing war on terrorism, 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 below in the "Outlook" section, as well as in the Company's other filings with the Securities and Exchange Commission ("SEC") over the last 12 months, copies of which are available from the SEC or may be obtained upon request from the Company.

As discussed in Note 17 to the condensed consolidated financial statements, the Company had incorrectly classified the tax effect of stock options exercised in the Consolidated Statement of Cash Flows as cash provided by financing activities under the line item proceeds from the exercise of employee stock options. For the period ended September 30, 2005 the Company has classified the tax effect of stock options exercised in the Consolidated Statement of Cash Flows as cash provided from operating activities under the line item tax benefits from exercise of stock options. The Company has restated prior periods beginning with the 4th Quarter of 2003 through the 2nd Quarter of 2005. Amounts prior to the 4th quarter of 2003 were immaterial to the financial statements. The Company plans to amend its Form 10-K for the year ended December 31, 2003 and 2004, and its Forms 10-Q for the quarterly periods ended March 31, 2005, and June 30, 2005 as soon as practicable to restate its financial statements.

The restatement does not affect the net change in cash and cash equivalents for any of the periods presented and has no effect on the Company's consolidated balance sheet, the consolidated statement of operations and related earnings per share amounts for any of the periods presented.



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RTI International Metals, Inc. (the "Company" or "RTI") is a leading U.S. producer of titanium mill products and fabricated metal parts for the global market. The Company conducts business in two segments: the Titanium Group and the Fabrication and 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 aerospace and industrial applications. The Fabrication and Distribution Group is comprised of

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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 aerospace, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets.

### RESULTS OF OPERATIONS

(Dollars in millions)

#### NET SALES

|   | QUARTER ENDED<br>SEPTEMBER 30, |        | NINE MONTHS ENDED<br>SEPTEMBER 30, |         |
|---|--------------------------------|--------|------------------------------------|---------|
|   | 2005                           | 2004   | 2005                               | 2004    |
| Titanium Group.....                     | \$31.0                         | \$12.5 | \$ 95.6                            | \$ 38.6 |
| Fabrication and Distribution Group..... | 50.2                           | 38.4   | 154.1                              | 114.7   |
|   | -----                          | -----  | -----                              | -----   |
| Total.....                              | \$81.2                         | \$50.9 | \$249.7                            | \$153.3 |
|   | =====                          | =====  | =====                              | =====   |

#### Titanium Group

For the quarter, trade sales of titanium mill products increased over the prior year quarter by \$18.5 million to \$31.0 million. Approximately \$14.0 million of the increase was a result of increased volume of 1.0 million pounds from the prior year level of 0.8 million pounds. Approximately \$2.0 million of the increase was attributable to an increase in the average price of \$1.08 per pound to \$15.04 per pound. Ferro titanium and other related metallic sales increased by approximately \$2.3 million over the corresponding quarter in the prior year. The increase in titanium mill products was a result of continued strong demand for titanium from aerospace markets as build rates and higher titanium usage per aircraft created increased demand for the product.

For the nine months ended September 30, 2005, trade sales increased by \$57.0 million to \$95.6 million. Increased titanium mill products volume of 2.5 million pounds to 4.1 million pounds for the year to date increased sales by approximately \$37.5 million. A decrease in the average price per pound had an unfavorable impact of approximately \$1.0 million. Sales of ferro titanium and other related metallics increased by approximately \$22.0 million.

In the first nine months of 2005, mill product shipments to trade customers as well as to the Company's Fabrication and Distribution Group equaled 8.0 million pounds compared to 3.6 million pounds in the nine months of 2004 or a change of over 120%. Of the 8.0 million pounds 4.1 million pounds was to trade customers and of the 3.6 million pounds 1.6 million was to trade customers.

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### Fabrication and Distribution Group

Sales for F&D amounted to \$50.2 million in the quarter ended September 30, 2005, compared to \$38.4 million in the same period of 2004. The increase of \$11.8 million occurred primarily in the Group's domestic distribution markets. Revenue increased approximately \$8.0 million on increased demand and higher prices for Titanium products. The addition of Claro Precision Inc. ("Claro") in the fourth quarter of 2004 and higher revenues on the Group's fabrication activities resulted in additional revenue of approximately \$3.0 million.

In the nine months ended September 30, 2005 sales for F&D amounted to \$154.1 million compared to \$114.7 million in the same period of 2004. The increase of \$39.4 million was a result of strong demand in the group's distribution markets both, domestic and international, as revenue increased approximately \$30.0 million on increased demand and higher prices for titanium and specialty metal products. The addition of Claro in the fourth quarter of 2004 and higher revenues on the Group's fabrication activities resulted in additional revenue of approximately \$10.0 million offset by the effects of a decline in the energy markets.

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### GROSS PROFIT (LOSS)

|   | QUARTER ENDED<br>SEPTEMBER 30, |       | NINE MONTHS ENDED<br>SEPTEMBER 30 |         |
|---|--------------------------------|-------|-----------------------------------|---------|
|   | 2005                           | 2004  | 2005                              | 2004    |
| Titanium Group.....                     | \$14.8                         | \$1.1 | \$39.6                            | \$(0.3) |
| Fabrication and Distribution Group..... | 12.1                           | 6.5   | 37.8                              | 19.0    |
|   | -----                          | ----- | -----                             | -----   |
| Total.....                              | \$26.9                         | \$7.6 | \$77.4                            | \$18.7  |
|   | =====                          | ===== | =====                             | =====   |

### Titanium Group

Gross profit increased to \$14.8 million for the quarter ended September 30, 2005 from a gross profit of \$1.1 million for the same period of 2004 or a favorable change of \$13.7 million. The favorable change was a result of the margin impact of an increase in titanium mill product shipments to 1.8 million pounds and increased average pricing of \$1.08 or \$2.0 million, and an \$8.0 million benefit to cost efficiency from increases in melting and production activity in titanium producing and finishing facilities. Increased revenue from the sale of ferro titanium and related metallics contributed \$3.0 million to gross profit.

For the nine months ending September 30, 2005 gross profit increased for the Titanium Group from the period ending September 30, 2004 by \$39.9 million primarily as a result of volume and mix related effects. Titanium mill product shipments increased over the prior period by 4.4 million pounds resulting in an approximate margin effect of \$12.0 million. Correspondingly, a 130% increase in melting and finishing activities resulted in approximately \$20.0 million in improved throughput and absorption of fixed costs. Improved pricing and shipments on ferro titanium sales resulted in an \$8.0 million increase in margins.

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### Fabrication and Distribution Group

Gross profit increased to \$12.1 million for the quarter ended September 30, 2005 from a gross profit of \$6.5 million for the same period of 2004, or a favorable change of \$5.6 million. Increased revenues from domestic and international distribution markets as a result of both demand and increased prices contributed approximately \$3.0 million to the change in gross profits. Demand for titanium and specialty metal products was generally stronger than the year ago period in all geographic markets. Increased revenue from newly acquired Canadian operations and increased sales from the group's fabrication locations resulted in increased gross profits of \$3.0 million.

Gross Profit increased for the Fabrication and Distribution Group for the nine months ended September 30, 2005 versus September 30, 2004 by \$18.8 million as revenues from domestic and international distribution markets increased as a result of both demand and increased prices. The impact of the increased prices and demand in distribution increased margins over the prior period by approximately \$12.0 million. Increased revenue from the group's fabrication and extrusion sales resulted in additional gross profit of \$7.0 million. Included in the fabrication revenues was the impact of the Claro acquisition which occurred in the fourth quarter of 2004.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

|   | QUARTER ENDED<br>SEPTEMBER 30, |        | NINE MONTHS ENDED<br>SEPTEMBER 30, |        |
|---|--------------------------------|--------|------------------------------------|--------|
|   | 2005                           | 2004   | 2005                               | 2004   |
| Titanium Group.....                     | \$ 3.5                         | \$ 2.2 | \$ 8.7                             | \$ 6.6 |
| Fabrication and Distribution Group..... | 9.4                            | 7.8    | 25.9                               | 19.8   |
| Total.....                              | \$12.9                         | \$10.0 | \$34.6                             | \$26.4 |

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### Titanium Group

Selling, general and administrative ("SG&A") expenses increased in the third quarter of 2005 over the third quarter of 2004 by \$1.3 million as increased incentive compensation and related expenses were \$0.9 million higher. Outside audit and consulting expenses increased by \$0.4 million.

SG&A expenses increased in the first nine months of 2005 over the nine months ending September 30, 2004 by \$2.1 million as increased outside audit and consulting expenses increased by \$1.1 million. Incentive compensation and related expenses increased by \$1.0 million.

### Fabrication and Distribution Group

SG&A expenses for the period ending September 30, 2005 increased \$1.6 million from the third quarter of 2004. The acquisition of Claro resulted in additional expenses of \$1.2 million as Claro was not reflected in the third quarter of 2004. Increased compensation and related expenses were \$0.4 million.

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For the nine months ending September 30, 2005 administrative and selling expenses increased \$6.1 million from the period ending September 30, 2004. The acquisition of Claro in late 2004 was not reflected in the year ago period resulting in increased SG&A of \$3.0 million. Increased costs for audit and consulting expenses increased by approximately \$2.0 million. Increased compensation costs for the segment were also increased over the prior nine month period by \$1.0 million.

### RESEARCH, TECHNICAL AND PRODUCT DEVELOPMENT EXPENSES

|   | QUARTER<br>ENDED<br>SEPTEMBER 30, |       | NINE MONTHS<br>ENDED<br>SEPTEMBER 30, |       |
|---|-----------------------------------|-------|---------------------------------------|-------|
|   | 2005                              | 2004  | 2005                                  | 2004  |
| Titanium Group.....                     | \$0.3                             | \$0.3 | \$1.1                                 | \$0.9 |
| Fabrication and Distribution Group..... | 0.1                               | --    | 0.1                                   | --    |
| Total.....                              | \$0.4                             | \$0.3 | \$1.2                                 | \$0.9 |

#### Titanium Group

Research and development costs were \$0.3 million for the quarter ended September 30, 2005 unchanged from the year ago quarter in 2004.

Research and development costs increased \$0.2 million for the nine months ended September 30, 2005 compared to the same period in 2004 as a result of additional research and development activity in the 2005 period.

#### Fabrication and Distribution Group

Research and development costs increased \$0.1 million in the current quarter as a result of employee expenses in the company's energy projects.

### OPERATING INCOME (LOSS)

|   | QUARTER<br>ENDED<br>SEPTEMBER 30, |         | NINE MONTHS<br>ENDED<br>SEPTEMBER 30, |         |
|---|-----------------------------------|---------|---------------------------------------|---------|
|   | 2005                              | 2004    | 2005                                  | 2004    |
| Titanium Group.....                     | \$11.0                            | \$(1.0) | \$29.8                                | \$(7.2) |
| Fabrication and Distribution Group..... | 2.6                               | (1.3)   | 11.8                                  | (0.9)   |
| Total.....                              | \$13.6                            | \$(2.3) | \$41.6                                | \$(8.1) |

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Operating income for the quarter ended September 30, 2005 increased to \$11.0 million compared to a loss of \$(1.0) million for the same period in 2004. The increase of \$12.0 million resulted from improved gross profit of \$13.7 million due to an increase in shipments of 1.7 million pounds. As a result of increased shipment activity, increased production loads and efficient throughput at producing facilities' production costs per pound decreased over the prior year ago period. Period costs increased over the 2004 period as a result of additional costs for outside services for accounting, consulting and auditing and reduced gross profits by \$0.3 million. Expenses for incentive compensation and related expenses increased \$0.9 million.

Operating income for the nine months ended September 30, 2005 increased to \$29.8 million compared to a loss of \$(7.2) million for the same period in 2004. The increase of \$37.0 million resulted from improved gross profits of \$39.9 million due to an increase in shipment volume of 4.4 million pounds. Additionally, melting and production activity exceeded more than a 200% volume change resulting in improved throughput and absorption of fixed costs. Increased margins on ferro titanium, primarily as a result of escalating selling prices, contributed to the increase in gross margins. Partially offsetting the effects of volume and ferro titanium were increased administrative costs as a result of outside services and incentive compensation.

### Fabrication and Distribution Group

Operating income for the quarter ended September 30, 2005 increased to \$2.6 million compared to a loss of \$(1.3) million for the same period in 2004. The increase of \$3.9 million was primarily due to increased gross profits of \$5.6 million partially offset by increased SG&A spending of \$1.6 million. The increase in gross profit occurred in the group's distribution markets as increased revenues and margins contributed to a favorable change of approximately \$2.8 million. The addition of Claro and general improvement in the group's fabrication markets improved gross profit by \$2.4 million. SG&A increased as a result of the Claro acquisition in the fourth quarter of 2004 not reflected in the year ago quarter.

Operating income for the nine months ended September 30, 2005 increased to \$11.8 million compared to a loss of \$(0.9) million for the same period in 2004. The increase of \$12.7 million was primarily due to increased gross profits of \$18.8 million partially offset by increased SG&A spending of \$6.1 million. The increase in gross profit occurred as a result of increased revenues from domestic and international distribution markets and increased revenue from fabrication and extrusion sales. Partially offsetting the increase in gross margin was increased SG&A spending. SG&A spending increased as a result of the Claro acquisition which was not reflected in the prior nine month period and additional consulting, accounting and auditing costs related to installation of Sarbanes-Oxley 404 and information development costs to support requirements of management. Compensation costs also increased over the prior period.

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### OTHER INCOME

| QUARTER ENDED<br>SEPTEMBER 30, |      | NINE MONTHS ENDED<br>SEPTEMBER 30, |      |
|--------------------------------|------|------------------------------------|------|
| 2005                           | 2004 | 2005                               | 2004 |
|                                |      |                                    |      |

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|                   |       |       |       |       |
|-------------------|-------|-------|-------|-------|
| Other Income..... | \$0.1 | \$0.1 | \$0.5 | \$9.5 |
|-------------------|-------|-------|-------|-------|

Other income was unchanged from the prior year quarter at \$0.1 million. Foreign exchange gains from French and Canadian operations are included in other income.

Other income decreased by \$9.0 million in the nine months ended September 30, 2005 from the nine months ended September 30, 2004. The decrease primarily occurred as a result of the receipt of a payment of \$9.1 million in 2004 from Boeing related to minimum order requirements under a long term contract. Receipt of the sum in 2004 was the final payment under the contract.

INTEREST INCOME, NET

|                           | QUARTER ENDED<br>SEPTEMBER 30, |       | NINE MONTHS ENDED<br>SEPTEMBER 30, |       |
|---------------------------|--------------------------------|-------|------------------------------------|-------|
|                           | 2005                           | 2004  | 2005                               | 2004  |
| Interest Income, net..... | \$0.3                          | \$0.1 | \$0.6                              | \$0.1 |

Interest income increased by \$0.2 million in the quarter ending September 30, 2005 from the quarter ended September 30, 2004. The increase was a result of increased income on invested cash reserves at higher average interest rates.

Interest income increased by \$0.5 million in the nine months ending September 30, 2005 from the nine months ended September 30, 2004. The increase was a result of increased income on invested cash reserves at higher average interest rates.

INCOME TAX EXPENSE

|                         | QUARTER ENDED<br>SEPTEMBER 30, |       | NINE MONTHS ENDED<br>SEPTEMBER 30, |       |
|-------------------------|--------------------------------|-------|------------------------------------|-------|
|                         | 2005                           | 2004  | 2005                               | 2004  |
| Income Tax Expense..... | \$5.3                          | \$ -- | \$15.2                             | \$0.7 |

The increase in income tax expense in the quarter and nine months ended September 30, 2005 over the same periods in 2004 is attributable to higher earnings in 2005. Also in 2005, \$0.7 million of tax benefits for discrete adjustments reduced tax expense in the second quarter that are reflected in the year to date results to recognize two separate, but related state tax considerations: 1) an expectation that the Company will be sufficiently profitable in future years so that it will pay the income-based tax in Ohio rather than a franchise tax based on net-worth; and 2) an Ohio tax law change that phases out the income tax over a five year period.

The effective tax rate applicable to ordinary income in 2005 approximates 37%, which is higher than the federal statutory rate of 35% principally due to state taxes, partially offset by the utilization of previously impaired foreign net operating losses that results in reported income without a corresponding tax

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charge, and the deduction for qualified production activities that permanently reduces tax. The actual tax rates applicable to the corresponding periods in 2004 are generally not comparable with 2005 because of the lower level of pretax income in 2004.

### (LOSS)/INCOME FROM DISCONTINUED OPERATIONS

The Company disclosed in a news release dated September 30, 2004 that its Tube Mill operations had stopped soliciting new orders because of a shortage of skelp from its supplier, which is the key raw material in manufacturing titanium strip.

The decision to halt the solicitation of new orders was to continue until a search for other sources of skelp was concluded. In December 2004 the Company terminated its search for other skelp sources and as a result

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terminated production activity and discontinued the titanium strip product line and utilized the facility for other purposes unrelated to the manufacture of welded tubing. Tube Mill operations had been reported within the F&D segment.

Discontinued operations, which represent operating results of the Tube Mill operations for which further information was included in Note 15 to the Consolidated Financial Statements, reported trade sales of \$14.4 million, \$10.5 million and \$12.9 million for the years ended December 31, 2004, 2003, and 2002, respectively.

|                              | QUARTER ENDED<br>SEPTEMBER 30, |          | NINE MONTH ENDED<br>SEPTEMBER 30, |        |
|------------------------------|--------------------------------|----------|-----------------------------------|--------|
|                              | 2005                           | 2004     | 2005                              | 2004   |
| Discontinued operations..... | \$ --                          | \$ (0.1) | \$ --                             | \$ 0.1 |

### NET INCOME (LOSS)

|                        | QUARTER ENDED<br>SEPTEMBER 30, |          | NINE MONTHS ENDED<br>SEPTEMBER 30, |       |
|------------------------|--------------------------------|----------|------------------------------------|-------|
|                        | 2005                           | 2004     | 2005                               | 2004  |
| Net income (loss)..... | \$8.7                          | \$ (2.2) | \$27.6                             | \$1.0 |

Net income improved by \$10.9 million in the quarter ended September 30, 2005 compared to the same period in 2004. Net income represented 11% of sales in the current period compared to a loss in 2004.

For the nine month period ending September 30, 2005 net income improved by \$26.6 million compared to the same period in 2004. Net income represented 11.1% of sales in the current period compared to 0.7% in 2004.

### OUTLOOK

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### Overview

Aerospace applications comprise approximately 55% of worldwide consumption and over 70% of U.S. consumption of titanium products.

Beginning in 2001, a confluence of events including weak U.S. and global economies, combined with the terrorist attacks of September 11, 2001, followed by the ongoing conflicts in the Middle East, had significant adverse effects on the overall titanium industry through 2003. Beginning in 2004 however, the world economies began to improve, air traffic demand rose significantly in the commercial aircraft segment, and defense spending continued to grow, leading to a strong rebound in the demand for titanium and specialty metal products.

According to the U.S. Geological Survey (USGS), U.S. shipments of titanium mill products in 2004 increased to 42 million pounds from 34 million pounds in 2003. Aircraft manufacturers, as well as aerospace forecasters, have predicted increased build rates for large, commercial aircraft production over the next several years. This is expected to increase the demand and shipments for titanium and specialty metals in the same period. Accordingly, the USGS reported U.S. shipments of titanium mill products for the first half 2005 rose to 27 million pounds or an annual rate of 54 million pounds.

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

#### Commercial Aerospace Markets

The Company's sales to this market represented approximately 35% of total sales in 2004, up from 27% in 2003.

Boeing and Airbus reduced their build rates for aircraft to 586 planes in 2003, a 13.5% reduction from prior year. However, a turnaround began in 2004, with the two major producers delivering 605 new aircraft.

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According to The Airline Monitor, the combined production of large commercial aircraft by Boeing and Airbus is forecast to reach 680 aircraft in 2005, 785 aircraft in 2006, 825 aircraft in 2007, and 880 aircraft in 2008.

Airbus is producing the largest commercial aircraft in production, the A380, and Boeing has launched a totally new aircraft, the 787. Airbus has announced the launch of another new aircraft, the A350, to compete with Boeing's 787 model. All three of these new aircraft will use substantially more titanium per aircraft than the preceding models. As a result, when production of these new aircraft increases, the demand for titanium is expected to increase significantly above previous peak markets for commercial aerospace applications. Long term, the commercial aerospace sector is expected to continue to be a very large consumer of titanium products over the next 20 years due to the forecast growth of worldwide traffic and the need to repair and replace aging commercial fleets.

A long-term supply agreement with the Boeing Commercial Airplane Group ended 2003, with the final payment received in the first quarter of 2004. Beginning in January of 2004, business between the companies, which is not covered by other contracts within RTI, is being conducted on a non-committed basis, that is, no volume commitment by Boeing and no commitment of capacity or price by RMI.

RTI acquired Claro Precision, Inc., in October of 2004. Claro supplies



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precision machining and complex sub-assemblies to the aerospace industry, primarily Bombardier. The acquisition provides RTI with additional manufacturing capabilities as well as access to the regional and business jet markets.

RTI, through its RTI Europe subsidiary, entered into an agreement with the European Aeronautic Defense and Space Company ("EADS") in January 2005 to supply value-added titanium products and parts to the EADS group of companies, including Airbus. The contract is in place through 2008, subject to extension. The new Airbus A380 is expected to utilize more titanium per aircraft than any commercial plane yet produced. In 2003, Airbus became the world's largest producer of commercial aircraft. This continued in 2004, and this is forecast to continue for 2005.

### Defense Markets

Shipments to military markets represented approximately 30% of the Company's 2004 revenues and are expected to remain significant as U.S. and other countries' defense budgets remain strong. In fact, the latest U.S. Department of Defense budget figures for Research, Development Testing and Evaluation (RDT&E) and Procurement reflect an increase of 21% from 2005 through 2009.

RTI believes it is well positioned to supply mill products and fabrications required for projected demand from this market. RTI currently supplies titanium and other materials to most military aerospace programs, including the F/A-22, C-17, F/A-18, F-15, F-16, Joint Strike Fighter ("JSF") and in Europe, the Mirage, Rafale and Eurofighter-Typhoon.

The Company was chosen by BAE Systems RO Defence UK to supply the titanium components for the new XM-777 lightweight 155 mm Howitzer. Delivery began late in 2003 and will continue through 2010. Production approval for 495 units was awarded to BAE in March 2005. Initial deliveries will be to the U.S. Marine Corps, followed by deliveries to the U.S. Army and the Italian and British armed forces. It is anticipated that over 1,000 guns may be produced. Sales under this contract could potentially exceed \$70 million.

The Company entered into a new agreement with BAE Systems in January 2005 to provide value added titanium flat rolled products for the Eurofighter Aircraft through 2009.

Lockheed Martin, a major customer of the Company, was awarded the largest military contract ever on October 26, 2001, for the military's \$200 billion JSF program. The aircraft, which will be used by all branches of the military, is expected to consume up to 80,000 pounds of titanium per airplane depending on the model specified. Timing and order patterns, which are likely to extend well into the future for this program, have not been quantified, but may be as many as 3,000 planes over the next 30 to 40 years. The Company has entered into agreements with Lockheed and its teaming partner, BAE Systems, to be the supplier of titanium sheet and plate for the design and development phase of the program.

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### Industrial and Consumer Markets

35% of RTI's 2004 revenues were generated in various industrial and consumer markets where increased demand is expected over the next twelve months.

Revenues from oil and gas markets are expected to increase in 2005 and beyond due to continued activity in deep water projects. In January 2005, RTI Energy Systems was selected by BP to provide titanium stress joints for its Shah Deniz project located in the Caspian Sea, Azerbaijan. Titanium was chosen

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because both strength and flexibility will be needed to deal with the strong currents in the development area. Fabrication will begin in the fourth quarter of 2005 and shipments will be made over the next 9 months.

RTI serves a number of other industrial and consumer markets through its distribution businesses. The products sold and applications served are numerous and varied. The resulting diversity tends to provide sales stability through varying market conditions. Industry demand from these markets has improved substantially in 2005 and is expected to grow further in 2006.

The Company operates a facility that produces ferro-titanium, an additive to certain grades of steel. The recent world wide demand for steel has significantly increased demand for ferro-titanium. Sales of ferro-titanium constituted over 10% of total sales in 2004. Strong demand continued for this product in the first half of 2005, weakened in the third quarter and is expected to improve somewhat in the fourth quarter.

### Backlog

The Company's order backlog for all markets increased to approximately \$428.2 million as of September 30, 2005, up from \$237.9 million at December 31, 2004, principally due to increased demand from the commercial aerospace industry.

### LIQUIDITY AND CAPITAL RESOURCES

(Dollars in millions)

A restatement of the Company's Consolidated Statement of Cash Flows arose as a result of management's determination that the tax effect of employee stock options exercised were incorrectly reported as "cash flows from financing activities." These should have been reported as "cash flows from operating activities" as prescribed by Emerging Issues Task Force ("EITF") 00-15, "Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company upon Exercise of Nonqualified Employee Stock Options." The Company has restated prior periods beginning with the 4th Quarter of 2003 through the 2nd Quarter of 2005. Amounts prior to the 4th Quarter of 2003 were immaterial to the Company's Consolidated Statement of Cash Flows.

The restatement does not affect the net change in cash and cash equivalents for any of the periods presented and has no effect on the Company's consolidated balance sheet, the consolidated statement of operations and any related earnings per share amounts for any of the periods presented.

The Company believes it will generate sufficient cash flow from operations to fund operations and capital expenditures in 2005. In addition, RTI has cash reserves and available borrowing capacity to maintain adequate liquidity. RTI currently has no debt, and based on the expected strength of 2005 cash flows, the Company does not believe there are any material near-term risks related to fluctuations in interest rates.

Cash (used in) provided by operating activities

| NINE MONTHS ENDED SEPTEMBER 30,                      | 2005     | 2004       |
|--|----------|------------|
| Cash (used in) provided by operating activities..... | \$(30.5) | \$ 14.3    |
|  |          | (RESTATED) |

The decrease in net cash flows from operating activities for the nine

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months ended September 30, 2005 compared to the nine months ended September 30, 2004 primarily reflects an increase in working capital items, primarily receivables and inventory, due to the improved demand in all market segments as mentioned in the "Outlook" section of this Management's Discussion and Analysis. The overall decrease in cash flows from operating activities was a result of inventory increases as demand for titanium products continued to increase in the first nine months of 2005. Partially offsetting the increase in inventories was an increase in net

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income on higher sales levels and increases in accounts payable and billings in excess of costs. In addition, the decrease in cash flows from operating activities was impacted by a \$9.0 million pension contribution and \$10.7 million in income tax payments. The decrease in cash flows from operating activities was also partially offset from the increase in tax benefits from stock options of \$3.0 million.

The increase in accounts payable is attributable to purchases of increased quantities of scrap and higher prices for both scrap and sponge. Billings in excess of costs increased primarily on two contracts for which cash had been collected but revenue was not recognized in accordance with the Company's revenue recognition criteria.

The Company's working capital ratio was 5.9 and 8.2 to 1 at September 30, 2005 and December 31, 2004, respectively.

### Cash used in investing activities

| NINE MONTHS ENDED SEPTEMBER 30,        | 2005   | 2004       |
|--|--------|------------|
|  |        | (RESTATED) |
| Cash used in investing activities..... | \$ 7.9 | \$ 5.8     |

Gross capital expenditures for the nine months ended September 30, 2005 amounted to \$7.6 million compared to \$4.2 million in 2004.

During the nine months ended September 30, 2005 and 2004, the Company's cash flow requirements for capital expenditures were funded with available cash on hand. The Company anticipates that its capital expenditures for 2005 will total approximately \$13.0 million and will be funded with cash generated by operations and available cash balances.

At September 30, 2005 and December 31, 2004, the Company had a borrowing capacity equal to \$89.0 and \$33.8 million, respectively.

### Cash provided by financing activities

| NINE MONTHS ENDED SEPTEMBER 30,            | 2005    | 2004       |
|--|---------|------------|
|  |         | (RESTATED) |
| Cash provided by financing activities..... | \$ 12.9 | \$ 1.8     |

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The favorable change in cash flows from financing activities for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004 primarily reflects an increase in proceeds from the exercise of employee stock options of \$13.4 million. Partially offsetting these cash inflows was the purchase of approximately 22,000 shares of common stock that was reclassified to treasury.

### CREDIT AGREEMENT

The Company amended its former \$100 million, three-year credit agreement on June 4, 2004. The amendment provides for \$90 million of standby credit through May 31, 2008. The Company has the option to increase the available credit to \$100 million with the addition of another bank, without the approval of the existing bank group. The terms and conditions of the amended facility remain unchanged with the exception that the tangible net worth covenant in the replaced facility was eliminated.

Under the terms of the facility, the Company, at its option, will be able to borrow at (a) a base rate (which is the higher of PNC Bank's prime rate or the Federal Funds Effective Rate plus 0.5% per annum), or (b) LIBOR plus a spread (ranging from 1.0% to 2.25%) determined by the ratio of the Company's consolidated total indebtedness to consolidated earnings before interest, taxes, depreciation and amortization. The credit agreement contains restrictions, among others, on the minimum cash flow required, and the maximum leverage ratio permitted. At September 30, 2005, there was approximately \$1.0 million of standby letters of credit outstanding under the facility, the Company was in compliance with all covenants, and had a borrowing capacity equal to \$89.0 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. During the nine months ended

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September 30, 2005, the Company spent approximately \$0.3 million for environmental remediation, compliance, and related services. While the costs of compliance for these matters have not had a material adverse impact on the Company in the past, it is impossible to accurately predict the ultimate effect these changing laws and regulations may have on the Company in the future. The Company continues to evaluate its obligations for environmental related costs on a quarterly basis and makes adjustments in accordance with provisions of Statement of Position No. 96-1, "Environmental Remediation Liabilities."

The Company is involved in investigative or cleanup projects under federal or state environmental laws at a number of waste disposal sites, including the Fields Brook Superfund Site and the Ashtabula River Area of Concern. Given the status of the proceedings with respect to these sites, ultimate investigative and remediation costs cannot presently be accurately predicted, but could, in the aggregate be material. Based on the information available regarding the current ranges of estimated remediation costs at currently active sites, and what the Company believes will be its ultimate share of such costs, provisions for environmental-related costs have been recorded.

Given the status of the proceedings at certain of these 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 its financial statements when an obligation becomes probable and a reasonable estimate of exposure can be determined.

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At September 30, 2005, the amount accrued for future environmental-related costs was \$3.6 million. Of the total amount accrued at September 30, 2005, \$1.4 million is expected to be paid out within one year and is included in the other accrued liabilities line of the balance sheet. The remaining \$2.2 million is recorded in other non-current liabilities.

Based on available information, RMI believes that its share of potential environmental-related costs, before expected contributions from third parties, is in a range from \$2.3 to \$7.5 million in the aggregate. The Company has included in its other noncurrent assets \$2.1 million as expected contributions from third parties. These third parties include prior owners of RMI property and prior customers of RMI, that have agreed to partially reimburse the Company for certain environmental-related costs. The Company has been receiving contributions from such third parties for a number of years as partial reimbursement for costs incurred by the Company.

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

### Former Ashtabula Extrusion Plant

The Company's former extrusion plant in Ashtabula, Ohio was used to extrude depleted uranium under a contract with the DOE from 1962 through 1990. In accordance with that agreement, the DOE retained responsibility for the cleanup of the facility when the facility was no longer needed for processing government material. Processing ceased in 1990, and in 1993 RMI was chosen as the prime contractor for the remediation and restoration of the site by the DOE. Since then, contaminated buildings have been removed and approximately two-thirds of the site has been free released by the Ohio Department of Health, to RMI, at DOE expense.

In December, 2003, in accordance with its terms, the Department of Energy terminated the contract "for convenience." It is not known at this time what role, if any, RMI will play in the balance of the cleanup although discussions are ongoing. Remaining soil removal is expected to take approximately 18-24 months. As license holder and owner of the site, RMI is responsible to the state of Ohio for complying with soil and water regulations. However, remaining cleanup cost is expected to be borne by the DOE in accordance with their contractual obligation. RMI will not participate in the remaining remediation except for oversight responsibilities for the new remediation contractor selected by DOE.

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### EMPLOYEES

As of September 30, 2005, the Company and its subsidiaries employed 1,229 persons, 395 of whom were classified as administrative and sales personnel. 605 of the total number of employees were in the Titanium Group, while 624 were employed in the Fabrication & Distribution Group.

The United Steelworkers of America represents 306 of the hourly, clerical and technical employees at RMI's plant in Niles, Ohio and 1 hourly employee at RMI Environmental Services in Ashtabula, Ohio. No other Company employees are represented by a union.

### NEW ACCOUNTING STANDARDS

In December 2004 the Financial Accounting Standards Board (FASB) issued

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SFAS No. 151, Inventory Costs. The Company is required to adopt SFAS 151 on a prospective basis as of January 1, 2006. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling cost, and wasted material. SFAS 151 requires that those items--if abnormal--be recognized as expenses in the period incurred. SFAS 151 requires the allocation of fixed production overheads to the cost of conversion based upon the normal capacity of the production facilities. The Company has not yet determined what effect SFAS 151 will have on its financial statements.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004," which states that the FASB staff believes that the lack of clarification of certain provisions within the Act and the timing of the enactment necessitate a practical exemption to the FAS 109 requirement to reflect in the period of enactment the effect of a new tax law. Accordingly, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying FAS 109. The Company is evaluating the impact of earnings repatriation and once concluded will apply its action in accordance with FAS 109.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), Share-Based Payment. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding the SEC Staff's interpretation of SFAS 123R and provides the Staff's views regarding interactions between SFAS 123R and certain SEC rules and regulations and provides interpretations of the valuation of share-based payments for public companies. SFAS 123R requires the mandatory expensing of share-based payments, including employee stock options, based on their fair value. In April 2005, the FASB delayed mandatory implementation for fiscal years beginning after December 15, 2005. As a result the standard will be adopted for the Company's 2006 fiscal year. SFAS 123R provides alternative methods of adoption including modified prospective and modified retroactive applications. The Company is currently evaluating the financial impact, including the available alternatives under SFAS 123R and SAB 107.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was signed into law. The Act introduced a prescription drug benefit under Medicare (Medicare Part D), as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. On May 19, 2004, FASB issued Staff Position FSP FAS 106-2 (FSP 106-2), which supercedes FSP 106-1 and provides guidance on accounting for the effects of the new Medicare prescription drug legislation for employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. The effect of the Act did not have a material impact on the Company.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" (SFAS 154), which changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement that does not include specific transition provisions. SFAS 154 eliminates the requirement to include the cumulative effect of changes in accounting principle in the income statement and instead requires that changes in accounting principle be retroactively applied. A change in accounting estimate continues to be accounted for in the period of change and future periods if necessary. A correction of an error continues to be reported by restating prior period financial statements. SFAS 154 is effective for accounting changes and correction of errors made on or after January 1, 2006.

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### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to the Company's exposure to market risk since the Company filed its Form 10-K, as amended, on May 9, 2005.

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Chief Executive Officer and Chief Administrative Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report on Form 10-Q. Based upon that evaluation they have concluded that the Company's disclosure controls and procedures are not effective in ensuring that all material information required to be filed in reports that the Company files with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Commission because of material weaknesses in its internal control over financial reporting as discussed in the Company's Form 10-K as amended on May 9, 2005.

The evaluation of our disclosure controls and procedures by our Chief Executive Officer and Chief Administrative Officer included a review of the restatement described in Note 17 on page 18 of this Form 10-Q, where the Company restated its consolidated statement of cash flows for periods ended December 31 2003 through June 30, 2005, including all interim periods. Management has determined that the restatement is an additional effect of the material weaknesses already described in the Form 10-K as amended on May 9, 2005. Accordingly, the restatement does not affect our previous conclusion stated in our report on internal control over financial reporting in that Form 10-K, as amended.

In light of material weaknesses described in the Form 10-K as amended, and the effect of the Company's restatement, management continues to perform additional analysis and other post-closing procedures to ensure the Condensed Consolidated Financial Statements are prepared in accordance with generally accepted accounting principles. Accordingly, management believes that the interim financial statements included in this report fairly present in all material respects the financial condition, results of operations and cash flows for the period presented.

#### (b) Changes in Internal Control over Financial Reporting

The Company initiated a remediation program to address the material weaknesses identified and reported in its Form 10-K as amended on May 9, 2005. During the period since that filing the Company has performed:

- An examination of control design at all significant locations for 2005. The Company's internal audit group along with outside audit resources performed the examination.
- Testing of installation of a new SAP fixed asset system.
- Hired a Vice President and Chief Accounting Officer.
- Hired a SEC Coordinator
- Continued work on the installation of a new financial reporting consolidation accounting system.
- Formed work teams of accounting and operating management personnel to provide instruction and guidance relative to improvements in internal

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control.

- Added two accounting managers, hired a director of taxation and hired a controller for one of the Company's international locations.
- Reorganized the Company's accounting functions to provide additional competencies and supervisory review.
- Reviewed the effectiveness of the design of internal controls over footnote and disclosure spreadsheets.
- Provided additional training on the requirements for internal control over financial reporting including a company wide conference for head accounting personnel and business unit level presentations for process owners.

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- Formed a Steering Committee, consisting of executive management, to oversee the Company's remediation and compliance efforts.
- Continued to expand its SAP network by continuing to install an SAP system at one of its international locations.

The Company had previously reported in its Form 10-Q for the quarter ended June 30, 2005 that it had replaced the Director of Corporate Accounting and Consolidation. Additionally it had reported:

- It had reduced the number of SAP users with unrestricted access.
- Directed the Company's internal audit department to concentrate on examination, evaluation and testing of material weaknesses.

Until the Company completes its evaluation and testing of its controls, the Company has:

- Re-tested certain material internal control weaknesses that existed at December 31, 2004 to determine their effectiveness in the current quarter and performed additional substantive testing to become reasonably assured that the interim financial statements were materially correct.
- Taken steps in the quarter to include a thorough review of the classification requirements of each component line item, and the individual elements that comprise each line item, of the statement of cash flows to remediate its previously disclosed material weaknesses in financial reporting.
- Performed substantive testing for certain transactions to ensure their accuracy and compliance with GAAP.
- Enhanced review of critical transactions and balances to ensure their accuracy.
- Changed third-party payroll processors to those that have issued Type II SAS 70 reports in prior years.

The Company is unable to conclude that its internal controls over financial reporting were effective as of September 30, 2005. The Company intends to evaluate many of its controls for effectiveness in the fourth quarter 2005.

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## PART II--OTHER INFORMATION

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### Issuer Purchases of Equity Securities:

| PERIOD<br>-----                        | TOTAL<br>NUMBER<br>OF SHARES<br>PURCHASED<br>----- | AVERAGE<br>PRICE PAID<br>PER SHARE<br>----- | TOTAL NUMBER<br>OF SHARES PURCHASED<br>AS PART OF<br>PUBLICLY ANNOUNCED<br>PLANS OR PROGRAMS<br>----- | APPROX<br>DOLLAR<br>OF SHARES<br>YET BE P<br>UNDER THE<br>PROG<br>----- |
|--|--|---|---|---|
| Balance at June 30, 2005.....          | 22,458   | \$21.50                                     | 22,458  | \$10,61   |
| July 1, 2005 - September 30, 2005..... | --   | n/a   | --  | --  |
| Total.....                             | 22,458<br>=====                                    |   | 22,458<br>=====   | \$10,61<br>=====  |

The RTI International Metals, Inc. share repurchase program was approved by RTI's Board of Directors on April 30, 1999. The program authorizes the repurchase of up to 15 million dollars of RTI common stock from time to time. There is no expiration date specified for the stock buyback program. There were no repurchases made during the quarter ended September 30, 2005.

### ITEM 5. OTHER INFORMATION

As the Company previously reported, William T. Hull was newly appointed as the Vice President & Chief Accounting Officer of the Company on August 1, 2005. In connection with such appointment, Mr. Hull entered into an indemnification agreement with the Company on November 9, 2005 in the form set forth in Exhibit 10.1 to this Form 10-Q.

The indemnification agreement, which is identical to those in place with the Company's executive officers and directors, provides, in summary, that the Company shall indemnify Mr. Hull against any and all expenses, including attorneys fees, judgments, fines and amounts paid in settlements, incurred as a result of threatened, pending or completed legal actions in which he is a party as a result of actions or inactions taken in his official capacity on behalf of the Company. The contractual indemnification is subject to the statutory provisions of the laws of the State of Ohio where the Company is incorporated, and excludes from indemnification any remuneration that is in violation of law, and further excludes any act or omission undertaken by an officer or director with deliberate intent to cause injury to the Company or with reckless disregard for the best interests of the Company.

### ITEM 6. EXHIBITS

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION<br>-----                                   |
|----------------------------|--|
| 10.1                       | Form of indemnification agreement.                     |
| 10.2                       | Pay philosophy and guiding principles covering officer |

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- compensation.
- 31.1 Certification pursuant to Exchange Act Rules 13a-14 and 15d-14.
- 31.2 Certification pursuant to Exchange Act Rules 13a-14 and 15d-14.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements 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.

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(Registrant)

Date: November 14, 2005

By: /s/ WILLIAM T. HULL

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William T. Hull  
Vice President & Chief Accounting  
Officer

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