

RTI INTERNATIONAL METALS INC  
Form 10-K  
March 18, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-K**

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended **December 31, 2013**

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)

|                                                                             |                                                           |
|-----------------------------------------------------------------------------|-----------------------------------------------------------|
| <b>Ohio</b><br>(State of Incorporation)                                     | <b>52-2115953</b><br>(I.R.S. Employer Identification No.) |
| <b>Westpointe Corporate Center One, 5<sup>th</sup> Floor</b>                | <b>15108-2973</b>                                         |
| <b>1550 Coraopolis Heights Road</b>                                         | (Zip code)                                                |
| <b>Pittsburgh, Pennsylvania</b><br>(Address of principal executive offices) |                                                           |
| Registrant's telephone number, including area code:                         |                                                           |
| <b>(412) 893-0026</b>                                                       |                                                           |

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

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

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

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

Yes ☐ No ☒

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

Yes ☐ No ☒

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

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

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

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

Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$832.7 million as of June 30, 2013. The closing price of the Company's common stock ("Common Stock") on June 28, 2013, as reported on the New York Stock Exchange, was \$27.71.

The number of shares of Common Stock outstanding at February 28, 2014 was 30,660,052.

## Documents Incorporated by Reference:

Selected Portions of the Proxy Statement for the 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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

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

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## EXPLANATORY NOTE

### Restatement of Consolidated Financial Results

This Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ( "Annual Report" ) includes the restatement of our Consolidated Financial Statements and the related disclosures for the previously reported years ended December 31, 2012 and 2011, and for the interim periods in 2013 and 2012, resulting from the Company's determination that a valuation allowance against its Canadian deferred tax asset should have been recorded as of December 31, 2010. The Company determined that it should have given greater weight to its Canadian subsidiary's history of cumulative losses relative to its expectations of future taxable income. As a result of recording the valuation allowance, the Company has corrected the deferred tax assets at each balance sheet date and its provision for income taxes in each affected period. As a result, in this Annual Report, the Company has restated its Consolidated Balance Sheet as of December 31, 2012 and the related Consolidated Statements of Operations, Shareholders' Equity, and Cash Flows for the years ended December 31, 2012 and December 31, 2011 and interim periods in fiscal year 2012 and March 31, June 30, and September 30, 2013. In addition, the following items of this Annual Report include restated financial data: (i) Part II, Item 6 Selected Financial Data; (ii) Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations; and (iii) Part II, Item 8 Financial Statements and Supplementary Data. We also have disclosure regarding the impact of the restatement on the adequacy of the Company's internal control over financial reporting and disclosure controls and procedures for the relevant restatement periods in Part II, Item 9A. Controls and Procedures.

We have not amended our previously-filed Annual Reports on Form 10-K or Quarterly Reports on Form 10-Q for any fiscal year or interim period affected by the restatement discussed above. Instead, the financial information that has been previously filed or otherwise reported for these periods is superseded by the information in this 2013 Annual Report, and the financial information contained in such previously-filed reports should no longer be relied upon.

## PART I

### Item 1. Business

#### The Company

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

On October 1, 2013, the Company purchased all of the outstanding common stock of RTI Extrusions Europe, Limited (formerly the extrusions business of Osborn Metals Limited) ( "RTI Extrusions Europe" ) for consideration of approximately \$16.2 million in cash and the assumption of approximately \$4.2 million in liabilities. RTI Extrusions Europe manufactures extruded, hot-or-cold stretched steel and titanium parts for a number of markets including the aerospace and oil and gas markets, and is complementary to the Company's existing titanium extrusion operation in Houston, Texas.

On January 22, 2014, the Company announced the acquisition of Directed Manufacturing, Inc. ( "RTI Directed Manufacturing" ), for \$23.0 million in cash. RTI Directed Manufacturing is a leader in additive manufacturing of titanium, specialty metal and plastic components for both commercial production and engineering development applications in the commercial aerospace, medical and oil and gas markets. The acquisition provides potential solutions for the Company's customers who seek near-net shape titanium parts and components.

In April 2013, the Company completed the sale of its subsidiary, Pierce Spafford Metals Company, Inc. ( RTI Pierce Spafford ) for approximately \$12.4 million of cash, of which \$10.5 million has been received as of December 31, 2013, with the remainder due in late 2014. In addition, during December 2013 the Company entered into a letter of intent to sell the assets of its other non-titanium service center, Bow Steel Corporation ( RTI Connecticut ), which was subsequently completed in February, 2014. The results of RTI Pierce Spafford and RTI Connecticut have been presented as results from discontinued operations on the Company's Consolidated Statements of Operations and the related assets and liabilities have been presented separately on the Company's Consolidated Balance Sheets as assets and liabilities of discontinued operations. The Company's Consolidated Financial Statements and the Notes thereto have been conformed to exclude amounts attributable to the aforementioned discontinued operations.

## Industry Overview

Titanium's physical characteristics include a high strength-to-weight ratio, ability to withstand extreme temperatures and maintain performance characteristics, and superior corrosion and erosion resistance. Relative to other metals, it is particularly effective in extremely harsh conditions. Given these properties, the scope of potential uses for titanium would be much broader than its current uses but for its higher cost of production as compared to other metals. The first major commercial application of titanium occurred in the early 1950's when it was used in components in aircraft gas turbine engines. Subsequent applications were developed to use the material in other aerospace components and in airframe construction. Traditionally, a majority of the U.S. titanium industry's output has been used in aerospace applications. The cyclical nature of the aerospace and defense industries have been the principal cause of the fluctuations in the demand for titanium-related products. In more recent years, increasing quantities of the industry's output have been used in non-aerospace applications, such as the oil and gas exploration and production industry, medical products, geothermal energy production, chemical processing, consumer products, and non-aerospace military applications such as heavy artillery and armoring.

The U.S. titanium industry's reported shipments were approximately 87 million pounds and 100 million pounds in 2012 and 2011, respectively, and are estimated to be approximately 98 million pounds in 2013. Shipments during 2013 increased as compared to 2012, due to continued high demand related to commercial aircraft build rates. Notwithstanding the current uncertainty in the defense industry related to the future of various defense programs, including the Lockheed Martin F-35 Joint Strike Fighter ( JSF ), demand for titanium is currently expected to increase in 2014 due to the ongoing aircraft build-rate increases expected from both Boeing and Airbus, as well as the continued ramp up of the Boeing 787 program and the expected beginning of deliveries for the Airbus's A350XWB program.

Changes in titanium demand from the commercial aerospace industry typically precede increases or decreases in aircraft production. In the Company's experience, aircraft manufacturers and their subcontractors generally order titanium mill products six to eighteen months in advance of final aircraft production. This long lead time is due to the time it takes to produce a final assembly or part that is ready for installation into an airframe or jet engine.

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

|                            | 2013 | 2012 | 2011 |
|----------------------------|------|------|------|
| Commercial Aerospace       | 55%  | 55%  | 58%  |
| Defense                    | 22%  | 23%  | 28%  |
| Energy, Medical, and Other | 23%  | 22%  | 14%  |

**Commercial Aerospace**

Historically, growth in the commercial aerospace market was the result of increased world-wide air travel, which drove not only increased aircraft production but also increased production of larger aircraft with higher titanium content than previous models. More recently and into the future, growth in the commercial aerospace market is expected to be driven by the need for more fuel efficient aircraft due to higher energy costs, as well as an expected replacement cycle of older aircraft. In response to these changing dynamics, Boeing is producing the new 787 Dreamliner family of aircraft. Airbus is producing the A350XWB, which completed its first test flight in 2013, to compete with Boeing's 787 model, and Airbus continues to produce the largest commercial aircraft, the A380. The A350XWB is currently expected to go into service in late 2014. All three of these aircraft use substantially more titanium per aircraft than any other current commercial aircraft. As production of these aircraft increases, titanium demand is expected to grow to levels significantly above previous peak levels.

Collectively, Airbus and Boeing, reported a record aggregate backlog of 10,639 aircraft on order at the end of 2013, a 17% increase from the prior year. This increase was primarily driven by strong orders for the single aisle A320neo and 737 MAX aircraft, as well as continued strength in orders for Boeing's 787 Dreamliner family of aircraft. This order backlog represents approximately nine years of production, at current build rates, for both Airbus and Boeing. According to *Aerospace Market News*, reported deliveries of large commercial aircraft by Airbus and Boeing totaled:

|            | 2013  | 2012  | 2011  |
|------------|-------|-------|-------|
| Deliveries | 1,274 | 1,189 | 1,011 |

Further, *The Airline Monitor* currently forecasts deliveries of large commercial jets for Airbus and Boeing of approximately:

|                       | 2016  | 2015  | 2014  |
|-----------------------|-------|-------|-------|
| Forecasted deliveries | 1,550 | 1,490 | 1,410 |

**Defense**

Military aircraft make extensive use of titanium and other specialty metals in their airframe structures and jet engines. These aircraft include U.S. fighters such as the F-22, F-18, F-15, and JSF, and European fighters such as the Mirage, Rafale, and Eurofighter-Typhoon. Military troop transports such as the A400M also use significant quantities of these metals.

The JSF is set to become the fighter for the 21<sup>st</sup> century with production currently expected to exceed 3,000 aircraft over the life of the program. In 2007, the Company was awarded a long-term contract extension from Lockheed Martin to supply up to eight million pounds annually of titanium mill product to support full-rate production of the JSF through 2020. The products supplied by the Company include titanium sheet, plate, billet, and ingot. Under the contract, the Company is currently supplying approximately two million pounds annually. While the JSF program has been the subject of budget discussions in recent years due to continuing defense budget pressures and the sequestration of the defense budget, the program is expected to consume in excess of two million pounds in 2014.

In addition to aerospace defense requirements, there are numerous titanium applications on ground vehicles and artillery, driven by its armoring (greater strength) and mobility (lighter weight) enhancements.

**Energy, Medical, & Other**

Sales to the energy, medical device, and other consumer and industrial markets consist primarily of shipments to the energy and medical device sectors by our Engineered Products and Services ( EP&S ) Segment, and sales of ferro titanium to the specialty steel industry from our Titanium Segment.

In the energy sector, demand for the Company's products for oil and natural gas extraction, including deepwater drilling exploration and production, increased in 2013. Demand for these products has grown due to increased deepwater oil and gas development from deepwater and difficult-to-reach locations around the globe. As the complexity of oil and gas exploration and production increases, the expected scope of potential uses for titanium-based structures and components is expected to increase, as well. Similar to the commercial aerospace market, titanium's usage in the energy sector would be higher but for its relatively high production costs.

In the medical device sector, the Company collaboratively engineers innovative, precision-machined solutions with its customers in the minimally invasive surgical device and implantable device markets. The market for medical devices is focused primarily on North America, Western Europe, and Japan. Demand for these products is expected to increase as populations age and the healthcare industry's focus on cost containment continues.

Growth in developing nations, such as China, India, and regions such as the Middle East, has stimulated increased demand from the chemical process industry for heat exchangers, tubing for power plant construction, and specialty metals for desalinization plants. While the Company does not currently participate in these markets due to the nature of its product line, increased demand for these products has resulted in increased titanium demand overall.

### **Products and Segments**

Effective January 1, 2013, we conduct business in two segments: the Titanium Segment and the EP&S Segment. This structure reflects our transformation into an integrated supplier of advanced titanium products across the entire supply chain, and better aligns our resources to support our long-term growth strategy.

#### ***Titanium Segment***

The Titanium Segment melts, forges, processes, produces, stocks, distributes, finishes, cuts-to-size and facilitates just-in-time delivery services of a complete range of titanium mill products which are further processed by its customers for use in a variety of commercial aerospace, defense, and industrial and consumer applications. With operations in Niles and Canton, Ohio; Martinsville, Virginia; Norwalk, California; Windsor, Connecticut; Tamworth, England; and Rosny-Sur-Seine, France, the Titanium Segment manufactures and distributes mill products that are fabricated into parts and utilized in aircraft structural sections such as landing gear, fasteners, tail sections, wing support and carry-through structures, and various engine components including rotor blades, vanes and discs, rings, and engine casings. Its titanium furnaces (as well as other processing equipment) and products are certified and approved for use by all major domestic and most international manufacturers of commercial and military airframes and jet engines. Attaining such certifications is often time consuming and expensive, and can serve as a barrier to entry into the titanium mill product market. The Titanium Segment also focuses on the research and development of evolving technologies relating to raw materials, melting, and other production processes, and the application of titanium in new markets.

The Titanium Segment's mill products are sold to a customer base consisting primarily of manufacturing and fabrication companies in the supply chain for the commercial aerospace, defense, energy, medical device, and other consumer and industrial markets. Customers include prime aircraft manufacturers and their family of subcontractors including fabricators, forge shops, extruders, castings producers, fastener manufacturers, machine shops, and metal distribution companies. Titanium mill products are semi-finished goods and usually represent the raw or starting material for these customers who then form, fabricate, machine, or further process the products into semi-finished and finished parts. In 2013, approximately 21% of the Titanium Segment's products were sold to the Company's EP&S Segment, where value-added services are performed on such parts prior to their ultimate shipment to the customer, compared to 19% in 2012 and 18% in 2011. The increase in sales to the EP&S Segment in 2013 resulted from the Company's efforts to source more of the titanium used in its fabricated components from its mill.

**Engineered Products and Services Segment**

The EP&S Segment is comprised of companies with significant hard and soft-metal expertise that form, extrude, fabricate, machine, additively manufacture, micro-machine, and assemble titanium, aluminum, and other specialty metal parts and components. Its products, many of which are complex engineered parts and assemblies, serve the commercial aerospace, defense, medical device, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets. With operations located in Minneapolis, Minnesota; Houston and Austin, Texas; Sullivan and Washington, Missouri; Laval, Canada; and Welwyn Garden City and Bradford, England, the EP&S Segment provides value-added products and services such as engineered tubulars and extrusions, fabricated and machined components and sub-assemblies, and components for the production of minimally invasive and implantable medical devices, as well as engineered systems for deepwater oil and gas exploration and production infrastructure.

**Integrated Strategy**

The Company believes that by providing its customers with a full-range of products and technologies, from mill products to assembled and kitted titanium components, it provides significant value to its customers.

When titanium products and fabrications are involved in a project, the Titanium Segment and the EP&S Segment coordinate their varied capabilities to provide the best materials solution for the Company's customers. Examples of such coordinated activities include:

The use of Titanium Segment-sourced cut titanium sheet by the EP&S Segment's forming facilities to manufacture hot and superplastically formed parts for various commercial aerospace and defense programs; and

The use of Titanium Segment-sourced billet for use by the EP&S Segment's extrusion facilities to manufacture structured components, including the Boeing Pi Box seat track for the commercial aerospace market.

The Company's consolidated net sales represented by each Segment for each of the past three years are summarized in the following table:

|                                          | <b>2013</b>     |               | <b>2012</b>     |               | <b>2011</b>     |               |
|------------------------------------------|-----------------|---------------|-----------------|---------------|-----------------|---------------|
| <i>(dollars in millions)</i>             | <b>\$</b>       | <b>%</b>      | <b>\$</b>       | <b>%</b>      | <b>\$</b>       | <b>%</b>      |
| Titanium Segment                         | \$ 346.6        | 44.2%         | \$ 352.9        | 50.4%         | \$ 324.9        | 66.5%         |
| Engineered Products and Services Segment | 436.7           | 55.8%         | 347.1           | 49.6%         | 163.5           | 33.5%         |
| <b>Total consolidated net sales</b>      | <b>\$ 783.3</b> | <b>100.0%</b> | <b>\$ 700.0</b> | <b>100.0%</b> | <b>\$ 488.4</b> | <b>100.0%</b> |

Operating income (loss) contributed by each Segment for each of the past three years is summarized in the following table:

|                                                   | <b>2013</b>    |               | <b>2012</b>    |               | <b>2011</b>    |               |
|---------------------------------------------------|----------------|---------------|----------------|---------------|----------------|---------------|
| <i>(dollars in millions)</i>                      | <b>\$</b>      | <b>%</b>      | <b>\$</b>      | <b>%</b>      | <b>\$</b>      | <b>%</b>      |
| Titanium Segment                                  | \$ 59.0        | 95.2%         | \$ 39.0        | 82.3%         | \$ 36.1        | 154.3%        |
| Engineered Products and Services Segment          | 3.0            | 4.8%          | 8.4            | 17.7%         | (12.7)         | (54.3)%       |
| <b>Total consolidated operating income (loss)</b> | <b>\$ 62.0</b> | <b>100.0%</b> | <b>\$ 47.4</b> | <b>100.0%</b> | <b>\$ 23.4</b> | <b>100.0%</b> |



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The Company's total consolidated assets identified with each Segment as of December 31 of each of the past three years are summarized in the following table:

| <i>(dollars in millions)</i>             | <b>2013</b>       | <b>2012<br/>(as restated)</b> | <b>2011<br/>(as restated)</b> |
|------------------------------------------|-------------------|-------------------------------|-------------------------------|
| Titanium Segment                         | \$ 604.1          | \$ 566.4                      | \$ 492.2                      |
| Engineered Products and Services Segment | 585.8             | 544.9                         | 272.5                         |
| Assets of Discontinued Operations        | 5.3               | 25.2                          | 26.5                          |
| General Corporate (1)                    | 310.3             | 83.6                          | 309.4                         |
| <b>Total consolidated assets</b>         | <b>\$ 1,505.5</b> | <b>\$ 1,220.1</b>             | <b>\$ 1,100.6</b>             |

(1) Consists primarily of unallocated cash and short-term investments.

The Company's long-lived assets by geographic area as of December 31 of each of the past three years are summarized in the following table:

| <i>(dollars in millions)</i>                | <b>2013</b>     | <b>2012<br/>(as restated)</b> | <b>2011<br/>(as restated)</b> |
|---------------------------------------------|-----------------|-------------------------------|-------------------------------|
| United States                               | \$ 438.2        | \$ 465.3                      | \$ 278.5                      |
| Canada                                      | 69.4            | 67.7                          | 71.3                          |
| England                                     | 57.9            | 37.7                          | 37.1                          |
| France                                      | 1.4             | 0.8                           | 0.5                           |
| <b>Total consolidated long-lived assets</b> | <b>\$ 566.9</b> | <b>\$ 571.5</b>               | <b>\$ 387.4</b>               |

### Exports

The Company's exports consist primarily of titanium mill products, extrusions, and machined extrusions used in the aerospace markets. The Company's export sales as a percentage of total net sales for each of the past three years were as follows:

|              | <b>2013</b> | <b>2012</b> | <b>2011</b> |
|--------------|-------------|-------------|-------------|
| Export sales | 30%         | 36%         | 37%         |

Such sales are made primarily to Europe, where the Company is a leader in supplying flat-rolled titanium alloy mill products. Most of the Company's export sales are denominated in U.S. Dollars. For further information about geographic areas, see Note 13 to the Consolidated Financial Statements included in this Annual Report.

### Backlog

The Company's order backlog for all markets was approximately \$516 million as of December 31, 2013, as compared to \$543 million at December 31, 2012. Of the backlog at December 31, 2013, approximately \$483 million is likely to be realized in 2014. The Company defines backlog as firm business scheduled for release into the production process for a specific delivery date. The Company has numerous contracts that extend multiple years, including the Airbus, JSF, and Boeing 787 long-term supply agreements, which are not included in backlog until a specific release into production or a firm delivery date has been established.

### Raw Materials

The principal raw materials used in the production of titanium mill products are titanium sponge (a porous metallic material, so called due to its appearance), titanium scrap, and various alloying agents. The Company sources its raw materials from a number of domestic and foreign suppliers under long-term contracts and other



negotiated transactions. Currently, all of the Company's titanium sponge requirements are sourced from foreign suppliers. Requirements for titanium sponge, scrap, alloys, and other metallics vary depending upon the exacting specification of the end market application. The Company's cold-hearth and electron beam melting process provides it with the flexibility to consume a wider range of metallics, thereby reducing its need for purchased titanium sponge.

The Company currently has supply agreements in place for certain critical raw materials. These supply agreements are with suppliers located in, or for products produced in, Japan and the United States, and allow the Company to purchase certain quantities of raw materials at either annually negotiated prices or, in some cases, fixed prices that may be subject to certain underlying input cost adjustments. Purchases made under these contracts are denominated in U.S. Dollars; however, in some cases, the contract provisions include potential price adjustments to the extent that the Yen to U.S. Dollar exchange rate falls outside of a specified range. These contracts expire at various periods through 2021. The Company acquires the balance of its raw materials opportunistically on the spot market as needed. The Company currently believes it has adequate sources of supply for titanium sponge, titanium scrap, alloying agents, and other raw materials to meet its short and medium-term needs.

Business units in the EP&S Segment obtain the majority of their titanium mill product requirements from the Titanium Segment. Other metallic requirements are generally sourced from the best available supplier at competitive market prices.

### **Competition and Other Market Factors**

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

Consumers of titanium products in the aerospace industry tend to be very large and highly concentrated. Boeing, Airbus, Lockheed Martin, Bombardier, and Embraer manufacture airframes. General Electric, Pratt & Whitney, Rolls Royce, MTU, and Snecma build jet engines. Direct purchases from these companies and their family of specialty subcontractors account for a majority of aerospace products manufactured for large commercial aerospace and defense applications.

Producers of titanium mill products are primarily located in the U.S., Japan, Russia, Europe, and China. The Company participates directly in the titanium mill product business primarily through its Titanium Segment. The Company's principal competitors in the aerospace titanium mill product market are Allegheny Technologies Incorporated (NYSE: ATI) and Precision Castparts Corporation (NYSE: PCP), both based in the United States, and Verkhnyaya Salda Metallurgical Production Organization (RU: VSMO), based in Russia. The Company competes with these companies primarily on the basis of price, quality of products, technical support, and the availability of products to meet customers' delivery schedules.

The EP&S Segment competes with other companies primarily on the basis of price, quality, timely delivery, and customer service. The Company's principal competitors in the aerospace titanium fabricated component market are GKN Aerospace PLC (LSE: GKN), Triumph Group Inc. (NYSE: TGI), LMI Aerospace (NASDAQ: LMIA), PCP, and Ducommun Inc. (NYSE: DCO). In the energy sector, the Company competes with 2H Offshore, Oil States International, Inc. (NYSE: OIS), Ameriforge Group, Inc., and Sheffield Offshore Services.

In the medical device sector, the Company competes with Norwood Medical, Accellent, and Mountainside Medical. The Company believes that the business units in its EP&S Segment are well-positioned to continue to compete and grow due to the range of goods and services offered, their demonstrated expertise, and the increasing synergy with the Titanium Segment for product and technical support.

### **Trade and Legislative Factors**

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

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

The United States Government is required by 10 U.S.C. §2533b, Requirement to buy strategic materials critical to national security from American sources (the Specialty Metals Clause ), to use domestically-melted titanium for certain military applications. The law was comprehensively revised in the 2007 Defense Authorization Act, and further revised per the National Defense Authorization Act for Fiscal Year 2008 ( 2008 Act ). The 2008 Act reflects a compromise on domestic source requirements for specialty metals.

As currently implemented, the Specialty Metals Clause applies to commercial off-the-shelf-items such as: specialty metals mill products like titanium bar, billet, slab, and sheet; forgings and castings of specialty metals (unless incorporated into a commercial off-the-shelf item or subassembly); and fasteners (unless incorporated into commercial off-the-shelf end items or subassemblies). The 2008 Act provides for a *de minimis* exception whereby defense agencies may accept an item containing up to 2% noncompliant metal, based on the total weight of all of the specialty metals in an item and revised the rules for granting compliance waivers when compliant materials are not available.

The Company believes that the compromises contained in the 2008 Act provided a fair and workable solution bridging the biggest concerns on both sides of the debate. The Company, together with the specialty metals industry as a whole, continues to monitor the application and enforcement of the 2008 Act to affirm that the Specialty Metals Clause continues to ensure a reliable, domestic source for products critical to national security.

### **Environmental Liabilities**

The Company is subject to various environmental laws and regulations as well as certain health and safety laws and regulations that are subject to frequent modifications and revisions. While historically the cost of compliance for these matters has not had a material adverse impact on the Company, it is not possible to accurately predict the ultimate effect changing environmental health and safety laws and regulations may have on the Company in the future. The Company continually evaluates its obligations for environmental-related costs on a quarterly basis and makes adjustments as necessary. For further information on the Company's environmental liabilities, see Note 14 to the Consolidated Financial Statements included in this Annual Report.

## Marketing and Distribution

The Company markets its titanium mill and related products and services worldwide. The majority of the Company's sales are made through its own sales force. The Company's sales force has offices in Pittsburgh, Pennsylvania; Niles, Ohio; Minneapolis, Minnesota; Houston and Austin, Texas; Norwalk, California; Sullivan and Washington, Missouri; Windsor, Connecticut; Bradford, Tamworth, and Welwyn Garden City, England; Jiangsu, China; and Laval, Canada. Technical Marketing personnel are available to service these offices. Customer support for new product applications and development is provided by the Company's Customer Technical Service personnel at each business unit, as well as at the corporate-level through the Company's Technical Business Development and Research and Development organizations located in Pittsburgh, Pennsylvania and Niles, Ohio, respectively.

## Research, Technical, and Product Development

The Company conducts research, technical, and product development activities including not only new product development, but also new or improved technical and manufacturing processes.

The principal goals of the Company's research programs are advancing technical expertise in the production of titanium mill and fabricated products, and developing innovative solutions to customer needs through new and improved mill and value-added products. The Company's research, technical, and product development expenses for each of the past three years were as follows:

|                                                      | 2013   | 2012   | 2011   |
|------------------------------------------------------|--------|--------|--------|
| <i>(dollars in millions)</i>                         |        |        |        |
| Research, technical and product development expenses | \$ 3.9 | \$ 4.2 | \$ 3.4 |

## Patents and Trademarks

The Company possesses a substantial body of technical know-how and trade secrets. The Company considers its expertise, trade secrets, and patent portfolio to be important to the conduct of its business, although no individual item is currently considered to be material to either the Company's business as a whole or to an individual reporting segment. The Company's Titanium Segment holds seven patents covering various manufacturing processes, most of which have not yet been commercialized, and the Company's EP&S Segment holds eight patents related to its energy business. All of the Company's patents have been issued between 2000 and 2013 and, assuming payment of all required maintenance fees, expire between 2020 and 2030.

## Employees

At December 31, 2013, the Company and its subsidiaries had 2,437 employees, 913 of whom were classified as administrative and sales personnel. Of the total number of employees, 809 employees were in the Titanium Segment, 1,544 in the EP&S Segment, and 84 at RTI's corporate headquarters.

The United Steelworkers of America (USW) represents approximately 345 of the hourly, clerical, and technical employees at the Company's plant in Niles, Ohio. In 2012, the Company and the USW extended its current union contract through June 30, 2018. The Company's facility in Washington, Missouri has 176 hourly employees who are represented by the International Association of Machinists and Aerospace Workers (IAMAW). The current labor contract with the IAMAW expires on February 19, 2015. No other Company employees are currently represented by a union.

## Executive Officers of the Registrant

Listed below are the executive officers of the Company, together with their ages and titles as of December 31, 2013.

| Name                  | Age | Title                                                          |
|-----------------------|-----|----------------------------------------------------------------|
| Dawne S. Hickton      | 56  | Vice Chair, President and Chief Executive Officer              |
| James L. McCarley     | 50  | Executive Vice President Operations                            |
| Patricia A. O'Connell | 51  | Executive Vice President Commercial                            |
| William T. Hull       | 56  | Senior Vice President and Chief Financial Officer              |
| William F. Strome     | 58  | Senior Vice President Finance and Administration               |
| Chad Whalen           | 39  | General Counsel and Senior Vice President Government Relations |

## Biographies

Ms. Hickton was appointed Vice Chair, President and Chief Executive Officer in October 2009. She had served as Vice Chair and Chief Executive Officer since April 2007, Senior Vice President and Chief Administrative Officer since July 2005, Corporate Secretary since April 2004, and Vice President and General Counsel since June 1997. Prior to joining the Company, Ms. Hickton had been an Assistant Professor of Law at the University of Pittsburgh School of Law, and was employed at U.S. Steel Corporation from 1983 through 1994.

Mr. McCarley was appointed Executive Vice President Operations in May 2010. He had served as the Chief Executive Officer of General Vortex Energy, Inc., a private developer of engine and combustion technologies, from September 2009 to May 2010. From 1987 to 2009, Mr. McCarley served in a variety of management positions at Wyman Gordon, a division of Precision Castparts Corporation, a global manufacturer of complex metal components, most recently as Division President of Wyman Gordon West from 2008 to 2009 and Vice President & General Manager from 2006 to 2008.

Ms. O'Connell was appointed Executive Vice President Commercial in January 2013. Prior to joining RTI, Ms. O'Connell was President of Rolls-Royce's North America Customer Business where she was responsible for leading and developing the new Customer Business organization in the United States. Ms. O'Connell has held senior leadership positions at GE Aviation as VP of Customer Management, Business and General Aviation and President Civil Aviation Systems, as well as key leadership roles at Rockwell Collins. Ms. O'Connell has over 20 years of experience in sales, new business development, operations, material and supply, international business, strategy and customer relations including 17 years in the aviation industry.

Mr. Hull was appointed Senior Vice President and Chief Financial Officer in April 2007. He had served as Vice President and Chief Accounting Officer since August 2005. Prior to joining the Company, Mr. Hull served as Corporate Controller of Stoneridge, Inc., a global designer and manufacturer of highly engineered electrical and electronic components, modules and systems for the commercial vehicle, automotive, agricultural and off-highway vehicle markets, where he was employed since 2000. Mr. Hull is a Certified Public Accountant.

Mr. Strome was appointed Senior Vice President Finance and Administration in October 2009. He had served as Senior Vice President of Strategic Planning and Finance since November 2007. Mr. Strome will be retiring from the Company effective April 15, 2014. Prior to joining the Company, Mr. Strome served as a Principal focusing on environmental development projects at Laurel Mountain Partners, L.L.C. Prior to joining Laurel in 2006, Mr. Strome served as Senior Managing Director and Group Head, Diversified Industrials at the investment banking firm Friedman, Billings, Ramsey & Co., Inc. From 1981 to 2001, Mr. Strome was employed by PNC Financial Services Group, Inc. in various legal capacities and most recently managed PNC's corporate finance advisory activities and its mergers and acquisitions services.

Mr. Whalen was appointed General Counsel & Senior Vice President Government Relations in April 2013. He served as Vice President, General Counsel and Secretary from February 2007 to April 2013. Mr. Whalen practiced corporate law at the law firm of Buchanan Ingersoll & Rooney PC from 1999 until joining the Company. He is an active member of The Society of Corporate Secretaries and Government Professionals and the Business Law Section of the American Bar Association.

#### **Available Information**

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

#### **Item 1A. Risk Factors.**

Our business is subject to various risks and uncertainties. Any of these individual risks described below, or any number of these risks occurring simultaneously, could have a material effect on our Consolidated Financial Statements, business, or results of operations. You should carefully consider these factors, as well as the other information contained in this document, when evaluating your investment in our securities.

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

Like other companies, we are susceptible to the effects of the prolonged economic downturn and slow recovery characterized by high unemployment and decreased consumer and business spending. Macroeconomic conditions in the United States and abroad may affect our performance and that of our customers and suppliers. Continued uncertainty about global economic conditions pose a risk, as customers may postpone or reduce spending in response to restraints on credit. Further, our ability to access the traditional bank and capital markets may be negatively impacted, which could adversely impact our ability to react to changing economic and business conditions. We remain subject to various domestic and international risks and uncertainties, including changing social conditions and uncertainties relating to the current and future political climate. Changes in policy resulting from the current political environment, fluctuations in global currencies, and continued worldwide political instability could have an adverse impact on the financial condition and the level of business activity of the defense industry or other market segments in which we participate. This may reduce our customers' demand for our products and/or depress pricing of those products, resulting in a material adverse impact on our business, prospects, results of operations, revenues, and cash flows.

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

Approximately 77% of our current annual revenue is derived from the commercial aerospace and defense industries. Of this amount, Boeing, through multiple contracts with various Company subsidiaries covering varying periods, accounted for approximately 21% of our consolidated net sales in 2013. Although business with our largest customers is typically split into several contracts, the loss of all of the business from any of our primary customers (whether by cancellation of existing contracts or the failure to award us new business) could have a material adverse effect on our business, results of operations and financial position. Within the commercial aerospace and defense industries are a relatively small number of consumers of titanium products

that typically have strong purchasing power as a result of consolidation and other factors. Those industries have historically been highly cyclical, resulting in the potential for sudden and dramatic changes in expected production and spending that, as a partner in the supply chain, can negatively impact our operational plans and, ultimately, the demand for our products and services.

In addition, many of our customers are dependent on the commercial airline industry, which is subject to significant economic and political challenges due to threats or acts of terrorism, rising or volatile fuel costs, pandemics or other outbreaks of infectious diseases, aggressive competition, global economic slowdown, and other factors. Further, the new aerospace and defense platforms which use our products may be subject to production delays which affect the timing of the delivery of our products for such platforms. Any one or combination of these factors could occur suddenly and result in a reduction or cancellation in orders of new airplanes and parts which could have an adverse impact on our business. Neither we nor our customers may be able to project or plan in a timely manner for the impact of these events.

***Continued U.S. budget deficits could result in continued defense spending cuts and/or reductions in defense programs, including the JSF program, which could adversely impact us.***

Some of our customers are particularly sensitive to the level of government spending on defense-related products. Government programs are dependent upon the continued availability of appropriations, which are approved on an annual basis. Future reductions in defense spending could result from the current or future economic or political environment, such as recent sequestration of the defense budget, which could result in reductions in demand for defense-related titanium products. Further, changes to existing defense procurement laws and regulations, such as the domestic preference for specialty metals, could adversely affect our results of operations.

A significant amount of forecasted revenue is associated with the JSF program. Continued U.S. Federal budget deficits could result in significant pressure to reduce the annual defense budget, potentially including cancellations of, reductions in, or delays of major defense programs such as the JSF program. Delays in the ramp up of the JSF program, or a reduction in the total number of aircraft produced, could have a material adverse impact on our results of operations, financial position, and cash flows.

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

We have entered into several long-term contracts in recent years to produce titanium mill products and complex engineered assemblies for several new aircraft programs, including the Boeing 787 Dreamliner, the JSF, and the Airbus family of aircraft, including the A380, the A350XWB and the A400M military transport. In order to meet the delivery requirements under each of these contracts, we have invested in significant capital expansion projects. We have also experienced significant delays with respect to the ramp-up of certain of these long-term programs due to production problems or other concerns experienced by our customers. In the event any such delays were to reoccur, or if any of these programs were to be cancelled, such events could result in a material adverse impact on our business, prospects, results of operations, revenues, cash flows, and financial condition.

***Integrating acquisitions may be more difficult, costly or time-consuming than expected, which may adversely affect our results and affect adversely the value of our stock following such acquisitions.***

We have completed various acquisitions that we believe will be beneficial to the Company and our shareholders. The success of these acquisitions will depend, in part, on our ability to realize the anticipated benefits from integrating the businesses acquired. To realize these anticipated benefits, we must successfully integrate the businesses in an efficient and effective manner. If we are unable to achieve these objectives within the anticipated time frames, or at all, the anticipated benefits and cost savings of the acquisitions may not be realized fully, or at all, or may take longer to realize than expected, and as a result our results of operations, financial position, and cash flow may be adversely affected.



Specifically, issues that must be addressed in integrating the acquired companies into our operations in order to realize the anticipated benefits of the acquisitions include, among others:

integrating and optimizing the utilization of the properties and equipment of RTI and acquired businesses;

integrating the sales and information technology systems of RTI and the acquired businesses; and

conforming standards, controls, procedures and policies, business cultures and compensation structures between the companies.

***If our internal controls are not effective, investors could lose confidence in our financial reporting.***

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to conduct a comprehensive evaluation of our internal control over financial reporting. To comply with this statute, we are required to document and test our internal control over financial reporting, our management is required to assess and issue a report concerning our internal control over financial reporting, and our independent registered public accounting firm is required to attest to and report on our assessment of the effectiveness of internal control over financial reporting. We have determined that certain material weaknesses, as described in Part II Item 9A, Controls and Procedures, of this Annual Report existed as of December 31, 2013. Accordingly, we have concluded that our internal control over financial reporting and disclosure controls and procedures were not effective as of December 31, 2013.

Management, with oversight from the Audit Committee of the Board of Directors, has developed and presented a plan for the completion of remediation measures to address these weaknesses. Although we believe we are taking appropriate actions to remediate the control deficiencies we have previously identified, we cannot assure you that we will not discover other material weaknesses in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in implementation, could cause us to fail to meet our periodic reporting obligations or result in material misstatements in our Consolidated Financial Statements, and substantial costs and resources may be required to rectify these or other internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of our common stock could decline significantly, and our business, financial condition, and reputation could be harmed.

***Our failure to timely comply with our reporting obligations under the Exchange Act may have an adverse effect on our ability to raise capital.***

As a result of our failure to timely comply with our reporting obligations under the Exchange Act in 2013, we are currently subject to restrictions regarding the registration of our securities, including our common stock, under federal securities laws. Although we have regained compliance with our reporting obligations under the Exchange Act, for a certain period of time in calendar year 2014 we will be unable to use a shorter and less costly registration statement on Form S-3. This restriction increases our costs to access capital markets, which may adversely affect our business.

***The carrying value of goodwill and other intangible assets may not be recoverable.***

As of December 31, 2013, we had goodwill of \$117.6 million and other intangible assets of \$53.8 million. Goodwill and other intangible assets are recorded at fair value on the date of acquisition. In accordance with applicable accounting guidance, we review goodwill and other indefinite-lived intangible assets at least annually for impairment, and definite-lived intangible assets when facts and circumstances warrant an impairment review. Impairment may result from, among other things, deterioration in performance, adverse market conditions, adverse changes in applicable laws or regulations, and a variety of other factors. The amount of any impairment would be charged immediately through our Consolidated Statement of Operations. Any future goodwill or other intangible asset impairment could have a material adverse effect on our results of operations and financial condition.

***We are dependent on various third-party services that are subject to price and availability fluctuations.***

We often rely on other companies to provide outside material processing services that may be critical to the manufacture of our products. We depend on these third parties to meet our contractual obligations to our customers and to conduct our operations. Our ability to meet our obligations to our customers may be adversely affected if these third parties do not provide the agreed-upon services in compliance with customer requirements and in a timely and cost-effective manner. Further, purchase prices and availability of these services are subject to volatility. At any given time, we may be unable to obtain these critical services on a timely basis, at acceptable prices, or on other acceptable terms, if at all. Further, if an outside processor is unable to produce to required specifications, our additional cost to cure may negatively impact our margins. Such third parties may be less likely than us to be able to quickly recover from natural disasters or other events beyond their control, and may be subject to additional risks such as financial problems that limit their ability to conduct their operations. Many factors outside of their or our control, including without limitation, raw material shortages, inadequate manufacturing capacity, labor disputes, transportation disruptions or weather conditions, could adversely affect their ability to return our products to us at favorable margins and in a timely manner.

***If we are unable to protect our data and process control systems against data corruption, cyber-based attacks, or network security breaches, we could experience disruption to our operations, the compromise or corruption of confidential information, and/or damage to our reputation, relationship with customers, or physical assets, all of which could negatively impact our financial results.***

We have in place a number of systems, processes, and practices designed to protect against intentional or unintentional misappropriation or corruption of our systems and information or disruption of our operations due to a cyber incident. Despite our security efforts, our information technology and infrastructure could be subject to attacks by hackers, computer viruses or physical or electronic breaches resulting from employee error, malfeasance or other disruptions, which could create system disruptions, shutdowns, or unauthorized disclosure of confidential information. If we are unable to prevent such security or privacy breaches, our operations could be disrupted or we may suffer loss of reputation, financial loss, legal claims or proceedings, property damage, and other regulatory penalties because of lost or misappropriated information. Furthermore, our customers are increasingly imposing more stringent contractual obligations on us relating to our information security protections and protocols. If we are unable to maintain protections and processes at a level commensurate with that required by our large customers, it could negatively affect our relationships with those customers and harm our business.

***Demand for our products and services may be adversely affected by decreased demand for our customers' products and services.***

Our business is substantially derived from titanium mill products and fabricated metal parts, which are primarily used by our customers as components in the manufacture of their products. Our ability to meet our financial expectations could be directly impacted by our customers' inability to meet their own financial expectations. A significant downturn in demand for our customers' products and services could occur for reasons beyond their control such as unforeseen spending constraints, competitive pressures, rising prices, the inability to contain costs, and other domestic as well as global economic, environmental or political factors. Any resulting slowdown in demand by, or complete loss of business from, these customers as a result of decreased demand for their products could have a material impact on our results of operations and financial position, including, but not limited to, impairment of goodwill and long-lived assets, which could be material.

***We are subject to competitive pressures.***

The titanium metals industry is highly-competitive on a worldwide basis. Our competitors are located primarily in the U.S., Japan, Russia, Europe, and China. Our Russian competitor, in particular, has significantly greater capacity than us and others in our industry. Additionally, our industry has been experiencing a period of consolidation, which further enhances competitive pressures. Not only do we face competition for a limited

number of customers with other producers of titanium products, but we also must compete with producers of other generally less expensive materials of construction including stainless steel, nickel-based high temperature and corrosion resistant alloys, and composites.

Our competitors could experience more favorable operating conditions than us, including lower raw materials costs, more favorable labor agreements, or other factors which could provide them with competitive cost advantages in their ability to provide goods and services. Changes in costs or other factors related to the production and supply of titanium mill products, compared to costs or other factors related to the production and supply of other types of materials of construction, may negatively impact our business and the industry as a whole. New competitive forces unknown to us today could also emerge which could have an adverse impact on our financial performance. Our foreign competitors in particular may have the ability to offer goods and services to our customers at more favorable prices due to advantageous economic, environmental, political, or other factors.

In addition, the titanium industry is constantly evolving and there is significant competition to develop improved processes and uses for titanium. If the Company fails to develop new processes, uses, or markets for titanium, it could result in the loss of market share and key customers.

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

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

***We are subject to changes in product pricing.***

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

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

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

***We may not be able to recover the carrying value of our long-lived assets, which could require us to record asset impairment charges.***

As of December 31, 2013, we had net property, plant, and equipment of \$372.3 million. We operate in a highly-competitive and highly-cyclical industry. In addition, we have invested heavily in new machinery and facilities in order to win new long-term supply agreements related to next-generation aircraft such as the Boeing 787, the Airbus family of commercial aircraft, and the JSF program. If we were unable to realize the benefits under these agreements, for whatever reason, we could be required to record material asset and asset-related impairment charges in future periods which could adversely affect our results of operations.

***Many of our products are used in critical aircraft components and medical devices and must be manufactured to stringent quality standards.***

Given the critical nature of many of the end uses for our products, including specifically their use in critical rotating parts of gas turbine engines and their use in medical devices, a quality issue could have a material adverse impact on our reputation in the marketplace. While we maintain product liability insurance, including aircraft grounding liability of \$500 million, should a quality or warranty claim exceed this coverage, or should our coverage be denied, such liability could have a material adverse impact on our results of operations, cash flows, financial condition and reputation.

***Healthcare legislation has and may continue to impact our business.***

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively the Acts) were passed and signed into law in March, 2010. Among other things, the Acts impose an individual mandate for obtaining health insurance coverage; require plans to be sold on a guaranteed issue basis, which eliminates pre-existing condition exclusions; prohibit annual and lifetime maximum limits on certain essential benefits; restricts the extent to which policies can be rescinded, and imposes new and significant taxes on health insurers and health care benefits. Provisions of the Acts become effective at various dates between their enactment in 2010 and the year 2020. The Department of Health and Human Services, the Department of Labor and the Treasury Department have issued and are continuing to issue the necessary enabling regulations and guidance with respect to the Acts, and the National Association of Insurance Commissioners continue to develop model regulations and best practices in connection with the Acts. Due to the breadth and complexity of the Acts, the fact that the implementing regulations and interpretive guidance are still being developed, and the phased-in nature of the Acts' implementation, it is difficult to predict the overall impact of the Acts on our business. Depending on how and when the provisions of the Acts are implemented, our results of operations, financial position and cash flows could be materially adversely affected.

***Our business could be harmed by strikes or work stoppages.***

Approximately 345 hourly, clerical and technical employees at our Niles, Ohio facility are represented by the USW. Our current labor agreement with this union expires June 30, 2018. Approximately 176 hourly employees at our RTI Advanced Forming facility in Washington, Missouri are represented by the IAMAW. Our current labor agreement with this union expires February 19, 2015.

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

***Our business is subject to the risks of international operations.***

We operate subsidiaries and conduct business with suppliers and customers in foreign countries that expose us to various risks associated with international business activities including potentially volatile economic and labor conditions, political instability, expropriation, and changes in taxes, tariffs, and other regulatory costs. We are also exposed to and could be adversely affected by fluctuations in the exchange rate of the U.S. Dollar against other foreign currencies, particularly the Canadian Dollar, the Euro, and the British Pound. Although we are operating primarily in countries with relatively stable economic and political climates, there can be no assurance that our business will not be adversely affected by risks inherent to international operations. Furthermore, our international operations subject us to numerous U.S. and foreign laws and regulations. Failure by our employees or consultants to comply with these laws and regulations could result in certain liabilities, which could have a material adverse effect on our financial results.

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

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

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

War, terrorism, natural disasters, and public health issues including pandemics, whether in the U.S. or abroad, have caused and could cause damage or disruption to international commerce by creating economic and political uncertainties that may have a negative impact on the global economy as a whole. Our business operations, as well as our suppliers' and customers' business operations, are subject to interruption by those factors as well as other events beyond our control such as governmental regulations, fire, power shortages, and others. Although it is impossible to predict the occurrences or consequences of any such events, they could result in a decrease in demand for our products, make it difficult or impossible for us to deliver products to our customers or to receive materials from our suppliers, and create delays and inefficiencies in our supply chain. Our operating results and financial condition may be adversely affected by these events.

***We are required to comply with changing laws and regulations and new laws and regulations, including those related to environmental, health, safety and securities, which may adversely affect our business and subject the Company to substantial costs and liabilities.***

The Company is subject to numerous federal, state, local and international laws and regulations. Some of these laws and regulations are unclear, become effective over long periods of time, or require implementation of regulations by agencies.

We own and/or operate a number of manufacturing and other facilities. Our operations and properties are subject to various laws and regulations relating to the protection of the environment and health and safety matters, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contaminated sites. Some environmental laws can impose liability for all of the costs of a contaminated site without regard to fault or the legality of the original conduct. We could incur substantial costs, including fines, penalties, civil and criminal sanctions, investigation and cleanup costs, natural resource damages and third-party claims for property damage or personal injury, as a result of violations of or liabilities under environmental laws and regulations or the environmental permits required for our operations. Many of our properties have a history of industrial operations, including the use and storage of hazardous materials, and we are involved in remedial actions relating to some of our current and former properties and, along with other responsible parties, third-party sites. We have established reserves for such matters where appropriate. The ultimate costs of cleanup, and our share of such costs, however, are difficult to accurately predict and could exceed current reserves. We also could incur significant additional costs at these

or other sites if additional contamination is discovered, additional cleanup obligations are imposed and/or the failure of other responsible parties to participate or honor their financial responsibilities. In addition, while the cost of complying with environmental laws and regulations has not had a material adverse impact on our operations in the past, such laws and regulations are subject to frequent modifications and revisions, and more stringent compliance requirements, or more stringent interpretation or enforcement of existing requirements, may be imposed in the future on us or the industries in which we operate. As a result, we could incur significant additional costs complying with environmental laws and regulations in the future.

In addition, we are required to comply with various securities laws and regulations, including, but not limited to the Sarbanes-Oxley Act of 2002 and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act, among other provisions, contains provisions to improve transparency and accountability concerning the supply of certain minerals originating from the Democratic Republic of Congo and adjoining countries that are believed to be benefitting armed groups (Conflict Minerals). While the Dodd-Frank Act does not prohibit companies from using Conflict Minerals, the SEC mandates due diligence, disclosure and reporting requirements for companies which manufacture products that include components containing such conflict minerals. Our efforts to comply with the Dodd-Frank Act and other evolving laws, regulations and standards are likely to result in increased costs and expenses.

Complying with all of these various laws and regulations is complex and cumbersome. Any modifications in these laws and regulations applicable to us, the enactment of new laws and regulations, or any failure to comply with, or enhanced enforcement activity of, such laws and regulations, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

***Our working capital requirements may negatively affect our liquidity and capital resources.***

Our working capital requirements can vary significantly, depending in part on the timing of our delivery obligations under various customer contracts and the payment terms with our customers and suppliers. If our working capital needs exceed our cash flows from operations, we would look to our cash balances and availability for borrowings under our existing credit facility to satisfy those needs, as well as potential sources of additional capital, which may not be available on satisfactory terms and in adequate amounts, if at all.

***The price of our Common Stock has fluctuated and may continue to fluctuate, which may affect the price at which one could sell the shares of our Common Stock, and the sale of substantial amounts of our Common Stock could adversely affect the price of our Common Stock.***

The market price and trading volume of our Common Stock have been and may continue to be subject to significant fluctuations due not only to general stock market conditions, but also to a change in sentiment in the market regarding our industry operations, business prospects or liquidity. During the period for the 12 months ended December 31, 2013, our Common Stock has fluctuated from a high of \$36.09 per share to a low of \$26.05 per share. In addition to the risk factors discussed in this Annual Report, the price and volume volatility of our Common Stock may be affected by operating results that vary from expectations of management, analysts or investors, developments in or regulatory changes affecting our business or industry generally, announcements of strategic developments, acquisitions and other material events by us, our customers or our competitors, and changes in global financial and economic markets and general market conditions.

Any volatility of or a significant decrease in the market price of our Common Stock could also negatively affect our ability to make acquisitions using Common Stock. Further, if we were to be the object of securities class action litigation as a result of volatility in our Common Stock price or for other reasons, it could result in substantial costs and diversion of our management's attention and resources, which could negatively affect our financial results. In addition, in recent years, the global equity markets have experienced substantial price and volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies. The price of our Common Stock could fluctuate based upon factors that have little or nothing to do with our Company, and these fluctuations could materially reduce our stock price.

*We may not generate sufficient cash flow from our business to service our debt obligations.*

Our business has not generated significant cash flow from operations in recent years. Our ability to make scheduled payments of the principal of, or to refinance, our current indebtedness, depends on our ability to generate cash flow from operations in the future. Our ability to generate cash flows from our operations is subject to economic, financial, competitive and other factors, some of which are beyond our control. Our business may continue to not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures or accretive acquisitions. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at the time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our existing debt obligations.

**Item 1B. Unresolved Staff Comments.**

The Company received written comments from the SEC in July 2013 relating to its Annual Report on Form 10-K for the fiscal year ended December 31, 2012. One comment from the July 2013 comment letter currently remains unresolved, which relates to the Company's treatment of its Canadian net deferred tax asset at its Canadian subsidiary, as discussed throughout this Annual Report. Following discussion with the Staff of the SEC regarding the comment, the Company reconsidered its position and determined that a valuation allowance against the Company's Canadian deferred tax asset should have been recorded as of December 31, 2010. The Company determined that it should have given greater weight to its Canadian subsidiary's history of cumulative losses relative to its expectations of future taxable income. As a result of recording the valuation allowance, the Company has corrected the deferred tax assets at each balance sheet date and its provision for income taxes in each affected period, as reflected in this Annual Report. The Company believes that this outstanding comment will be considered resolved by the SEC upon filing of this Annual Report.

**Item 2. Properties.****Manufacturing Facilities**

The Company has approximately 2.3 million square feet of manufacturing facilities, exclusive of distribution facilities and office space. Set forth below are the Company's principal manufacturing plants, the principal products produced at each location, and each plant's aggregate capacities.

**Facilities**

| <b>Location</b>                | <b>Owned /<br/>Leased</b> | <b>Products Produced</b>                                                 | <b>Annual<br/>Rated<br/>Capacity</b> |
|--------------------------------|---------------------------|--------------------------------------------------------------------------|--------------------------------------|
| <b><u>Titanium Segment</u></b> |                           |                                                                          |                                      |
| Niles, OH                      | Owned                     | Ingot (million pounds)                                                   | 49.0                                 |
| Niles, OH                      | Owned                     | Mill products (million pounds)                                           | 22.0                                 |
| Canton, OH                     | Leased                    | Ferro titanium and specialty alloys (million pounds)                     | 16.0                                 |
| Martinsville, VA               | Owned                     | Titanium forging (million pounds)                                        | 10.5                                 |
| Tamworth, England              | Leased                    | Cut parts and components (thousand man hours)                            | 45.0                                 |
| Rosny-Sur-Seine,<br>France     | Leased                    | Cut parts and components (thousand man hours)                            | 16.0                                 |
| Norwalk, CA                    | Leased                    | Metal warehousing and distribution                                       | N/A                                  |
| Windsor, CT                    | Leased                    | Metal warehousing and distribution                                       | N/A                                  |
| <b><u>EP&amp;S Segment</u></b> |                           |                                                                          |                                      |
| Washington, MO                 | Owned                     | Hot and superplastically formed parts (thousand press hours)             | 50.0                                 |
| Welwyn Garden City,<br>England | Leased                    | Hot and superplastically formed parts (thousand man hours)               | 60.0                                 |
| Sullivan, MO                   | Leased                    | Cut parts and components (thousand man hours)                            | 23.0                                 |
| Houston, TX                    | Leased                    | Extruded, hot stretch formed products (million pounds)                   | 4.2                                  |
| Bradford, England              | Owned                     | Extruded, hot and cold-stretch formed products (million pounds)          | 2.7                                  |
| Houston, TX                    | Owned                     | Machining/fabricating oil/gas products (thousand man hours)              | 200.0                                |
| Laval, Canada                  | Owned                     | Machining/assembly of aerospace parts (thousand man hours)               | 400.0                                |
| Austin, TX                     | Leased                    | Additively manufactured parts (thousand man hours)                       | 20.0                                 |
| Big Lake, MN                   | Owned                     | Machining/assembly of aerospace and defense parts (thousand man hours)   | 203.0                                |
| New Brighton, MN               | Owned                     | Machining/assembly of aerospace and defense parts (thousand man hours)   | 192.0                                |
| Coon Rapids, MN                | Owned                     | Machining/assembly of medical device components (thousand machine hours) | 212.0                                |
| Big Lake, MN                   | Owned                     | Machining/assembly of medical device components (thousand machine hours) | 436.0                                |

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



**Item 3. Legal Proceedings.**

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

**Item 4. Mine Safety Disclosure.**

Not applicable.

## PART II

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

## Range of High and Low Stock Prices of Common Stock

| Quarter | 2013     |          | 2012     |          |
|---------|----------|----------|----------|----------|
|         | High     | Low      | High     | Low      |
| First   | \$ 32.43 | \$ 27.40 | \$ 27.60 | \$ 21.62 |
| Second  | \$ 31.80 | \$ 26.05 | \$ 26.96 | \$ 20.29 |
| Third   | \$ 33.06 | \$ 27.53 | \$ 26.00 | \$ 21.12 |
| Fourth  | \$ 36.09 | \$ 30.88 | \$ 27.82 | \$ 22.17 |

Principal market for Common Stock: New York Stock Exchange

Holders of record of Common Stock at February 28, 2014: 567

The Company has not historically paid dividends on its Common Stock and does not currently anticipate paying any cash dividends in the foreseeable future.

The following table sets forth repurchases of our Common Stock during the three months ended December 31, 2013.

|                       | Total Number<br>of Shares<br>Purchased (1) | Average Price<br>Paid Per Share | Total Number of<br>Shares Purchased<br>as Part of Publicly<br>Announced<br>Plans or<br>Programs | Approximate Dollar<br>Value of Shares that<br>May Yet Be<br>Purchased<br>Under the Plans<br>or<br>Programs<br>(in thousands) (2) |
|-----------------------|--------------------------------------------|---------------------------------|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| October 1 – 31, 2013  |                                            | \$                              |                                                                                                 | \$ 2,973                                                                                                                         |
| November 1 – 30, 2013 |                                            |                                 |                                                                                                 | 2,973                                                                                                                            |
| December 1 – 31, 2013 |                                            |                                 |                                                                                                 | 2,973                                                                                                                            |
| Total                 |                                            | \$                              |                                                                                                 |                                                                                                                                  |

- (1) Reflects shares that were repurchased under a program that allows employees to surrender shares to the Company to pay tax liabilities associated with the vesting of restricted stock awards and the payout of performance share awards under the Company's 2004 Stock Plan.
- (2) Amounts in this column reflect amounts remaining under the Company's \$15 million share repurchase program.

# Item 6. Selected Financial Data.

The following table sets forth selected historical financial data and should be read in conjunction with the Consolidated Financial Statements and related Notes to the Consolidated Financial Statements.

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

|                                                         |            | Years Ended December 31,        |                              |                              | 2009       |
|---------------------------------------------------------|------------|---------------------------------|------------------------------|------------------------------|------------|
|                                                         |            | 2012<br>(As Restated)<br>(1)(2) | 2011<br>(As Restated)<br>(1) | 2010<br>(As Restated)<br>(1) |            |
|                                                         | 2013       |                                 |                              |                              |            |
| <b>Income Statement Data:</b>                           |            |                                 |                              |                              |            |
| Net sales                                               | \$ 783,273 | \$ 699,987                      | \$ 488,352                   | \$ 398,163                   | \$ 385,439 |
| Operating income (loss)                                 | 62,015     | 47,417                          | 23,382                       | 14,423                       | (85,843)   |
| Income (loss) before income taxes                       | 22,796     | 29,138                          | 7,793                        | 12,182                       | (94,621)   |
| Net income (loss) from continuing operations            | 15,657     | 13,453                          | (2,308)                      | (18,122)                     | (66,419)   |
| Basic earnings (loss) per share continuing operations   | \$ 0.51    | \$ 0.44                         | \$ (0.08)                    | \$ (0.61)                    | \$ (2.63)  |
| Diluted earnings (loss) per share continuing operations | \$ 0.51    | \$ 0.44                         | \$ (0.08)                    | \$ (0.61)                    | \$ (2.63)  |

|                            |            | December 31,          |                       |                       | 2009       |
|----------------------------|------------|-----------------------|-----------------------|-----------------------|------------|
|                            |            | 2012<br>(As Restated) | 2011<br>(As Restated) | 2010<br>(As Restated) |            |
|                            | 2013       |                       |                       |                       |            |
| <b>Balance Sheet Data:</b> |            |                       |                       |                       |            |
| Working capital            | \$ 791,143 | \$ 472,084            | \$ 586,965            | \$ 638,519            | \$ 389,495 |
| Total assets               | 1,505,545  | 1,220,092             | 1,100,996             | 1,089,606             | 854,332    |
| Long-term debt             | 430,300    | 198,337               | 186,981               | 178,107               | 81         |
| Total shareholders equity  | 773,974    | 708,239               | 694,640               | 696,529               | 678,914    |

- (1) Restated to establish a valuation allowance against the Company's Canadian net deferred tax asset as of December 31, 2010 and for all subsequent periods.
- (2) In 2012, the Company acquired Remmele.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (as restated).**

**Forward-Looking Statements**

The following discussion should be read in connection with the information contained in the Consolidated Financial Statements and the 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, believes, intends, estimates, projects, other words of similar meaning, or other statements contained that are not historical facts. Forward-looking statements are based on expectations and assumptions regarding future events. In addition to factors discussed throughout this Annual Report, the following factors and risks should also be considered, including, without limitation:

global economic and political uncertainties,

a significant portion of our revenue is concentrated within the commercial aerospace and defense industries and the limited number of potential customers within those industries,

changes in defense spending and cancellation or changes in defense programs or initiatives, including the JSF program,

long-term supply agreements and the impact if another party to a long-term supply agreement fails to fulfill its requirements under existing contracts or successfully manage its future development and production schedule,

our ability to successfully integrate newly acquired businesses,

if our internal controls are not effective, investors could lose confidence in our financial reporting,

our ability to recover the carrying value of goodwill and other intangible assets,

our dependence on products and services that are subject to price and availability fluctuations,

our ability to protect our data and systems against corruption and cyber-security threats and attacks,

fluctuations in our income tax obligations and effective income tax rate,

our ability to execute on new business awards,

demand for our products,

competition in the titanium industry,

the future availability and prices of raw materials,

the historic cyclicalities of the titanium and commercial aerospace industries,

energy shortages or cost increases,

labor matters,

risks related to international operations,

our ability to attract and retain key personnel,

the ability to obtain access to financial markets and to maintain current covenant requirements,

potential costs for violations of applicable environmental, health, and safety laws,

the fluctuation of the price of our Common Stock, and

our ability to generate sufficient cash flow to satisfy our debt obligations.

Because such forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking

statements. These and other risk factors are set forth in this filing, as well as in other filings filed with or furnished to the SEC, copies of which are available from the SEC or may be obtained upon request from the Company. Except as may be required by applicable law, we undertake no duty to update our forward-looking information.

#### **Restatement and Revision of Previously Reported Audited Annual and Unaudited Interim Consolidated Financial Information**

The accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations gives effect to certain restatement adjustments made to the previously reported audited Consolidated Financial Statements for the years ended December 31, 2012 and 2011 and the unaudited interim periods in 2013 and 2012, as well as revision adjustments made to the previously reported unaudited Condensed Consolidated Financial Statements for the quarterly and year-to-date periods ended March 31, 2013 and June 30, 2013. Refer to the Explanatory Note preceding Part 1, Item 1 of this Annual Report and Notes 2 and 18 in the Notes to the Consolidated Financial Statements included in this Annual Report for additional details regarding the aforementioned restatement and revision adjustments.

#### **Overview**

We are a leading producer and global supplier of titanium mill products, and a supplier of fabricated titanium and specialty metal components, for the international aerospace, defense, energy, medical device and other markets.

Effective January 1, 2013, we conduct business in two segments: the Titanium Segment and the EP&S Segment. This structure reflects our transformation into an integrated supplier of advanced titanium products across the entire supply chain, and better aligns our resources to support our long-term growth strategy.

The Titanium Segment melts, forges, processes, produces, stocks, distributes, finishes, cuts-to-size and facilitates just-in-time delivery services of a complete range of titanium mill products which are further processed by its customers for use in a variety of commercial aerospace, defense, and industrial and consumer applications. With operations in Niles and Canton, Ohio; Martinsville, Virginia; Norwalk, California; Windsor, Connecticut; Tamworth, England; and Rosny-Sur-Seine, France, the Titanium Segment produces and distributes primary mill products including, but not limited to, bloom, billet, sheet, and plate. In addition, the Titanium Segment produces ferro titanium alloys for its steelmaking customers. The Titanium Segment also focuses on the research and development of evolving technologies relating to raw materials, melting, and other production processes, as well as the application of titanium in new markets.

The EP&S Segment is comprised of companies with significant hard and soft-metal expertise that form, extrude, fabricate, additively manufacture, machine, micro-machine, and assemble titanium, aluminum, and other specialty metal parts and components. Its products, many of which are complex engineered parts and assemblies, serve the commercial aerospace, defense, medical device, oil and gas, power generation, and chemical process industries, as well as a number of other industrial and consumer markets. With operations located in Minneapolis, Minnesota; Houston and Austin, Texas; Sullivan and Washington, Missouri; Laval, Canada; and Welwyn Garden City and Bradford, England, the EP&S Segment provides value-added products and services such as engineered tubulars and extrusions, fabricated and machined components and subassemblies, and components for the production of minimally invasive and implantable medical devices, as well as engineered systems for deepwater oil and gas exploration and production infrastructure.

The EP&S Segment accesses the Titanium Segment as its primary source of titanium mill products. For the years ended December 31, 2013, 2012, and 2011, approximately 21%, 19%, and 18%, respectively, of the Titanium Segment's sales were to the EP&S Segment.

## Trends and Uncertainties

The commercial aerospace industry, which represents our largest market, continues to strengthen as the ramp in production activity stays on track to support the largest commercial jet backlog in history. We see opportunities within this space to win additional sales through the spectrum of products and services that we offer within our EP&S Segment. We also continue to increase the use of titanium produced at our mill in these commercial aerospace applications, which we anticipate will drive margin benefits at an enterprise level.

We expect short-term difficulties in our energy and medical device markets; however we continue to see long-term profitable growth within these markets. Our energy market business has benefitted in the past from developmental-type projects for major oil and gas equipment OEMs, and while we anticipate more of this business, it is dependent on the ability to find titanium applications that are cost-effective for our customers. Within our medical device business, short-term pricing pressures related to the Patient Protection and Affordable Care Act (the Healthcare Acts) are expected to be overcome by long-term growth resulting from aging populations and continued advances in medical technology.

U.S. defense spending continues to be a source of uncertainty, but we continue to see support for key programs such as the JSF and other aircraft, as well as a radar modernization program, which we believe provides stability for our defense market sales.

## Executive Summary

In 2013, we generated record sales of \$783.3 million, with our EP&S Segment contributing more than half of those sales. We generated operating income of \$62.0 million, a 31% improvement over 2012. This performance continues to demonstrate our emergence as an integrated supplier of advanced titanium products.

During the year, we completed the acquisition of RTI Extrusions Europe, which together with our extrusion facility in Houston, TX, gives us extrusion capacity in both the U.S. and Europe, which we believe gives us greater ability to win extrusion packages around the globe. Also within the EP&S Segment, in December 2013, we achieved a ten ship set per month rate in deliveries of Boeing 787 Pi Box product, which helped increase the EP&S Segment's profitability.

Within our Titanium Segment, we signed a long-term agreement to supply rotor-grade quality titanium to Pratt & Whitney as our electron-beam furnace launch customer, which marks our re-entry into the engine market.

## Results of Operations

### For the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

*Net Sales.* Net sales for our reportable segments, excluding intersegment sales, for the years ended December 31, 2013 and 2012 are summarized in the following table:

| <i>(Dollars in millions)</i>        | <b>Years Ended December 31,</b> |                 | <b>\$ Increase/<br/>(Decrease)</b> | <b>% Increase/<br/>(Decrease)</b> |
|-------------------------------------|---------------------------------|-----------------|------------------------------------|-----------------------------------|
|                                     | <b>2013</b>                     | <b>2012</b>     |                                    |                                   |
| Titanium Segment                    | \$ 346.6                        | \$ 352.9        | \$ (6.3)                           | (1.8)%                            |
| EP&S Segment                        | 436.7                           | 347.1           | 89.6                               | 25.8%                             |
| <b>Total consolidated net sales</b> | <b>\$ 783.3</b>                 | <b>\$ 700.0</b> | <b>\$ 83.3</b>                     | <b>11.9%</b>                      |

The decrease in the Titanium Segment's net sales was the result of lower defense market sales of \$5.3 million, as well as decreased sales to specialty metal markets of \$0.4 million. These decreases were partially offset by higher conversion and aerospace sales of \$1.7 million and \$0.8 million, respectively. Shipments of prime mill product to trade customers decreased to 7.5 million pounds for the year ended December 31, 2013.

from 7.9 million pounds for the year ended December 31, 2012, which resulted in a sales decrease of \$7.4 million. This decrease was offset by a 5.6% increase in average realized selling prices to \$18.41 per pound from \$17.43 per pound.

The increase in the EP&S Segment's sales was primarily attributable to the ramp up of activity related to the Boeing 787, which increased sales by \$45.3 million, while sales to our other commercial aerospace customers increased \$1.0 million. Our acquisition of RTI Extrusions Europe contributed \$4.9 million to the increase, while the full year contribution of Remmele Engineering, Inc. (Remmele), acquired in February 2012, increased sales \$17.0 million. Sales into the energy sector increased \$20.5 million due to strong demand early in the year.

**Gross Profit.** Gross profit for our reportable segments for the years ended December 31, 2013 and 2012 is summarized in the following table:

|                                 | Years Ended<br>December 31, |               | 2012     |               | \$ Increase | % Increase |
|---------------------------------|-----------------------------|---------------|----------|---------------|-------------|------------|
|                                 | 2013                        | % of<br>Sales | \$       | % of<br>Sales |             |            |
| (Dollars in millions)           | \$                          |               | \$       |               |             |            |
| Titanium Segment                | \$ 98.0                     | 28.3%         | \$ 78.2  | 22.2%         | \$ 19.8     | 25.3%      |
| EP&S Segment                    | 75.9                        | 17.4%         | 60.3     | 17.4%         | 15.6        | 25.9%      |
| Total consolidated gross profit | \$ 173.9                    | 22.2%         | \$ 138.5 | 19.8%         | \$ 35.4     | 25.6%      |

The increase in the Titanium Segment's gross profit was primarily attributable to a 5% decrease in mill product costs per pound to \$13.29 per pound from \$13.99 per pound in 2012, primarily driven by lower scrap prices, which increased gross profit \$11.0 million, and a \$10.3 million increase in duty drawback recoveries. A favorable margin product mix at our titanium service centers and contributions from higher conversion sales increased gross profit by \$0.7 million and \$0.6 million, respectively. These items were partially offset by softening demand and pricing in the specialty metals market which impacted gross profit \$2.5 million, and a \$1.6 million charge related to the voluntary early retirement program enacted during the year. Gross profit for the year ended December 31, 2012 was negatively impacted \$0.8 million due to a transformer fire at our Canton melting facility.

The increase in the EP&S Segment's gross profit was primarily due to higher Boeing 787 volumes, which increased gross profit \$12.2 million, and higher duty drawback recoveries of \$6.8 million. These increases were partially offset by a \$7.7 million decrease in other aerospace and defense programs. Incremental gross profit resulting from higher energy market sales was \$2.2 million, while the October 1, 2013 acquisition of RTI Extrusions Europe and the February 2012 acquisition of Remmele contributed \$0.6 million and \$1.0 million, respectively.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses (SG&A) for our reportable segments for the years ended December 31, 2013 and 2012 are summarized in the following table:

|                         | Years Ended<br>December 31, |               | 2012    |               | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
|-------------------------|-----------------------------|---------------|---------|---------------|----------------------------|---------------------------|
|                         | 2013                        | % of<br>Sales | \$      | % of<br>Sales |                            |                           |
| (Dollars in millions)   | \$                          |               | \$      |               |                            |                           |
| Titanium Segment        | \$ 35.4                     | 10.2%         | \$ 36.7 | 10.4%         | \$ (1.3)                   | (3.5)%                    |
| EP&S Segment            | 57.5                        | 13.2%         | 49.9    | 14.4%         | 7.6                        | 15.2%                     |
| Total consolidated SG&A | \$ 92.9                     | 11.9%         | \$ 86.6 | 12.4%         | \$ 6.3                     | 7.3%                      |



The \$6.3 million increase in SG&A expenses was primarily related to increases in professional fees related to the sale of RTI Pierce Spafford and increased fees related to our efforts to remediate material weaknesses in internal control, as well as salary increases across the organization. The acquisition of RTI Extrusions Europe added \$0.5 million of SG&A expenses.

*Research, Technical, and Product Development Expenses.* Research, technical, and product development expenses for the Company were \$3.9 million and \$4.2 million for the years ended December 31, 2013 and 2012, respectively. This spending, primarily related to our Titanium Segment, reflected the Company's continued efforts to make productivity and quality improvements to current manufacturing processes, as well as new product development.

*Goodwill and Other Intangible Asset Impairment.* The Company's Medical Device Fabrication reporting unit, a component of the EP&S Segment, recognized a goodwill impairment of \$14.0 million during the year-ended December 31, 2013. This impairment was driven by operational issues as well as uncertainty in the medical device market as a result of the Healthcare Acts, including a 2.3% excise tax on medical devices, and increased regulations on medical device manufacturers from the U.S. Food and Drug Administration (the FDA). Related to this impairment, we recognized a \$1.4 million impairment of our Remmele trade name during the year-ended December 31, 2013. There were no impairments of goodwill or other intangible assets in 2012.

*Asset and Asset-related Charges (Income).* Asset and asset-related charges (income) for the year-ended December 31, 2013 and 2012 were \$(0.4) million and \$0.4 million, respectively. Income during the year was attributable to insurance recoveries from the fire at our Canton melting facility in 2012, while prior year charges were attributable to asset impairments resulting from the same fire.

*Operating Income.* Operating income for our reportable segments for the years ended December 31, 2013 and 2012 is summarized in the following table:

|                                     | Years Ended<br>December 31, |               |         |               |                            |                           |
|-------------------------------------|-----------------------------|---------------|---------|---------------|----------------------------|---------------------------|
|                                     | 2013                        | % of<br>Sales | 2012    | % of<br>Sales | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
| (Dollars in millions)               | \$                          |               | \$      |               |                            |                           |
| Titanium Segment                    | \$ 59.0                     | 17.0%         | \$ 39.0 | 11.1%         | \$ 20.0                    | 51.3%                     |
| EP&S Segment                        | \$ 3.0                      | 0.7%          | 8.4     | 2.4%          | (5.4)                      | (64.3)%                   |
| Total consolidated operating income | \$ 62.0                     | 7.9%          | \$ 47.4 | 6.8%          | \$ 14.6                    | 30.8%                     |

The Titanium Segment's operating income increased primarily as a result of the decrease in average cost per pound which increased gross profit \$11.0 million, increased duty drawback recoveries of \$10.3 million, and decreased SG&A of \$1.2 million, partially offset by decreases of \$2.5 million related to lower pricing and lower sales of specialty metals during the year.

Excluding the impact of the \$15.4 million impairment of goodwill and other intangible assets discussed above, the EP&S Segment's operating income increased \$10.0 million in 2013 as compared to 2012. This increase was driven by the ramp up of the Boeing 787 Pi Box program, which increased operating income by \$12.2 million, higher energy market sales, which increased operating income by \$2.2 million, and higher duty drawback receipts totaling \$6.8 million. Offsetting these increases were lower sales on non-787 commercial aerospace and defense sales, and increased SG&A expense of \$7.6 million.

*Other Income (Expense).* Other income (expense) for the year ended December 31, 2013 and 2012 was \$0.9 million and \$(0.5) million, respectively. Other income (expense) consisted primarily of foreign exchange gains and losses from our international operations.

*Interest Income and Interest Expense.* Interest income for the years ended December 31, 2013 and 2012 was \$0.2 million and \$0.1 million, respectively. The increase was principally related to higher average cash and investment balances, compared to the prior year.

Interest expense was \$40.4 million and \$17.9 million for the years ended December 31, 2013 and 2012, respectively. The increase in interest expense was primarily due to the issuance of our \$402.5 million aggregate principal amount of 1.625% Convertible Senior Notes due October 2019 (the 2019 Notes), and a debt extinguishment charge of \$13.7 million related to the repurchase, through individually negotiated, private transactions, of \$115.6 million principal amount of our 3.000% Convertible Senior Notes due December 2015 (the 2015 Notes) in April 2013. Included in interest expense for the years ended December 31, 2013 and 2012, is \$15.0 million and \$9.7 million of debt discount amortization and \$1.5 million and \$1.1 million of debt issuance cost amortization, respectively, associated with the convertible notes outstanding during each period.

*Provision for (Benefit from) Income Tax (as restated).* We recognized income tax expense of \$7.1 million, or 31.3% of pretax income from continuing operations, in 2013 compared to \$15.7 million, or 53.8% of pretax income, in 2012 for federal, state, and foreign income taxes. Our effective income tax rate decreased 22.5 percentage points from 2012, principally due to a reduction of certain deferred tax liabilities due to changes in state laws, the effects of foreign operations, partially offset by the impairment to goodwill and other intangible assets.

The reconciliation of our 2012 effective income tax rate to our 2013 effective income tax rate is as follows:

|                                                |         |
|------------------------------------------------|---------|
| 2012 effective income tax rate                 | 53.8%   |
| Changes in effective income tax rate:          |         |
| Effects of foreign operations                  | (19.1)% |
| State taxes                                    | (17.2)% |
| Goodwill and other intangible asset impairment | 17.3%   |
| Adjustments to prior years' income taxes       | (4.3)%  |
| Other                                          | 0.8%    |
|                                                | (22.5)% |
| 2013 effective income tax rate                 | 31.3%   |

Refer to Note 7 to our accompanying Consolidated Financial Statements for a reconciliation between our effective tax rate and the statutory tax rate.

In February 2014, we determined that we should have recorded a valuation allowance against our Canadian deferred tax asset as of December 31, 2010. As a result of this determination, we have restated our provision for (benefit from) income taxes for each of the three month periods ended March 31, June 30, and September 30 of 2013 and 2012. In addition to the restatement, the provision for income taxes has been revised for the three month periods ended March 31 and June 30, 2013 for errors related to the calculation of revenue recognition on certain long-term contracts, as disclosed in our Quarterly Report for the period ended September 30, 2013 as filed with the SEC on November 12, 2013. A reconciliation of our provision for (benefit from) income taxes for each of those periods is presented below:

| (in 000 \$)        | Provision for (Benefit from) Income Taxes |                     |            |                                |              |                         |                    |
|--------------------|-------------------------------------------|---------------------|------------|--------------------------------|--------------|-------------------------|--------------------|
|                    | As Reported                               | Revision Adjustment | As Revised | Valuation Allowance Adjustment | As Corrected | Discontinued Operations | Currently Reported |
| Three Months Ended |                                           |                     |            |                                |              |                         |                    |
| September 30, 2013 | \$ 1,670                                  | \$                  | \$ 1,670   | \$ (3)                         | \$ 1,667     | \$ 34                   | \$ 1,701           |
| June 30, 2013      | \$ (878)                                  | \$ (89)             | \$ (967)   | \$ 371                         | \$ (596)     | \$ 75                   | \$ (521)           |
| March 31, 2013     | \$ 2,982                                  | \$ (178)            | \$ 2,804   | \$ 1,625                       | \$ 4,429     | \$ 44                   | \$ 4,473           |
| September 30, 2012 | \$ 1,423                                  | \$                  | \$ 1,423   | \$ 813                         | \$ 2,236     | \$                      | \$ 2,326           |
| June 30, 2012      | \$ 2,538                                  | \$                  | \$ 2,538   | \$ 1,521                       | \$ 4,059     | \$ (38)                 | \$ 4,021           |
| March 31, 2012     | \$ 2,087                                  | \$                  | \$ 2,087   | \$ 2,061                       | \$ 4,148     | \$ (78)                 | \$ 4,070           |

**For the Year Ended December 31, 2012 Compared to the Year Ended December 31, 2011**

**Net Sales.** Net sales for our reportable segments, excluding intersegment sales, for the years ended December 31, 2012 and 2011 are summarized in the following table:

| (Dollars in millions)               | Years Ended<br>December 31, |                 | \$ Increase     | % Increase   |
|-------------------------------------|-----------------------------|-----------------|-----------------|--------------|
|                                     | 2012                        | 2011            |                 |              |
| Titanium Segment                    | \$ 352.9                    | \$ 324.9        | \$ 28.0         | 8.6%         |
| EP&S Segment                        | 347.1                       | 163.5           | 183.6           | 112.3%       |
| <b>Total consolidated net sales</b> | <b>\$ 700.0</b>             | <b>\$ 488.4</b> | <b>\$ 211.6</b> | <b>43.3%</b> |

The increase in the Titanium Segment's net sales was primarily the result of higher sales volumes at our titanium service centers, driven by increased demand for our titanium products in the commercial aerospace and defense markets. These volume improvements resulted in higher net sales of \$19.9 million, while higher average selling prices caused by a favorable product mix during 2012 also impacted sales at our titanium service centers \$5.3 million. Prime mill product shipments increased 2.6% to 7.9 million pounds for the year ended December 31, 2012 from 7.7 million pounds for the year ended December 31, 2011. The increased volume was primarily driven by higher aircraft build rates by both Boeing and Airbus. These increases were partially offset by a \$0.10 per pound decrease in average realized selling prices of prime mill products to \$17.43 per pound, lower ferro-alloy demand from our specialty steel customers, and a reduction in demand for the outside processing of titanium forgings.

The increase in the EP&S Segment's net sales was primarily attributable to our two acquisitions, Remmele in February 2012 and RTI Advanced Forming, Ltd in November 2011, which increased net sales \$144.1 million. Additionally, strong demand from our energy market and commercial aerospace customers, due to increasing oil and gas exploration and aircraft build rates, resulted in a \$45.2 million and \$9.7 million increase in net sales, respectively. These increases were partially offset by a decline in our military shipments for the F-15, F-22, and various helicopter programs.

**Gross Profit.** Gross profit for our reportable segments for the years ended December 31, 2012 and 2011 is summarized in the following table:

|                                 | Years Ended<br>December 31, |               |         |               |                            |                           |
|---------------------------------|-----------------------------|---------------|---------|---------------|----------------------------|---------------------------|
|                                 | 2012                        |               | 2011    |               |                            |                           |
| (Dollars in millions)           | \$                          | % of<br>Sales | \$      | % of<br>Sales | \$ Increase/<br>(Decrease) | % Increase/<br>(Decrease) |
| Titanium Segment                | \$ 78.2                     | 22.2%         | \$ 72.9 | 22.4%         | \$ 5.3                     | 7.3%                      |
| EP&S Segment                    | 60.3                        | 17.4%         | 18.0    | 11.0%         | 42.3                       | 235.0%                    |
| Total consolidated gross profit | \$ 138.5                    | 19.8%         | \$ 90.9 | 18.6%         | \$ 47.6                    | 52.4%                     |

Excluding the \$3.0 million benefit from a duty drawback accrual reversal in 2012 and the \$1.1 million benefit from the settlement of the Tronox supply contract dispute in 2011, the Titanium Segment's gross profit increased \$3.4 million. The increase in the Titanium Segment's gross profit was principally due to higher margin sales mix and higher volumes at our titanium service centers, driven primarily by higher commercial aerospace demand. The Titanium Segment's gross profit was further benefited by higher sales volumes and flat average costs per pound at \$13.99. These improvements were partially offset by lower average realized selling prices and the impact of the electrical transformer fire at our Canton, Ohio facility, which collectively reduced gross profit by \$2.1 million.

The increase in the EP&S Segment's gross profit was primarily attributable to our two acquisitions, which benefited gross profit \$25.0 million. Additionally, the incremental margins on increased sales volumes for the energy market and commercial aerospace customers, due to increasing oil and gas exploration and aircraft build rates, resulted in a \$17.3 million increase in gross profit.

**Selling, General, and Administrative Expenses.** SG&A for our reportable segments for the years ended December 31, 2012 and 2011 are summarized in the following table:

|                         | Years Ended<br>December 31, |               | 2011    |               | \$ Increase | % Increase |
|-------------------------|-----------------------------|---------------|---------|---------------|-------------|------------|
|                         | 2012                        | % of<br>Sales | 2011    | % of<br>Sales |             |            |
| (Dollars in millions)   | \$                          |               | \$      |               |             |            |
| Titanium Segment        | \$ 36.7                     | 10.4%         | \$ 35.5 | 10.9%         | \$ 1.2      | 3.4%       |
| EP&S Segment            | 49.9                        | 14.4%         | 30.2    | 18.5%         | 19.7        | 65.2%      |
| Total consolidated SG&A | \$ 86.6                     | 12.4%         | \$ 65.7 | 13.5%         | \$ 20.9     | 31.8%      |

The \$20.9 million increase in SG&A expenses was primarily related to our two recent acquisitions, which increased SG&A expenses \$19.1 million. Additionally, SG&A expenses were impacted by moderate increases in salary, benefit and incentive-related expense and higher professional fees. However, SG&A expenses decreased as a percentage of sales due to the leverage gained through the increase in net sales.

**Research, Technical, and Product Development Expenses.** Research, technical, and product development expenses for the Company were \$4.2 million and \$3.4 million for the years ended December 31, 2012 and 2011, respectively. This spending, primarily related to our Titanium Segment, reflected the Company's continued efforts to make productivity and quality improvements to current manufacturing processes, as well as new product development.

**Asset and Asset-related Charges (Income).** Asset and asset-related charges (income) for the years ended December 31, 2012 and 2011 were \$0.4 million and \$(1.5) million, respectively. In 2012, these charges related to the impairment of assets destroyed in an electrical transformer fire at our Canton, Ohio facility in September, net of related insurance recoveries. In 2011, asset and asset-related income consisted of favorable settlements related to the accrued contractual commitments associated with our indefinitely delayed titanium sponge plant, offset in part by the write-down of sponge plant-related assets related to these settlements as our contractors were able to return certain assets to their vendors for refunds.

**Operating Income (Loss).** Operating income (loss) for our reportable segments for the years ended December 31, 2012 and 2011 is summarized in the following table:

|                                            | December 31, |               | 2011    |               | \$ Increase | % Increase |
|--------------------------------------------|--------------|---------------|---------|---------------|-------------|------------|
|                                            | 2012         | % of<br>Sales | 2011    | % of<br>Sales |             |            |
| (Dollars in millions)                      | \$           |               | \$      |               |             |            |
| Titanium Segment                           | \$ 39.0      | 11.1%         | \$ 36.1 | 11.1%         | \$ 2.9      | 8.0%       |
| EP&S Segment                               | 8.4          | 2.4%          | (12.7)  | (7.8)%        | 21.1        | 166.1%     |
| Total consolidated operating income (loss) | \$ 47.4      | 6.8%          | \$ 23.4 | 4.8%          | \$ 24.0     | 102.6%     |

Excluding the \$3.0 million benefit from the duty drawback accrual reversal in 2012 and \$1.1 million benefit from the settlement of the Tronox supply contract dispute in 2011, the Titanium Segment's operating income increased \$1.0 million. The increase was the result of higher gross profit, due to a higher margin sales mix as well as higher volumes at our titanium service centers, driven primarily by strengthening commercial aerospace demand. Largely offsetting these increases were lower average realized selling prices and the impact of the electrical transformer fire at our Canton, Ohio facility, and the 2011 benefit from asset and asset-related charges (income). Increased SG&A unfavorably impacted the Titanium Segment \$1.2 million.

The EP&S Segment's operating income increased compared to 2011 due to the favorable impact of the acquisitions of Remmele in February 2012 and RTI Advanced Forming, Ltd in November 2011. The EP&S Segment's operating income also benefited from higher sales to the energy and commercial aerospace markets.



**Other Income (Expense).** Other income (expense) for the year ended December 31, 2012 was \$(0.5) million and was \$0.1 million for the year ended December 31, 2011. Other income (expense) consisted primarily of foreign exchange gains and losses from our international operations.

**Interest Income and Interest Expense.** Interest income for the years ended December 31, 2012 and 2011 was \$0.1 million and \$1.2 million, respectively. The decrease was principally related to lower average cash and investment balances, compared to the prior year.

Interest expense was \$17.9 million and \$16.8 million for the years ended December 31, 2012 and 2011, respectively. The increase in interest expense was partially attributable to capitalized leases, which accounted for \$0.2 million of interest expense in 2012, and increased principal accretion on our 2015 Notes. Included in interest expense for the years ended December 31, 2012 and 2011, are \$9.7 million and \$8.9 million, respectively, of debt discount amortization and \$1.1 million of debt issuance cost amortization, for each period, associated with the 2015 Notes.

**Provision for (Benefit from) Income Tax (as restated).** We recognized income tax expense of \$15.7 million, or 53.8% of pretax income from continuing operations, in 2012 compared to \$10.1 million, or 129.6% of pretax income, in 2011 for federal, state, and foreign income taxes. Our effective income tax rate decreased 75.8 percentage points from 2011, principally due to the increase in the valuation allowance against the 2011 net operating loss at our Canadian subsidiary, adjustments to prior year income taxes, and the higher level of pretax income in 2012.

The reconciliation of our 2011 effective income tax rate to our 2012 effective income tax rate is as follows:

|                                                       |         |         |
|-------------------------------------------------------|---------|---------|
| 2011 effective income tax rate                        |         | 129.6%  |
| Changes in effective income tax rate:                 |         |         |
| Effects of foreign operations                         | (50.7)% |         |
| State taxes                                           | 4.4%    |         |
| Adjustments to prior years' income taxes              | (16.6)% |         |
| Non-deductible acquisition costs/officer compensation | (9.8)%  |         |
| Other                                                 | (3.1)%  | (75.8)% |
| 2012 effective income tax rate                        |         | 53.8%   |

Refer to Note 7 to our accompanying Consolidated Financial Statements for a reconciliation between our effective tax rate and the statutory tax rate.

## Liquidity and Capital Resources

On October 1, 2013, the Company purchased all of the outstanding common stock of RTI Extrusions Europe for total consideration of approximately \$20.4 million, including \$16.2 million in cash and the assumption of approximately \$4.2 million in liabilities. The purchase was financed through cash on hand.

We issued our 2019 Notes in April 2013. Interest on the 2019 Notes is payable semiannually in arrears on April 15 and October 15 of each year, beginning October 15, 2013, at a rate of 1.625% per annum. The 2019 Notes are the Company's senior unsecured obligations. Commensurate with the receipt of the proceeds from the 2019 Notes, we repurchased, through individually negotiated private transactions, approximately \$115.6 million aggregate principal amount of our 2015 Notes for \$133.4 million, including \$1.3 million of accrued interest. Following the completion of these repurchases, approximately \$114.4 million aggregate principal of our 2015 Notes remains outstanding.

Our Second Amended and Restated Credit Agreement (the "Credit Agreement") provides a revolving credit facility of \$150 million and expires on May 23, 2017. Borrowings under the Credit Agreement bear interest, at

our option, at a rate equal to the London Interbank Offered Rate (the LIBOR Rate ) plus an applicable margin or the base rate plus an applicable margin. Both the applicable margin and a facility fee vary based upon our consolidated net debt to consolidated EBITDA ratio, as defined in the Credit Agreement. We had no borrowings outstanding under the Credit Agreement during the years ended December 31, 2013 or 2012.

Provided we continue to meet our financial covenants under the Credit Agreement, we expect that our cash and cash equivalents of \$343.6 million and our undrawn credit facility, combined with internally generated funds, will provide us sufficient liquidity to meet our current projected operating needs for the next twelve months.

The financial covenants and ratios under our Credit Agreement are described below:

Our leverage ratio (the ratio of Net Debt to Consolidated EBITDA, as defined in the Credit Agreement) was 1.35 to 1 at December 31, 2013. If this ratio were to exceed 3.50 to 1, we would be in default under our Credit Agreement and our ability to borrow under our Credit Agreement would be impaired.

Our interest coverage ratio (the ratio of Consolidated EBITDA to Net Interest, as defined in the Credit Agreement) was 13.69 to 1 at December 31, 2013. If this ratio were to fall below 2.0 to 1, we would be in default under our Credit Agreement and our ability to borrow under the Credit Agreement would be impaired.

Consolidated EBITDA, as defined in the Credit Agreement, allows for adjustments related to unusual gains and losses, certain noncash items, and certain non-recurring charges. As of December 31, 2013, we were in compliance with our financial covenants under the Credit Agreement.

*Cash provided by operating activities.* Cash provided by operating activities for the years ended December 31, 2013 and 2012 was \$12.2 million and \$8.1 million (restated), respectively. The increase in cash provided by operating activities is primarily due to improved operational performance in 2013 excluding the non-cash goodwill and other intangible asset impairments totaling \$15.4 million, offset by activity in working capital accounts, primarily inventory and accounts payable.

Cash provided by operating activities for the years ended December 31, 2012 and 2011 was \$8.1 million (restated) and \$14.8 million (restated), respectively. This decrease was primarily due to the increase in our working capital, principally in raw material and work-in-process inventories.

*Cash used in investing activities.* Cash used in investing activities for the years ended December 31, 2013 and 2012 was \$37.7 million and \$67.6 million, respectively. Cash used in investing activities was primary for capital expenditures, totaling \$32.4 million during the year, and the purchase of RTI Extrusions Europe for approximately \$16.2 million in cash, partially offset by \$10.5 million of cash received from the sale of RTI Pierce Spafford. The decrease in investing outflows was mainly due to a decrease of \$29.2 in capital expenditures in 2013.

Cash used in investing activities for the years ended December 31, 2012 and 2011 was \$67.6 million and \$235.0 million, respectively. The change in investing outflows was due primarily to net investment activity in short-term investments and marketable securities in each of the years. This activity was primarily offset by our Remmele acquisition of \$182.6 million and capital expenditures of \$61.5 million during 2012.

*Cash provided by (used in) financing activities.* Cash provided by (used in) financing activities for the years ended December 31, 2013 and 2012 was \$272.1 million and \$(1.4) million, respectively. The increase in cash provided by financing activities was due primarily to the issuance of the \$402.5 million 2019 Notes, offset by \$12.4 million in costs related with the issuance of the 2019 Notes and the repurchase of \$115.6 million aggregate par value of 2015 Notes, for approximately \$119.9 million through individually negotiated private transactions. Debt-related outflows in 2012 consisted of a \$0.8 million payment of debt issuance costs related to

the refinancing of the Credit Agreement. Cash inflows related to employee stock activity increased \$2.2 million from 2012 to 2013.

Cash provided by (used in) financing activities for the years ended December 31, 2012 and 2011 was \$(1.4) million and \$0.4 million, respectively. The financing outflow during 2012 was primarily driven by financing fees of \$0.8 million related to the Credit Agreement and payments of \$0.7 million related to capital leases at our Remmele facilities, of which there were none in 2011.

*Cash balances at foreign subsidiaries.* At December 31, 2013, of our cash and cash equivalents of \$343.6 million, approximately \$32.1 million was held at our foreign subsidiaries. Management believes that these balances represent the funds necessary for each subsidiary's ongoing operations and at this time, has no intention, nor a foreseeable need, to repatriate these cash balances. Repatriation of these cash balances could result in additional U.S. Federal tax obligations.

*Backlog.* Our order backlog for all markets was approximately \$516 million as of December 31, 2013, compared to \$543 million at December 31, 2012. Of the backlog at December 31, 2013, approximately \$483 million is likely to be realized during 2014. We define backlog as firm business scheduled for release into our production process for a specific delivery date. We have numerous contracts that extend over multiple years, including the Airbus, JSF and Boeing 787 long-term supply agreements, which are not included in backlog until a specific release into production or a firm delivery date has been established.

### Contractual Obligations, Commitments and Other Post-Retirement Benefits

Following is a summary of the Company's contractual obligations, commercial commitments, and other post-retirement benefit obligations as of December 31, 2013 (in millions):

|                               | Contractual Obligations |          |         |         |         |            | Total    |
|-------------------------------|-------------------------|----------|---------|---------|---------|------------|----------|
|                               | 2014                    | 2015     | 2016    | 2017    | 2018    | Thereafter |          |
| Notes (1)                     | \$ 10.0                 | \$ 124.1 | \$ 6.5  | \$ 6.5  | \$ 6.5  | \$ 409.0   | \$ 562.6 |
| Operating leases (2)          | 5.7                     | 5.4      | 5.1     | 4.3     | 4.1     | 4.8        | 29.4     |
| Capital leases (2)            | 2.3                     | 1.9      | 1.5     | 1.3     | 1.0     | 3.2        | 11.2     |
| Total contractual obligations | \$ 18.0                 | \$ 131.4 | \$ 13.1 | \$ 12.1 | \$ 11.6 | \$ 417.0   | \$ 603.2 |

|                                       | Commercial Commitments                     |          |          |         |         |            |          |
|---------------------------------------|--------------------------------------------|----------|----------|---------|---------|------------|----------|
|                                       | Amount of Commitment Expiration per Period |          |          |         |         |            |          |
|                                       | 2014                                       | 2015     | 2016     | 2017    | 2018    | Thereafter | Total    |
| Long-term supply agreements (3)(4)(5) | \$ 103.7                                   | \$ 103.5 | \$ 105.2 | \$ 49.0 | \$ 49.7 | \$ 97.0    | \$ 508.1 |
| Purchase obligations (6)              | 56.6                                       | 0.2      |          |         |         |            | 56.8     |
| Standby letters of credit (7)         | 1.1                                        |          |          |         |         |            | 1.1      |
| Total commercial commitments          | \$ 161.4                                   | \$ 103.7 | \$ 105.2 | \$ 49.0 | \$ 49.7 | \$ 97.0    | \$ 566.0 |

|                                       | Pension and Post-Retirement Benefits |        |        |        |        |            | Total   |
|---------------------------------------|--------------------------------------|--------|--------|--------|--------|------------|---------|
|                                       | 2014                                 | 2015   | 2016   | 2017   | 2018   | Thereafter |         |
| Other post-retirement benefits (8)(9) | \$ 3.0                               | \$ 3.2 | \$ 3.1 | \$ 2.9 | \$ 3.0 | \$ 31.2    | \$ 46.4 |

|                              | Tax Obligations |      |      |      |      |            | Total  |
|------------------------------|-----------------|------|------|------|------|------------|--------|
|                              | 2014            | 2015 | 2016 | 2017 | 2018 | Thereafter |        |
| Uncertain tax positions (10) | \$              | \$   | \$   | \$   | \$   | \$ 7.2     | \$ 7.2 |

(1) Commitments for the Notes include principal and interest payable through the Notes' maturity. See Note 15 to the Consolidated Financial Statements included in this Annual Report.



- (2) See Note 10 to the Consolidated Financial Statements included in this Annual Report.
  - (3) Amounts represent commitments for which contractual terms exceed twelve months.
  - (4) In February 2007, the Company entered into a new contract for the long-term supply of titanium sponge, the primary raw material for our Titanium Segment, with a Japanese supplier. This agreement, which began in 2009, runs through 2016 and provides the Company with supply of up to 13.5 million pounds of titanium sponge annually. For the remaining term of this agreement the Company has agreed to minimum purchase requirements, ranging from 7.0 million to 9.0 million pounds. Future obligations were determined based on current prices as prices are negotiated annually. Purchases under the contract are denominated in U.S. Dollars.
  - (5) In December 2009, the Company entered into two new contracts with two Japanese suppliers for the long-term supply of titanium sponge for delivery between 2012 and 2021. The contracts provide the Company with the supply of up to 19.2 million pounds of titanium sponge annually. The price of the titanium sponge is fixed, subject to certain underlying input cost adjustments and potential price adjustments based on the Yen to U.S. Dollar exchange rate. Future obligations were determined based on the fixed price and minimum volumes.
  - (6) Amounts primarily represent purchase commitments under purchase orders.
  - (7) Amounts represent standby letters of credit primarily related to commercial performance and insurance guarantees.
  - (8) The Company does not fund its other post-retirement employee benefits obligation but instead pays amounts when billed. However, these estimates are based on current benefit plan coverage and are not contractual commitments inasmuch as the Company retains the right to modify, reduce, or terminate any such coverage in the future. Amounts shown in the years 2014 through 2018 are based on actuarial estimates of expected future cash payments, and exclude the impacts of benefits associated with the Medicare Part D Act of 2003.
  - (9) Commitments for pension plans are not presented due to the uncertain nature of the amounts and timing of future contributions
  - (10) These amounts are included in the Thereafter column as it cannot be reasonably estimated when these amounts may be settled.
- Other non-current liabilities on the Consolidated Balance Sheet is primarily composed of liabilities for workers' compensation, environmental remediation, asset retirement obligations, and long-term tax reserves. These amounts are not included within the preceding table due to the uncertain nature regarding the timing of the settlement of these obligations.

#### Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, results of operations, liquidity, capital expenditures, or capital resources.

#### New Accounting Standards

In July 2013, the Financial Accounting Standards Board (the FASB) issued Accounting Standards Update (ASU) 2013-11, Income Taxes Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This ASU prescribes the balance sheet presentation for unrecognized tax benefits in the presence of a net operating loss carryforward, tax loss or tax credit carryforward. The amendments in the ASU do not require any new recurring disclosures, and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

In March 2013, the FASB issued ASU 2013-05, Foreign Currency Matters - Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This ASU clarifies the applicable guidance for the release of the cumulative translation adjustment under current U.S. generally accepted accounting principles (GAAP). The amendments in this ASU are effective prospectively for annual and interim reporting periods.

beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-04, *Liabilities—Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the ASU is fixed at the reporting date. The amendments in this ASU are effective prospectively for annual and interim reporting periods beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income—Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. This ASU added disclosure requirements for amounts reclassified out of accumulated other comprehensive income for interim and annual reporting periods. The amendments in this ASU are effective prospectively for all reporting periods beginning after December 15, 2012. The Company adopted this guidance during the first quarter of 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet—Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU clarified the types of instruments to which ASU 2011-11 applied. This update is effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles—Goodwill and Other—Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU added an optional qualitative analysis to the yearly testing for indefinite-lived intangible asset impairment. Depending on the outcome of this analysis, the quantitative process could be eliminated for the year the analysis is performed. The amendments in this ASU were effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued ASU No. 2011-11 *Balance Sheet—Disclosures about Offsetting Assets and Liabilities*. This new guidance requires the disclosure of both net and gross information in the notes for relevant assets and liabilities that are offset. This update is effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

### **Critical Accounting Policies**

Our Consolidated Financial Statements are prepared in accordance with GAAP. These principles require management to make estimates and assumptions that have a material impact on the amounts recorded for assets and liabilities and resulting revenue and expenses. Management estimates are based on historical evidence and other available information, which in management's opinion provide the most reasonable and likely result under the current facts and circumstances. Under different facts and circumstances expected results may differ materially from the facts and circumstances applied by management.

Of the accounting policies described in Note 4 of the Consolidated Financial Statements included in this Annual Report and others not expressly stated but adopted by management as the most appropriate and reasonable under the current facts and circumstances, the effect upon the Company of the policy of carrying values of accounts receivable, inventories, property, plant, and equipment, intangible assets, goodwill, pensions, post-retirement benefits, worker's compensation, environmental liabilities, and income taxes would be most critical if management estimates were incorrect. GAAP requires management to make estimates and assumptions

that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

**Revenue Recognition.** Product and service revenues are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service revenues are recognized as services are rendered.

Revenue under long-term contracts is recorded on a percentage-of-completion method measured on the cost-to-cost basis for construction-type contracts and the units-of-delivery basis for production-type contracts. Revenues and costs under contracts measured on the cost-to-cost basis are primarily recognized using the zero profit method under ASC 605-35 until the period that we can estimate the remaining revenues and costs, at which point the cumulative contract gross profit earned to date is recorded. This generally occurs when the primary deliverable under the contract is delivered. We will continue to use this methodology until such time as a reliable process for estimating total contract revenues and costs is implemented, at which time we will recognize contract revenues in proportion to costs.

Provisions for anticipated losses on long-term contracts are recorded in full when such losses become evident. Such losses were not material at December 31, 2013, 2012, or 2011.

Revenues from contracts with multiple element arrangements are recognized as each element is earned based on the relative fair value of each element provided the delivered elements have value to customers on a stand-alone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately.

Value added taxes collected on sales are excluded from revenue and recorded as a liability on the Consolidated Balance Sheet until remitted to the taxing authority.

**Inventories.** Inventories are valued at cost as determined by the last-in, first-out ( LIFO ), first-in, first-out ( FIFO ), and weighted-average cost methods. Inventory costs generally include materials, labor, and manufacturing overhead (including depreciation). When market conditions indicate an excess of carrying cost over market value, a lower-of-cost-or-market provision is recorded. At December 31, 2013 and 2012, approximately 56% and 55%, respectively, of our inventory was valued utilizing the LIFO costing methodology. The remaining inventories are valued at cost determined by a combination of the FIFO and weighted-average cost methods.

**Goodwill and Intangible Assets.** The carrying value of goodwill at December 31, 2013 and 2012 was \$117.6 million and \$130.3 million, respectively. Goodwill and intangible assets were originally valued at fair value at the date of acquisition.

We evaluate the recoverability of goodwill at the reporting unit level at least annually as of October 1 and whenever events or circumstances indicate the carrying value may not be recoverable. The carrying value of goodwill at our four reporting units as of our October 1, 2013 annual impairment test is as follows:

The carrying value of goodwill at our four reporting units as of our October 1, 2013 annual impairment test is as follows:

|                                           | (in millions) | Goodwill |
|-------------------------------------------|---------------|----------|
| Titanium reporting unit                   |               | \$ 9.7   |
| Fabrication reporting unit                |               | 63.6     |
| Medical Device Fabrication reporting unit |               | 58.7     |
| Energy Fabrication reporting unit         |               |          |
| Total Goodwill                            |               | \$ 132.0 |

In Step One of the evaluation, the fair value of each reporting unit was determined using the weighted average of a discounted cash flow analysis based on historical and projected financial information (i.e., an income approach) and a market valuation approach. The discounted cash flow analysis provides a fair value estimate based upon each reporting unit's long-term operating and cash flow performance. This approach also considers the impact of cyclical downturns that occur in the titanium and aerospace industries. The market valuation approach applies market multiples such as EBITDA and revenue multiples developed from a set of peer group companies to each reporting unit to determine its fair value. Based on these analyses, we determined that the fair value of the Titanium reporting unit and the Fabrication reporting unit each exceeded their respective carrying values by a significant margin, and that the carrying value of the Medical Device Fabrication reporting unit, including goodwill, exceeded its fair value, which was an indication of potential impairment and required us to perform Step Two of the impairment evaluation.

In Step Two of the evaluation, we assigned fair value to all of the assets and liabilities of the Medical Device Fabrication reporting unit as if it was to be acquired in a business combination. The difference between the fair value of the reporting unit, as determined in Step One, and the fair value assigned to the assets and liabilities represents the implied fair value of goodwill. The implied fair value of goodwill was then compared to its carrying value, and any excess of carrying value over the implied fair value represents the non-cash impairment charge. We determined the carrying value of the Medical Device Fabrication reporting unit's goodwill exceeded its implied fair value by \$14.0 million. As a result of this goodwill impairment charge, \$44.8 million of goodwill remained in the Medical Device Fabrication reporting unit at December 31, 2013.

The impairment of the Medical Device Fabrication reporting unit's goodwill was primarily driven by operational issues and the impact of the 2.3% medical device excise tax enacted under the Healthcare Acts that is resulting in significant pricing pressures, our inability to attain cost reduction targets to offset these pricing pressures, and FDA regulations imposing new requirements on medical device contract manufacturers. As a result of these factors, we reduced our long-term estimates of the Medical Device Fabrication reporting unit's forecasted operating results and cash flows. If the Medical Device Fabrication reporting unit's operational performance does not improve, the remaining goodwill at the reporting unit could be at risk for further impairment.

In order to validate the reasonableness of the estimated fair values of the reporting units as of the valuation date, we reconciled the aggregate fair value of all of the reporting units to our market capitalization, including a reasonable control premium.

The carrying value of the Energy Fabrication reporting unit's goodwill was fully impaired in 2009. Excluding the impairment of goodwill at the Energy and Medical Device Fabrication reporting units, and immaterial impairments of goodwill related to the disposition of our non-titanium service centers, there have been no other goodwill impairments to date at our other reporting units. See Note 4 for further details of our annual impairment analysis.

Management evaluates the recovery of indefinite-lived intangible assets, at least annually, by comparing the fair value of the indefinite lived intangible asset under a discounted cash flow model to its carrying value. As a part of the annual impairment test, we determined the fair value of the Remmele trade name was \$6.2 million, resulting in an impairment of \$1.4 million.

*Long-Lived Assets.* Management evaluates the recoverability of property, plant, and equipment whenever events or changes in circumstances indicate the carrying amount of any such asset may not be fully recoverable. Changes in circumstances may include technological changes, changes in our business model, capital structure, economic conditions, or operating performance. If applicable, our evaluation would be based upon, among other items, our assumptions about the estimated undiscounted cash flows these assets are expected to generate. When

the sum of the undiscounted cash flows is less than the carrying value, we will recognize an impairment loss. Management applies its best judgment when performing these evaluations to determine the timing of the testing, the undiscounted cash flows associated with the assets, and the fair value of the asset.

*Income Taxes (as restated).* The likelihood of realization of deferred tax assets is reviewed by management on a quarterly basis, giving consideration to all current facts and circumstances. Based upon this review, management records the appropriate valuation allowance to reduce the value of the deferred tax assets to the amount more likely than not to be realized. Should management determine in a future period that an additional valuation allowance is required because of unfavorable changes in the facts and circumstances, or that the current valuation allowance is no longer required due to favorable changes in the facts and circumstances, there would be a corresponding charge or credit to income tax expense.

Our Canadian subsidiary has generated taxable losses totaling \$155.0 million from 2005 through 2013, resulting in a Canadian net deferred tax asset of \$32.7 million as of December 31, 2013. We have recorded a full valuation allowance against our Canadian net deferred tax asset as of December 31, 2010, and for each subsequent period thereafter. The realization of our Canadian deferred tax assets is dependent upon our ability to generate future taxable income at our Canadian subsidiary. We concluded that the objective and verifiable negative evidence of our Canadian subsidiary's cumulative losses over a number of years outweighed the more subjective positive evidence of anticipated future income under our long-term contract. We will continue to review whether a valuation allowance against our Canadian net deferred tax asset is required. If we determine that the realization of some or all of our Canadian net deferred tax assets are more likely than not, we will reduce some or all of our valuation allowance. Refer to Notes 2 and 18 of the Consolidated Financial Statements included within this Annual Report for details of the restatement adjustments made to establish the valuation allowance.

Tax benefits related to uncertain tax provisions taken or expected to be taken on a tax return are recorded when such benefits meet a more-likely-than-not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that either the appropriate taxing authority has completed their examination even though the statute of limitations remains open or the statute of limitations has expired. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

*Employee Benefit Plans.* Included in our accounting for defined benefit pension plans are assumptions on future discount rates, the expected return on assets, and the rate of future compensation changes. Discount rates are also utilized in our accounting for our post-retirement medical plan. We consider current market conditions, including changes in interest rates and plan asset investment returns, as well as longer-term factors in determining these assumptions. Actuarial assumptions may differ materially from actual results due to changing market and economic conditions or higher or lower withdrawal rates. These differences may result in a significant impact to the amount of net pension expense or income recorded in the future.

A discount rate is used to determine the present value of future payments. In general, our liability increases as the discount rate decreases and decreases as the discount rate increases. The discount rate was determined by taking into consideration a dedicated bond portfolio model in order to select a discount rate that best matches the expected payment streams of the future payments. Under this model, a hypothetical bond portfolio is constructed with cash flows that are expected to settle in the same timeline as the benefit payment stream from the plans. The portfolio is developed using bonds with a Moody's or Standard & Poor's rating of Aa or better based on the bonds available as of the measurement date. The appropriate discount rate is then selected based on the resulting yield from this portfolio. The discount rates used to determine our future benefit obligations were as follows at December 31, 2013 and 2012:

|                              | 2013 | 2012 |
|------------------------------|------|------|
| Qualified pension plans      | 4.8% | 4.1% |
| Non-qualified pension plans  | 3.7% | 4.1% |
| Post-retirement medical plan | 4.8% | 4.1% |

The discount rate is a significant factor in determining the amounts reported. A change of one-quarter of a percentage point in the discount rates used at December 31, 2013 would have the following effect on the defined benefit plans:

|                                                                   | .25%   | +.25%    |
|-------------------------------------------------------------------|--------|----------|
| Effect on total projected benefit obligation (PBO) (in millions)  | \$ 4.5 | \$ (4.2) |
| Effect on subsequent years periodic pension expense (in millions) | \$ 0.3 | \$ (0.3) |

A one quarter percent change in the discount rate used at December 31, 2013 would have the following effect on the postretirement medical plan:

|                                                                       | .25%   | +.25%    |
|-----------------------------------------------------------------------|--------|----------|
| Effect on total net periodic benefit cost (in millions)               | \$ 0.1 | \$ (0.1) |
| Effect on accumulated postretirement benefit obligation (in millions) | \$ 1.3 | \$ (1.2) |

We developed the expected return on plan assets by considering various factors which include targeted asset allocation percentages, historical returns, and expected future returns. We assumed an expected rate of return of 7.5% in both 2013 and 2012. A change of one-quarter of a percentage point in the expected rate of return would have the following effect on the defined benefit plans:

|                                                                   | .25%   | +.25%    |
|-------------------------------------------------------------------|--------|----------|
| Effect on subsequent years periodic pension expense (in millions) | \$ 0.4 | \$ (0.4) |

A change of one percentage point in the health cost trend rate of 6.78% used at December 31, 2013 would have the following effect on the postretirement medical plan:

|                                                                         | 1.00%    | +1.00% |
|-------------------------------------------------------------------------|----------|--------|
| Effect on total service cost and interest cost components (in millions) | \$ (0.1) | \$ 0.1 |
| Effect on accumulated postretirement benefit obligation (in millions)   | \$ (2.6) | \$ 2.9 |

The fair value of the Company's defined benefit pension plan assets as of December 31, 2013 and 2012 were as follows:

| Investment category (in millions) | 2013     | 2012     |
|-----------------------------------|----------|----------|
| U.S. government securities        | \$ 25.0  | \$ 22.0  |
| Corporate bonds                   | 40.6     | 37.5     |
| Equities                          | 88.9     | 81.4     |
| Short-term investment funds       | 1.5      | 0.6      |
| Real estate funds                 | 3.8      | 3.5      |
| Timberlands                       | 1.9      | 1.7      |
| Other                             | 1.0      |          |
| Total                             | \$ 162.7 | \$ 146.7 |

Of the total plan assets, approximately \$9.7 million and \$9.2 million were measured using significant unobservable inputs (level 3) at December 31, 2013 and 2012, and are comprised of investments in private equities, real estate funds, and timberlands. The fair value of private equity funds and real estate funds are determined by the fair value of the underlying investments in the funds plus working capital, adjusted for liabilities, currency translation and estimated performance incentives. Various methods of determining the fair value of the underlying assets in each fund are used which may include, but are not limited to, expected cash flows, multiples of earnings, discounted cash flow models, direct capitalization analyses, third-party appraisals and other market-based information. Valuations are reviewed utilizing available market data to determine whether or not any fair value adjustments are necessary. The value of the timberlands investment is based upon the appraised value of the timberlands plus net working capital. It is based upon inventory obtained pursuant to a review of this inventory at the time of acquisition, updated periodically based upon a cash projection model for a 50-year period using real prices and a real discount rate based upon current market activity.

The Company's target asset allocation as of December 31, 2013 by asset category was as follows:

| Investment Category                              | 2013 |
|--------------------------------------------------|------|
| Equity securities                                | 55%  |
| Debt securities and other short-term investments | 43%  |
| Cash                                             | 2%   |
| Total                                            | 100% |

Our investment policy for the defined benefit pension plans includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges (shown above) by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies. Within these broad investment categories, our investment policy places certain restrictions on the types and amounts of plan investments. For example, no individual stock may account for more than 5% of total equities, no single corporate bond issuer rated below AA may equal more than 10% of the total bond portfolio, non-investment grade bonds may not exceed 10% of the total bond portfolio, and private equity and real estate investments may not exceed 8% of total plan assets.

We periodically review the investment policy along with our designated third-party fiduciary. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The following pension and post-retirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions) :

|              | Pension<br>Benefit<br>Plans | Post-Retirement<br>Benefit Plan<br>(including Plan D<br>subsidy) | Post-Retirement<br>Benefit Plan<br>(not including Plan<br>D subsidy) |
|--------------|-----------------------------|------------------------------------------------------------------|----------------------------------------------------------------------|
| 2014         | \$ 12.7                     | \$ 3.0                                                           | \$ 3.2                                                               |
| 2015         | 11.4                        | 3.2                                                              | 3.5                                                                  |
| 2016         | 11.6                        | 3.1                                                              | 3.4                                                                  |
| 2017         | 11.7                        | 2.9                                                              | 3.2                                                                  |
| 2018         | 12.1                        | 3.0                                                              | 3.4                                                                  |
| 2019 to 2023 | 62.3                        | 18.0                                                             | 20.3                                                                 |

During the years ended December 31, 2013 and 2012, we made cash contributions, net of settlement charges, totaling \$4.3 million and \$18.2 million, respectively, to our Company-sponsored pension plans. In light of current market conditions, we are assessing our future funding requirements. We expect to make cash contributions of approximately \$9.4 million during 2014 to maintain our desired funding status.

*Environmental Liabilities.* We are subject to environmental laws and regulations as well as various health and safety laws and regulations that are subject to frequent modifications and revisions. During each of the years ended 2013, 2012, and 2011, respectively, the Company paid approximately \$0.1 million against previously recorded liabilities 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 not possible to accurately predict the ultimate effect these changing laws and regulations may have on the Company in the future. We continue to evaluate our obligations for environmental-related costs on a quarterly basis and make adjustments as necessary.

Given the evolving nature of environmental laws, regulations, and remediation techniques, our ultimate obligation for investigative and remediation costs cannot be predicted. It is our policy to recognize environmental costs in the financial statements when an obligation becomes probable and a reasonable estimate of exposure can be determined. When a single estimate cannot be reasonably made, but a range can be reasonably estimated, we accrue the amount we determine to be the most likely amount within that range. If no single amount is more likely than others within the range, we accrue the lowest amount within the range.

Based on available information, we believe that our share of possible environmental-related costs is in a range from \$0.6 million to \$2.1 million in the aggregate. At each of December 31, 2013 and 2012, the amount accrued for future environmental-related costs was \$1.3 million. Of the total amount accrued at December 31, 2013, approximately \$0.1 million is expected to be paid out within one year and is included as a component of other accrued liabilities in our Consolidated Balance Sheet. The remaining \$1.2 million is recorded as a component of other noncurrent liabilities in our Consolidated Balance Sheet.

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

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

##### **Commodity Price Risk**

We are exposed to market risk arising from changes in commodity prices as a result of our long-term purchase and supply agreements with certain suppliers and customers. These agreements, which offer various fixed or formula-determined pricing arrangements, effectively obligate us to bear the risk of (i) increased raw material and other costs to us that cannot be passed on to our customers through increased product prices or (ii) decreasing raw material costs to our suppliers that are not passed on to us in the form of lower raw material prices.



### **Interest Rate Risk**

Our outstanding borrowings at December 31, 2013 are at fixed annual interest rates of 1.625% and 3.000%; therefore we are not subject to material cash flow risk arising from the fluctuation of interest rates.

### **Foreign Currency Exchange Risk**

We are subject to foreign currency exchange exposure for purchases of raw materials, equipment, and services, including wages, which are denominated in currencies other than the U.S. Dollar, as well as non-U.S. Dollar denominated sales. However, the majority of our sales are made in U.S. Dollars, which minimizes our exposure to foreign currency fluctuations. From time to time, we may use forward exchange contracts to manage these transaction risks.

In addition to these transaction risks, we are subject to foreign currency exchange exposure for our non-U.S. Dollar denominated assets and liabilities of our foreign subsidiaries whose functional currency is the U.S. Dollar. From time to time, we may use forward exchange contracts to manage these translation risks. We had no foreign currency forward exchange contracts outstanding at December 31, 2013.

**Item 8. Financial Statements and Supplementary Data.**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

RTI International Metals, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows present fairly, in all material respects, the financial position of RTI International Metals, Inc. and its subsidiaries at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also, in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) because material weaknesses in internal control over financial reporting related to (i) revenue recognition under percentage of completion accounting, (ii) the annual goodwill and indefinite-lived intangible asset impairment analysis, and (iii) realizability of certain deferred tax assets existed as of that date. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weaknesses referred to above are described in Management's report on internal control over financial reporting appearing under Item 9A. We considered these material weaknesses in determining the nature, timing, and extent of audit tests applied in our audit of the 2013 consolidated financial statements and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in management's report referred to above. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, and discussed in the Note to the financial statement schedule listed in the accompanying index, the Company has restated its 2011 and 2012 consolidated financial statements and financial statement schedule to correct errors.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made

only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's report on internal control over financial reporting, management has excluded RTI Extrusions Europe Limited from its assessment of internal control over financial reporting as of December 31, 2013 because it was acquired by the Company in a purchase business combination during 2013. We have also excluded RTI Extrusions Europe Limited from our audit of internal control over financial reporting. RTI Extrusions Europe Limited is a wholly-owned subsidiary whose total assets and total revenues represent 1% and 0.6%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2013.

Pittsburgh, Pennsylvania

March 18, 2014

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Consolidated Statements of Operations

(In thousands, except share and per share amounts)

|                                                                    | Years Ended December 31, |               |               |
|--------------------------------------------------------------------|--------------------------|---------------|---------------|
|                                                                    | 2013                     | 2012          | 2011          |
|                                                                    |                          | (As Restated) | (As Restated) |
| Net sales                                                          | \$ 783,273               | \$ 699,987    | \$ 488,352    |
| Cost and expenses:                                                 |                          |               |               |
| Cost of sales                                                      | 609,419                  | 561,418       | 397,429       |
| Selling, general, and administrative expenses                      | 92,921                   | 86,621        | 65,650        |
| Research, technical, and product development expenses              | 3,931                    | 4,164         | 3,392         |
| Goodwill and other intangible asset impairment                     | 15,359                   |               |               |
| Asset and asset-related charges (income)                           | (372)                    | 367           | (1,501)       |
| Operating income                                                   | 62,015                   | 47,417        | 23,382        |
| Other income (expense), net                                        | 938                      | (501)         | 56            |
| Interest income                                                    | 223                      | 148           | 1,151         |
| Interest expense                                                   | (40,380)                 | (17,926)      | (16,796)      |
| Income before income taxes                                         | 22,796                   | 29,138        | 7,793         |
| Provision for income taxes                                         | 7,139                    | 15,685        | 10,101        |
| Net income (loss) attributable to continuing operations            | \$ 15,657                | \$ 13,453     | \$ (2,308)    |
| Net income (loss) attributable to discontinued operations          | \$ (1,584)               | \$ 1,487      | \$ 2,258      |
| Net income (loss)                                                  | \$ 14,073                | \$ 14,940     | \$ (50)       |
| Earnings (loss) per share attributable to continuing operations:   |                          |               |               |
| Basic                                                              | \$ 0.51                  | \$ 0.44       | \$ (0.08)     |
| Diluted                                                            | \$ 0.51                  | \$ 0.44       | \$ (0.08)     |
| Earnings (loss) per share attributable to discontinued operations: |                          |               |               |
| Basic                                                              | \$ (0.05)                | \$ 0.05       | \$ 0.08       |
| Diluted                                                            | \$ (0.05)                | \$ 0.05       | \$ 0.08       |
| Weighted-average shares outstanding:                               |                          |               |               |
| Basic                                                              | 30,303,328               | 30,127,275    | 30,017,677    |
| Diluted                                                            | 30,530,501               | 30,257,688    | 30,017,677    |

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

**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES**
**Consolidated Statements of Comprehensive Income (Loss)**

(In thousands, except share and per share amounts)

|                                                                                        | Years Ended December 31, |                       |                       |
|----------------------------------------------------------------------------------------|--------------------------|-----------------------|-----------------------|
|                                                                                        | 2013                     | 2012<br>(As Restated) | 2011<br>(As Restated) |
| Net income (loss)                                                                      | \$ 14,073                | \$ 14,940             | \$ (50)               |
| Other comprehensive income (loss):                                                     |                          |                       |                       |
| Foreign currency translation                                                           | (6,928)                  | 1,915                 | (1,515)               |
| Unrealized gain (loss) on investments, net of tax of \$0, \$0, and \$(19)              |                          |                       | (35)                  |
| Realized (gain) loss on investments net of tax of \$0, \$4, and \$0                    |                          | 8                     |                       |
| Benefit plan amortization gain (loss), net of tax of \$6,919, \$(4,920), and \$(2,861) | 11,535                   | (8,077)               | (4,963)               |
| Other comprehensive income (loss), net of tax                                          | 4,607                    | (6,154)               | (6,513)               |
| Comprehensive income (loss)                                                            | \$ 18,680                | \$ 8,786              | \$ (6,563)            |

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

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets

(In thousands, except share and per share amounts)

|                                                                                                                                                     | December 31, |                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----------------------|
|                                                                                                                                                     | 2013         | 2012<br>(As Restated) |
| <b>ASSETS</b>                                                                                                                                       |              |                       |
| Current assets:                                                                                                                                     |              |                       |
| Cash and cash equivalents                                                                                                                           | \$ 343,637   | \$ 97,190             |
| Receivables, less allowance for doubtful accounts of \$820 and \$721                                                                                | 105,271      | 104,354               |
| Inventories, net                                                                                                                                    | 430,088      | 375,441               |
| Costs in excess of billings                                                                                                                         | 5,377        | 3,825                 |
| Deferred income taxes                                                                                                                               | 32,032       | 31,380                |
| Assets of discontinued operations                                                                                                                   | 5,274        | 25,168                |
| Other current assets                                                                                                                                | 16,947       | 11,270                |
| Total current assets                                                                                                                                | 938,626      | 648,628               |
| Property, plant, and equipment, net                                                                                                                 | 372,340      | 375,819               |
| Goodwill                                                                                                                                            | 117,578      | 130,252               |
| Other intangible assets, net                                                                                                                        | 53,754       | 56,495                |
| Other noncurrent assets                                                                                                                             | 23,247       | 8,898                 |
| Total assets                                                                                                                                        | \$ 1,505,545 | \$ 1,220,092          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                         |              |                       |
| Current liabilities:                                                                                                                                |              |                       |
| Accounts payable                                                                                                                                    | \$ 79,039    | \$ 90,735             |
| Accrued wages and other employee costs                                                                                                              | 29,787       | 33,996                |
| Unearned revenues                                                                                                                                   | 15,625       | 25,864                |
| Liabilities of discontinued operations                                                                                                              | 458          | 3,431                 |
| Other accrued liabilities                                                                                                                           | 22,574       | 22,518                |
| Total current liabilities                                                                                                                           | 147,483      | 176,544               |
| Long-term debt                                                                                                                                      | 430,300      | 198,337               |
| Liability for post-retirement benefits                                                                                                              | 43,447       | 45,066                |
| Liability for pension benefits                                                                                                                      | 13,787       | 20,711                |
| Deferred income taxes                                                                                                                               | 74,078       | 46,384                |
| Unearned revenues                                                                                                                                   | 10,470       | 13,013                |
| Other noncurrent liabilities                                                                                                                        | 12,006       | 11,798                |
| Total liabilities                                                                                                                                   | 731,571      | 511,853               |
| Commitments and Contingencies (Note 14)                                                                                                             |              |                       |
| Shareholders' equity:                                                                                                                               |              |                       |
| Common stock, \$0.01 par value; 50,000,000 shares authorized; 31,399,661 and 31,136,899 shares issued; 30,593,251 and 30,354,324 shares outstanding | 314          | 311                   |
| Additional paid-in capital                                                                                                                          | 532,249      | 484,798               |
| Treasury stock, at cost; 806,410 and 782,575 shares                                                                                                 | (18,798)     | (18,399)              |
| Accumulated other comprehensive loss                                                                                                                | (40,397)     | (45,004)              |
| Retained earnings                                                                                                                                   | 300,606      | 286,533               |
| Total shareholders' equity                                                                                                                          | 773,974      | 708,239               |
| Total liabilities and shareholders' equity                                                                                                          | \$ 1,505,545 | \$ 1,220,092          |

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



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

(In thousands)

|                                                                                         | Years Ended December 31, |                       |                       |
|-----------------------------------------------------------------------------------------|--------------------------|-----------------------|-----------------------|
|                                                                                         | 2013                     | 2012<br>(As Restated) | 2011<br>(As Restated) |
| <b>OPERATING ACTIVITIES:</b>                                                            |                          |                       |                       |
| Net income (loss)                                                                       | \$ 14,073                | \$ 14,940             | \$ (50)               |
| Adjustment for non-cash items:                                                          |                          |                       |                       |
| Depreciation and amortization                                                           | 43,885                   | 41,170                | 22,488                |
| Deferred income taxes, net                                                              | (12,264)                 | 6,633                 | 14,179                |
| Stock-based compensation                                                                | 6,026                    | 4,797                 | 4,599                 |
| Excess tax benefits from stock-based compensation activity                              | (552)                    | (196)                 | (302)                 |
| (Gain) loss on disposal of property, plant, and equipment, net                          | (547)                    | (4)                   | 70                    |
| Amortization of debt issuance costs                                                     | 1,666                    | 1,403                 | 1,471                 |
| Amortization of discount on long-term debt                                              | 14,956                   | 9,683                 | 8,900                 |
| Write-off of debt issuance costs                                                        | 1,498                    |                       |                       |
| Amortization of premiums paid for short-term investments and marketable securities, net | 174                      |                       | 2,012                 |
| Goodwill and other intangible asset impairment                                          | 15,908                   |                       |                       |
| Write-down of assets of discontinued operations                                         | 1,058                    |                       |                       |
| Other                                                                                   | 300                      | 434                   | (462)                 |
| Changes in assets and liabilities:                                                      |                          |                       |                       |
| Receivables                                                                             | 3,236                    | (1,818)               | (32,440)              |
| Inventories                                                                             | (47,139)                 | (106,565)             | 3,810                 |
| Accounts payable                                                                        | (8,613)                  | 32,133                | 6,271                 |
| Income taxes payable                                                                    | (13,675)                 | 3,767                 | 67                    |
| Unearned revenue                                                                        | (10,509)                 | 10,059                | (2,606)               |
| Costs in excess of billings                                                             | (3,118)                  | 459                   | (300)                 |
| Liability for pension benefits                                                          | (12,486)                 | (12,295)              | (22,066)              |
| Other current assets and liabilities, net                                               | 2,969                    | (3,479)               | 5,217                 |
| Other noncurrent assets and liabilities, net                                            | 15,322                   | 6,945                 | 3,977                 |
| Cash provided by operating activities                                                   | 12,168                   | 8,066                 | 14,835                |
| <b>INVESTING ACTIVITIES:</b>                                                            |                          |                       |                       |
| Purchase of investments                                                                 | (128,281)                | (4,037)               | (309,820)             |
| Maturity/sale of investments                                                            | 128,107                  | 180,808               | 149,411               |
| Capital expenditures                                                                    | (32,374)                 | (61,538)              | (38,845)              |
| Acquisitions, net of cash acquired                                                      | (16,214)                 | (182,811)             | (35,812)              |
| Divestitures                                                                            | 10,475                   |                       |                       |
| Proceeds from disposal of property, plant, and equipment                                | 561                      | 10                    | 20                    |
| Cash used in investing activities                                                       | (37,726)                 | (67,568)              | (235,046)             |
| <b>FINANCING ACTIVITIES:</b>                                                            |                          |                       |                       |
| Borrowings on long-term debt                                                            | 402,500                  |                       |                       |
| Repayments on long-term debt                                                            | (120,820)                | (758)                 | (25)                  |
| Debt issuance costs                                                                     | (12,370)                 | (823)                 |                       |
| Proceeds from employee stock activity                                                   | 2,637                    | 729                   | 367                   |
| Excess tax benefits from stock-based compensation activity                              | 552                      | 196                   | 302                   |
| Purchase of common stock held in treasury                                               | (399)                    | (742)                 | (294)                 |
| Cash provided by (used in) financing activities                                         | 272,100                  | (1,398)               | 350                   |
| Effect of exchange rate changes on cash and cash equivalents                            | (95)                     | 1,248                 | (248)                 |
| Increase (decrease) in cash and cash equivalents                                        | 246,447                  | (59,652)              | (220,109)             |
| Cash and cash equivalents at beginning of period                                        | 97,190                   | 156,842               | 376,951               |

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|                                                      |            |           |             |
|------------------------------------------------------|------------|-----------|-------------|
| Cash and cash equivalents at end of period           | \$ 343,637 | \$ 97,190 | \$ 156,842  |
| Supplemental cash flow information:                  |            |           |             |
| Cash paid for interest                               | \$ 7,223   | \$ 7,496  | \$ 7,148    |
| Cash paid (refund received) for income taxes         | \$ 4,672   | \$ 5,333  | \$ (10,191) |
| Non-cash investing and financing activities:         |            |           |             |
| Issuance of common stock for restricted stock awards | \$ 3,443   | \$ 2,028  | \$ 1,985    |
| Capital leases                                       | \$ 7,898   | \$ 575    | \$          |

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

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Consolidated Statement of Shareholders' Equity

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

|                                                                                    | Common Stock |        |            |             | Retained   | Accumulated   |            |
|------------------------------------------------------------------------------------|--------------|--------|------------|-------------|------------|---------------|------------|
|                                                                                    | Shares       | Amount | Additional | Treasury    | Earnings   | Other         | Total      |
|                                                                                    | Outstanding  |        | Paid-In    | Stock       | (1)        | Comprehensive |            |
|                                                                                    |              |        | Capital    |             |            | Loss          |            |
| Balance at December 31, 2010 (As Restated)                                         | 30,123,519   | \$ 309 | \$ 474,277 | \$ (17,363) | \$ 271,643 | \$ (32,337)   | \$ 696,529 |
| Net income (As Restated)                                                           |              |        |            |             | (50)       |               | (50)       |
| Other comprehensive loss                                                           |              |        |            |             |            | (6,513)       | (6,513)    |
| Shares issued for directors' compensation                                          | 14,273       |        |            |             |            |               |            |
| Shares issued for restricted stock award plans                                     | 54,665       |        |            |             |            |               |            |
| Stock-based compensation expense recognized                                        |              |        | 4,599      |             |            |               | 4,599      |
| Treasury stock purchased at cost                                                   | (10,423)     |        |            | (294)       |            |               | (294)      |
| Exercise of employee options                                                       | 13,653       |        | 178        |             |            |               | 178        |
| Forfeiture of restricted stock awards                                              | (3,800)      |        |            |             |            |               |            |
| Tax benefits from stock-based compensation activity                                |              |        | 2          |             |            |               | 2          |
| Shares issued for employee stock purchase plan                                     | 6,893        |        | 189        |             |            |               | 189        |
| Balance at December 31, 2011 (As Restated)                                         | 30,198,780   | \$ 309 | \$ 479,245 | \$ (17,657) | \$ 271,593 | \$ (38,850)   | \$ 694,640 |
| Net income (As Restated)                                                           |              |        |            |             | 14,940     |               | 14,940     |
| Other comprehensive loss (As Restated)                                             |              |        |            |             |            | (6,154)       | (6,154)    |
| Shares issued for directors' compensation                                          | 26,153       |        |            |             |            |               |            |
| Shares issued for restricted stock award plans                                     | 56,173       | 1      |            |             |            |               | 1          |
| Shares issued for performance award plans                                          | 54,315       | 1      |            |             |            |               | 1          |
| Stock-based compensation expense recognized                                        |              |        | 4,797      |             |            |               | 4,797      |
| Treasury stock purchased at cost                                                   | (29,946)     |        |            | (742)       |            |               | (742)      |
| Exercise of employee options                                                       | 41,422       |        | 494        |             |            |               | 494        |
| Forfeiture of restricted stock awards                                              | (3,200)      |        |            |             |            |               |            |
| Tax benefits from stock-based compensation activity                                |              |        | 27         |             |            |               | 27         |
| Shares issued for employee stock purchase plan                                     | 10,627       |        | 235        |             |            |               | 235        |
| Balance at December 31, 2012 (As Restated)                                         | 30,354,324   | \$ 311 | \$ 484,798 | \$ (18,399) | \$ 286,533 | \$ (45,004)   | \$ 708,239 |
| Net income                                                                         |              |        |            |             | 14,073     |               | 14,073     |
| Other comprehensive loss                                                           |              |        |            |             |            | 4,607         | 4,607      |
| Shares issued for directors' compensation                                          | 26,455       |        |            |             |            |               |            |
| Shares issued for restricted stock award plans                                     | 92,282       | 1      | 1          |             |            |               | 2          |
| Stock-based compensation expense recognized                                        |              |        | 6,026      |             |            |               | 6,026      |
| Treasury stock purchased at cost                                                   | (14,116)     |        |            | (399)       |            |               | (399)      |
| Exercise of employee options                                                       | 131,607      | 2      | 2,286      |             |            |               | 2,288      |
| Forfeiture of restricted stock awards                                              | (9,719)      |        |            |             |            |               |            |
| Tax benefits from stock-based compensation activity                                |              |        | (45)       |             |            |               | (45)       |
| Shares issued for employee stock purchase plan                                     | 12,418       |        | 350        |             |            |               | 350        |
| Recognition of equity component of 2019 Convertible Notes, net of deferred taxes   |              |        | 52,687     |             |            |               | 52,687     |
| Derecognition of equity component of 2015 Convertible Notes, net of deferred taxes |              |        | (13,854)   |             |            |               | (13,854)   |
| Balance at December 31, 2013                                                       | 30,593,251   | \$ 314 | \$ 532,249 | \$ (18,798) | \$ 300,606 | \$ (40,397)   | \$ 773,974 |

- (1) Adjustments to the opening balance of Retained Earnings total \$(21,732), and result from the establishment of a full valuation allowance against the Company's deferred tax asset at its Canadian subsidiary. Refer to Note 2 for further information.

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



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

**Notes to Consolidated Financial Statements**

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

**Note 1 ORGANIZATION AND OPERATIONS:**

The accompanying Consolidated Financial Statements of RTI International Metals, Inc. and its subsidiaries (the Company or RTI) include the financial position and results of operations for the Company.

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

On October 1, 2013, the Company completed its acquisition of all of the issued and outstanding common stock of RTI Extrusions Europe (Holdings) Limited, which directly owns all of the issued and outstanding capital stock of RTI Extrusions Europe Limited (formerly Osborn Steel Extrusions, a subsidiary of Osborn Metals Limited) (RTI Extrusions Europe). RTI Extrusions Europe manufactures extruded, hot-or-cold stretched steel and titanium parts for a number of markets including the aerospace and petrochemical markets.

In April 2013, the Company completed the sale of its subsidiary, Pierce-Spafford Metals Company, Inc. (RTI Pierce Spafford), for approximately \$12.4 million of cash, of which \$10.5 million has been received in cash as of December 31, 2013, with the remainder due in late 2014. In addition, during December 2013 the Company determined that its other non-titanium service center Bow Steel Corporation, (RTI Connecticut), qualified for held-for-sale treatment at December 31, 2013. The results of RTI Pierce Spafford and RTI Connecticut have been presented as results from discontinued operations on the Company's Consolidated Statements of Operations and the related assets and liabilities have been presented separately on the Company's Consolidated Balance Sheets as assets and liabilities of discontinued operations. The Company's Consolidated Financial Statements and the Notes thereto for prior periods have been conformed to exclude amounts attributable to the aforementioned discontinued operations.

The Company conducts business in two segments: the Titanium Segment and the Engineered Products and Services (EP&S) Segment. The structure reflects the Company's transformation into an integrated supplier of advanced titanium products across the entire supply chain, and better aligns its resources to support the Company's long-term growth strategy.

The Titanium Segment melts, processes, produces, stocks, distributes, finishes, cuts-to-size and facilitates just-in-time delivery services of a complete range of titanium mill products which are further processed by its customers for use in a variety of commercial aerospace, defense, and industrial and consumer applications. With operations in Niles and Canton, Ohio; Martinsville, Virginia; Norwalk, California; Windsor, Connecticut; Tamworth, England; and Rosny-Sur-Seine, France, the Titanium Segment has overall responsibility for the production and distribution of primary mill products including, but not limited to bloom, billet, sheet, and plate. In addition, the Titanium Segment produces ferro titanium alloys for its steelmaking customers. The Titanium Segment also focuses on the research and development of evolving technologies relating to raw materials, melting, and other production processes, and the application of titanium in new markets.

The EP&S Segment is comprised of companies with significant hard and soft-metal expertise that form, extrude, fabricate, additively manufacture, machine, micro machine, and assemble titanium, aluminum, and other specialty metal parts and components. Its products, many of which are complex engineered parts and assemblies, serve the commercial aerospace, defense, medical device, oil and gas, power generation, and chemical process

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

**Notes to Consolidated Financial Statements**

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

industries, as well as a number of other industrial and consumer markets. With operations located in Minneapolis, Minnesota; Houston and Austin, Texas; Sullivan and Washington, Missouri; Laval, Canada; and Welwyn Garden City and Bradford, England, the EP&S Segment provides value-added products and services such as engineered tubulars and extrusions, fabricated and machined components and subassemblies, and components for the production of minimally invasive and implantable medical devices, as well as engineered systems for deepwater oil and gas exploration and production infrastructure.

The EP&S Segment utilizes the Titanium Segment as its primary source of titanium mill products.

**Note 2 RESTATEMENTS AND REVISIONS:**

As previously disclosed in its Form 10-Q for the quarterly period ended September 30, 2013, the Company's treatment of its deferred tax asset at its Canadian subsidiary had been under discussion with the Staff of the Securities and Exchange Commission (SEC). In considering these discussions, the Company reconsidered its position and determined that a valuation allowance against the Company's Canadian deferred tax asset should have been recorded as of December 31, 2010. The Company determined that it should have given greater weight to its Canadian subsidiary's history of cumulative losses relative to its expectations of future taxable income. As a result of recording the valuation allowance, the Company has corrected the deferred tax assets at each balance sheet date and its provision for income taxes in each affected period.

In addition to the restatement related to the valuation allowance recorded against the Canadian deferred tax assets, the Company disclosed in its Form 10-Q for the quarterly period ended September 30, 2013 that it intended to revise its future filings for revenue recognition errors associated with its accounting for certain long-term contracts and opening balance sheet corrections related to deferred taxes and goodwill related to its acquisition of RTI Remmele Engineering (Remmele) for the quarterly and year-to-date periods ended March 31, 2013 and June 30, 2013. Refer to Note 18 for detail on the restatement and revision adjustments for the interim periods in 2013 and 2012.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The following tables set forth the impact of the recognition of the above-mentioned corrections, as well as adjustments for the presentation of RTI Connecticut as a discontinued operation, on the Company's Consolidated Statements of Operations, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows as of and for the periods presented below. Refer to Note 3 for additional information on discontinued operations.

|                                                                | Year Ended December 31, 2012 |                        |              |                         |                    |
|----------------------------------------------------------------|------------------------------|------------------------|--------------|-------------------------|--------------------|
|                                                                | Previously Reported (1)      | Restatement Adjustment | As Corrected | Discontinued Operations | Currently Reported |
| <b>Consolidated Statement of Operations</b>                    |                              |                        |              |                         |                    |
| Net sales                                                      | \$ 708,090                   | \$                     | \$ 708,090   | \$ (8,103)              | \$ 699,987         |
| Cost of Sales                                                  | 568,462                      |                        | 568,462      | (7,044)                 | 561,418            |
| Operating income                                               | 47,111                       |                        | 47,111       | 306                     | 47,417             |
| Income before income taxes                                     | 28,832                       |                        | 28,832       | 306                     | 29,138             |
| Provision for income taxes                                     | 10,392                       | 5,200                  | 15,592       | 93                      | 15,685             |
| Net income attributable to continuing operations               | 18,440                       | (5,200)                | 13,240       | 213                     | 13,453             |
| Net income attributable to discontinued operations, net of tax | 1,700                        |                        | 1,700        | (213)                   | 1,487              |
| Net income                                                     | 20,140                       | (5,200)                | 14,940       |                         | 14,940             |
| Earnings per share attributable to continuing operations:      |                              |                        |              |                         |                    |
| Basic                                                          | \$ 0.61                      | \$ (0.17)              | \$ 0.44      | \$ 0.01                 | \$ 0.44            |
| Diluted                                                        | \$ 0.61                      | \$ (0.17)              | \$ 0.44      | \$ 0.01                 | \$ 0.44            |
| Earnings per share attributable to discontinued operations:    |                              |                        |              |                         |                    |
| Basic                                                          | \$ 0.06                      | \$                     | \$ 0.06      | \$ (0.01)               | \$ 0.05            |
| Diluted                                                        | \$ 0.06                      | \$                     | \$ 0.06      | \$ (0.01)               | \$ 0.05            |

|                                                                  | Year Ended December 31, 2011 |                        |              |                         |                    |
|------------------------------------------------------------------|------------------------------|------------------------|--------------|-------------------------|--------------------|
|                                                                  | Previously Reported (1)      | Restatement Adjustment | As Corrected | Discontinued Operations | Currently Reported |
| <b>Consolidated Statement of Operations</b>                      |                              |                        |              |                         |                    |
| Net sales                                                        | \$ 501,288                   | \$                     | \$ 501,288   | \$ (12,936)             | \$ 488,352         |
| Cost of Sales                                                    | 407,660                      |                        | 407,660      | (10,231)                | 397,429            |
| Operating income                                                 | 24,052                       |                        | 24,052       | (670)                   | 23,382             |
| Income before income taxes                                       | 8,463                        |                        | 8,463        | (670)                   | 7,793              |
| Provision for income taxes                                       | 4,269                        | 6,082                  | 10,351       | (250)                   | 10,101             |
| Net income (loss) attributable to continuing operations          | 4,194                        | (6,082)                | (1,888)      | (420)                   | (2,308)            |
| Net income attributable to discontinued operations, net of tax   | 1,838                        |                        | 1,838        | 420                     | 2,258              |
| Net income (loss)                                                | 6,032                        | (6,082)                | (50)         |                         | (50)               |
| Earnings (loss) per share attributable to continuing operations: |                              |                        |              |                         |                    |
| Basic                                                            | \$ 0.14                      | \$ (0.20)              | \$ (0.06)    | \$ (0.01)               | \$ (0.08)          |
| Diluted                                                          | \$ 0.14                      | \$ (0.20)              | \$ (0.06)    | \$ (0.01)               | \$ (0.08)          |
| Earnings per share attributable to discontinued operations:      |                              |                        |              |                         |                    |
| Basic                                                            | \$ 0.06                      | \$                     | \$ 0.06      | \$ 0.01                 | \$ 0.08            |
| Diluted                                                          | \$ 0.06                      | \$                     | \$ 0.06      | \$ 0.01                 | \$ 0.08            |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

- (1): Previously reported balances represent the amounts reported in the Consolidated Statement of Operations in the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013.

|                                            | December 31, 2012             |                           |                 |                            |                       |
|--------------------------------------------|-------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                            | Previously<br>Reported<br>(1) | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| <b>Consolidated Balance Sheets</b>         |                               |                           |                 |                            |                       |
| Receivables                                | \$ 105,317                    | \$                        | \$ 105,317      | \$ (963)                   | \$ 104,354            |
| Inventories, net                           | 384,417                       |                           | 384,417         | (8,976)                    | 375,441               |
| Assets of discontinued operations          | 14,741                        |                           | 14,741          | 10,427                     | 25,168                |
| Total current assets                       | 648,140                       |                           | 648,140         | 488                        | 648,628               |
| Property, plant, and equipment, net        | 375,949                       |                           | 375,949         | (130)                      | 375,819               |
| Goodwill                                   | 130,610                       |                           | 130,610         | (358)                      | 130,252               |
| Deferred income taxes                      | 33,287                        | (33,287)                  |                 |                            |                       |
| Other noncurrent assets                    | 8,866                         | 32                        | 8,898           |                            | 8,898                 |
| Total assets                               | 1,253,347                     | (33,255)                  | 1,220,092       |                            | 1,220,092             |
| Accounts payable                           | 91,661                        |                           | 91,661          | (926)                      | 90,735                |
| Accrued wages and other employee costs     | 34,096                        |                           | 34,096          | (100)                      | 33,996                |
| Unearned revenues                          | 25,864                        |                           | 25,864          |                            | 25,864                |
| Liabilities of discontinued operations     | 2,332                         |                           | 2,332           | 1,099                      | 3,431                 |
| Other accrued liabilities                  | 22,550                        | 41                        | 22,591          | (73)                       | 22,518                |
| Total current liabilities                  | 176,503                       | 41                        | 176,544         |                            | 176,544               |
| Deferred income taxes                      | 46,384                        |                           | 46,384          |                            | 46,384                |
| Unearned revenues                          | 13,013                        |                           | 13,013          |                            | 13,013                |
| Total liabilities                          | 511,812                       | 41                        | 511,853         |                            | 511,853               |
| Accumulated other comprehensive loss       | (44,722)                      | (282)                     | (45,004)        |                            | (45,004)              |
| Retained earnings                          | 319,547                       | (33,014)                  | 286,533         |                            | 286,533               |
| Total shareholders' equity                 | 741,535                       | (33,296)                  | 708,239         |                            | 708,239               |
| Total liabilities and shareholders' equity | 1,253,347                     | (33,255)                  | 1,220,092       |                            | 1,220,092             |

- (1): Previously reported balances represent the amounts reported in the Consolidated Balance Sheet in the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013. The previously reported balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(699), \$1,565, and \$866 to correct the prior presentation.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

|                                                       | Previously<br>Reported (1) | December 31, 2012<br>Restatement<br>Adjustment | As<br>Corrected |
|-------------------------------------------------------|----------------------------|------------------------------------------------|-----------------|
| <b>Consolidated Statements of Cash Flow (2)</b>       |                            |                                                |                 |
| Operating Activities:                                 |                            |                                                |                 |
| Net income                                            | \$ 20,140                  | \$ (5,200)                                     | \$ 14,940       |
| Adjustment for non-cash items included in net income: |                            |                                                |                 |
| Deferred income taxes                                 | 1,433                      | 5,200                                          | 6,633           |
| <b>Consolidated Statements of Cash Flow (2)</b>       |                            |                                                |                 |
| Operating Activities:                                 |                            |                                                |                 |
| Net income (loss)                                     | \$ 6,032                   | \$ (6,082)                                     | \$ (50)         |
| Adjustment for non-cash items included in net income: |                            |                                                |                 |
| Deferred income taxes                                 | 8,097                      | 6,082                                          | 14,179          |

(1): Previously reported balances represent the amounts reported in the Consolidated Balance Sheet in the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013.

(2): The Company does not present cash flows from discontinued operations, consistent with the FASB's authoritative guidance. Restatement adjustments did not have an impact on cash flows from investing and financing activities.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The following presents the restated Condensed Consolidating Statements of Operations and Condensed Consolidating Balance Sheets of RTI International Metals, Inc. and its Guarantor and Non-Guarantor Subsidiaries as of and for the periods presented below. The As Restated amounts primarily reflect the impact of the restatement on the provision for income tax, deferred tax assets, and all related subtotals, as well as the presentation of RTI Connecticut as a discontinued operation, which is reflected in the Non-Guarantors columns. The restatement adjustments only affected net income (loss) and deferred income taxes on the Condensed Consolidating Statements of Cash Flows, and as such they have not been presented given the condensed presentation. The Previously Reported amounts represent the corrected balances reported in the Second Amendment to the Company's Annual Report on Form 10-K/A for the period ended December 31, 2012, as filed with the SEC on November 12, 2013. Refer to Note 17 for further information. For information on the impact of restatement on the interim Condensed Consolidating Financial Statements, refer to Note 18.

## Condensed Consolidating Statements of Operations and Comprehensive Income Restatement Adjustments

## Year Ended December 31, 2012

|                                                                | RTI International Metals, Inc. |             | Guarantor Subsidiaries |             | Non-Guarantor Subsidiaries |             | Eliminations        |              | Consolidated        |             |
|----------------------------------------------------------------|--------------------------------|-------------|------------------------|-------------|----------------------------|-------------|---------------------|--------------|---------------------|-------------|
|                                                                | Previously Reported            | As Restated | Previously Reported    | As Restated | Previously Reported        | As Restated | Previously Reported | As Restated  | Previously Reported | As Restated |
| Net sales                                                      | \$                             | \$          | \$ 503,018             | \$ 503,018  | \$ 417,573                 | \$ 409,470  | \$ (212,501)        | \$ (212,501) | \$ 708,090          | \$ 699,987  |
| Costs and expenses:                                            |                                |             |                        |             |                            |             |                     |              |                     |             |
| Cost of sales                                                  |                                |             | 426,268                | 426,268     | 354,695                    | 347,651     | (212,501)           | (212,501)    | 568,462             | 561,418     |
| Operating income                                               | 3,006                          | 3,006       | 27,060                 | 27,060      | 17,045                     | 17,351      |                     |              | 47,111              | 47,417      |
| Equity in earnings of subsidiaries                             | 25,832                         | 20,741      | 5,419                  | 5,419       | 2,138                      | 2,138       | (33,389)            | (28,298)     |                     |             |
| Income before income taxes                                     | 12,136                         | 7,045       | 32,722                 | 32,722      | 17,363                     | 17,669      | (33,389)            | (28,298)     | 28,832              | 29,138      |
| Provision for (benefit from) income taxes                      | (6,304)                        | (6,408)     | 10,726                 | 10,726      | 5,970                      | 11,367      |                     |              | 10,392              | 15,685      |
| Net income attributable to continuing operations               | 18,440                         | 13,453      | 21,996                 | 21,996      | 11,393                     | 6,302       | (33,389)            | (28,298)     | 18,440              | 13,453      |
| Net income attributable to discontinued operations, net of tax | 1,700                          | 1,487       |                        |             | 1,700                      | 1,487       | (1,700)             | (1,487)      | 1,700               | 1,487       |
| Net income                                                     | \$ 20,140                      | \$ 14,940   | \$ 21,996              | \$ 21,996   | \$ 13,093                  | \$ 7,789    | \$ (35,089)         | \$ (29,785)  | \$ 20,140           | \$ 14,940   |
| Comprehensive income                                           | \$ 14,629                      | \$ 8,786    | \$ 14,465              | \$ 14,465   | \$ 15,651                  | \$ 9,704    | \$ (30,116)         | \$ (24,169)  | \$ 14,629           | \$ 8,786    |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Year Ended December 31, 2011

|                                                                | RTI International Metals, Inc. |             | Guarantor Subsidiaries |             | Non-Guarantor Subsidiaries |             | Eliminations        |              | Consolidated        |             |
|----------------------------------------------------------------|--------------------------------|-------------|------------------------|-------------|----------------------------|-------------|---------------------|--------------|---------------------|-------------|
|                                                                | Previously Reported            | As Restated | Previously Reported    | As Restated | Previously Reported        | As Restated | Previously Reported | As Restated  | Previously Reported | As Restated |
| Net sales                                                      | \$                             | \$          | \$ 347,963             | \$ 347,963  | \$ 329,155                 | \$ 316,219  | \$ (175,830)        | \$ (175,830) | \$ 501,288          | \$ 488,352  |
| Costs and expenses                                             |                                |             |                        |             |                            |             |                     |              |                     |             |
| Cost of sales                                                  |                                |             | 296,066                | 296,066     | 287,424                    | 277,193     | (175,830)           | (175,830)    | 407,660             | 397,429     |
| Operating income                                               | (981)                          | (981)       | 26,079                 | 26,079      | (1,046)                    | (1,716)     |                     |              | 24,052              | 23,382      |
| Equity in earnings of subsidiaries                             | 16,568                         | 10,066      | 6,128                  | 6,128       | (1,055)                    | (1,055)     | (21,641)            | (15,139)     |                     |             |
| Income before income taxes                                     | (804)                          | (7,306)     | 33,966                 | 33,966      | (3,058)                    | (3,728)     | (21,641)            | (15,139)     | 8,463               | 7,793       |
| Provision for (benefit from) income taxes                      | (4,998)                        | (4,998)     | 10,257                 | 10,257      | (990)                      | 4,842       |                     |              | 4,269               | 10,101      |
| Net income attributable to continuing operations               | 4,194                          | (2,308)     | 23,709                 | 23,709      | (2,068)                    | (8,570)     | (21,641)            | (15,139)     | 4,194               | (2,308)     |
| Net income attributable to discontinued operations, net of tax | 1,838                          | 2,258       |                        |             | 1,838                      | 2,258       | (1,838)             | (2,258)      | 1,838               | 2,258       |
| Net income (loss)                                              | \$ 6,032                       | \$ (50)     | \$ 23,709              | \$ 23,709   | \$ (230)                   | \$ (6,312)  | \$ (23,479)         | \$ (17,397)  | \$ 6,032            | \$ (50)     |
| Comprehensive income (loss)                                    | \$ (842)                       | \$ (6,563)  | \$ 19,646              | \$ 19,646   | \$ (2,106)                 | \$ (7,827)  | \$ (17,540)         | \$ (11,819)  | \$ (842)            | \$ (6,563)  |

## Condensed Consolidating Balance Sheets Restatement Adjustments

|                                             | RTI International Metals, Inc. |             | Guarantor Subsidiaries     |             | Non-Guarantor Subsidiaries |             | Eliminations            |              | Consolidated            |              |
|---------------------------------------------|--------------------------------|-------------|----------------------------|-------------|----------------------------|-------------|-------------------------|--------------|-------------------------|--------------|
|                                             | Previously Reported (1)        | As Restated | Previously Reported (1)(2) | As Restated | Previously Reported (1)    | As Restated | Previously Reported (1) | As Restated  | Previously Reported (2) | As Restated  |
| <b>ASSETS</b>                               |                                |             |                            |             |                            |             |                         |              |                         |              |
| Receivables, net                            | \$ 126                         | \$ 126      | \$ 72,773                  | \$ 72,773   | \$ 59,639                  | \$ 58,676   | \$ (27,221)             | \$ (27,221)  | \$ 105,317              | \$ 104,354   |
| Inventories, net                            |                                |             | 220,290                    | 220,290     | 164,127                    | 155,151     |                         |              | 384,417                 | 375,441      |
| Current assets                              | 36,800                         | 36,800      | 383,983                    | 383,983     | 254,578                    | 255,066     | (27,221)                | (27,221)     | 648,140                 | 648,628      |
| Property, plant, and equipment, net         | 1,327                          | 1,327       | 308,467                    | 308,467     | 66,155                     | 66,025      |                         |              | 375,949                 | 375,819      |
| Goodwill                                    |                                |             | 93,665                     | 93,665      | 36,945                     | 36,587      |                         |              | 130,610                 | 130,252      |
| Deferred income taxes                       |                                |             |                            |             | 33,287                     |             |                         |              | 33,287                  |              |
| Intercompany investments                    | 964,044                        | 931,041     | 26,814                     | 26,814      | 3,736                      | 3,736       | (994,594)               | (961,591)    |                         |              |
| Total assets                                | \$ 1,006,320                   | \$ 973,317  | \$ 848,973                 | \$ 848,973  | \$ 419,869                 | \$ 386,614  | \$ (1,021,815)          | \$ (988,812) | \$ 1,253,347            | \$ 1,220,092 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                |             |                            |             |                            |             |                         |              |                         |              |
| Other accrued liabilities                   | \$ 2,984                       | \$ 3,277    | \$ 9,197                   | \$ 9,197    | \$ 10,369                  | \$ 10,044   | \$                      | \$           | \$ 22,550               | \$ 22,518    |
| Total current liabilities                   | 10,680                         | 10,973      | 97,206                     | 97,206      | 95,838                     | 95,586      | (27,221)                | (27,221)     | 176,503                 | 176,544      |
| Deferred income taxes                       | 42,902                         | 42,902      |                            |             | 3,482                      | 3,482       |                         |              | 46,384                  | 46,384       |
| Total liabilities                           | 264,785                        | 265,078     | 279,761                    | 279,761     | 216,800                    | 216,548     | (249,534)               | (249,534)    | 511,812                 | 511,853      |
| Shareholders' equity                        | 741,535                        | 708,239     | 569,212                    | 569,212     | 203,069                    | 170,066     | (772,281)               | (739,278)    | 741,535                 | 708,239      |
| Total liabilities and shareholders' equity  | \$ 1,006,320                   | \$ 973,317  | \$ 848,973                 | \$ 848,973  | \$ 419,869                 | \$ 386,614  | \$ (1,021,815)          | \$ (988,812) | \$ 1,253,347            | \$ 1,220,092 |

(1) The previously reported balances of current deferred income tax assets, non-current deferred income tax assets, intercompany investments, other accrued liabilities, non-current deferred income taxes, and shareholders' equity were adjusted by \$4,786, \$-, \$(16,823), \$(685), \$(11,320) and \$- for the Parent; by

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\$(2,543), \$(32,757), \$-, \$-, \$(21,590), and \$(13,710) for the Guarantor Subsidiaries; by \$(2,243), \$(146), \$-, \$685, \$7 and \$(3,113) for the Non-Guarantor Subsidiaries; and by \$-, \$32,903, \$16,823, \$ , \$32,903 and \$16,823 for the Eliminations, to correct the presentation of deferred income tax balances.

- (2) The previously reported Guarantor Subsidiary and Consolidated balances of inventory and cost in excess of billings, have been adjusted by \$(699) and, \$1,565 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

**Note 3 DISCONTINUED OPERATIONS:**

As previously disclosed, in conjunction with the reorganization of its reportable segments in 2013, the Company evaluated its long-term growth strategy and determined it would sell or seek other strategic alternatives for its non-core service centers, RTI Pierce Spafford and RTI Connecticut. In April 2013, the Company completed the sale of its RTI Pierce Spafford subsidiary for approximately \$12.4 million of cash, of which \$10.5 million has been received as of December 31, 2013, with the remainder due in late 2014. In addition, the Company determined that its other non-titanium service center, RTI Connecticut, qualified as held-for-sale at December 31, 2013.

The results of RTI Pierce Spafford and RTI Connecticut, including all fair value adjustments and losses on the completed sale of RTI Pierce Spafford, have been presented as results from discontinued operations on the Company's Consolidated Statements of Operations and the related assets and liabilities have been presented separately on the Company's Consolidated Balance Sheets as assets and liabilities of discontinued operations. The results of RTI Connecticut were previously reported in the Titanium Segment, while the results of RTI Pierce Spafford were reported in the Titanium Group, prior to the segment reorganization in 2013.

The Company's results from discontinued operations are summarized below:

|                                                | Year Ended December 31, |           |           |
|------------------------------------------------|-------------------------|-----------|-----------|
|                                                | 2013                    | 2012      | 2011      |
| Net sales                                      | \$ 15,464               | \$ 37,724 | \$ 43,077 |
| Income (loss) before income taxes              | (2,184)                 | 2,333     | 3,533     |
| Provision for (benefit from) income taxes      | (600)                   | 846       | 1,275     |
| Net income (loss) from discontinued operations | (1,584)                 | 1,487     | 2,258     |

Assets and liabilities of discontinued operations were comprised of the following at December 31, 2013 and 2012:

|                                              | December 31,<br>2013 | December 31,<br>2012 |
|----------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                |                      |                      |
| Accounts receivable, net                     | \$ 594               | \$ 3,152             |
| Inventories, net                             | 4,555                | 20,100               |
| Property, plant and equipment, net           | 105                  | 177                  |
| Goodwill                                     |                      | 1,739                |
| Other current assets                         | 20                   |                      |
| Total assets of discontinued operations      | \$ 5,274             | \$ 25,168            |
| <b>LIABILITIES</b>                           |                      |                      |
| Accounts payable                             | \$ 326               | \$ 2,921             |
| Accrued wages                                | 96                   | 437                  |
| Other liabilities                            | 36                   | 73                   |
| Total liabilities of discontinued operations | \$ 458               | \$ 3,431             |

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

**Notes to Consolidated Financial Statements**

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

**Note 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

***Principles of consolidation:***

The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ), and include the accounts of RTI International Metals, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain prior year amounts have been adjusted to correct the prior year presentation of the inventory, costs in excess of billings, and unearned revenue line items on the Consolidated Balance Sheets, as well as the related captions on the Consolidated Statements of Cash Flows.

***Use of estimates:***

U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. Significant items subject to such estimates and assumptions include the carrying values of accounts receivable, inventories, property, plant, and equipment, intangible assets, goodwill, pensions, post-retirement benefits, worker s compensation, environmental liabilities, and income taxes.

***Fair value:***

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

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

Level 1 observable inputs such as quoted prices in active markets;

Level 2 inputs other than the quoted prices in active markets that are observable either directly or indirectly; and

Level 3 unobservable inputs in which there is little or no market data and which requires the Company to develop its own assumptions. The hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. On a recurring basis, the Company measures certain financial assets and liabilities at fair value, including its short-term investments and marketable securities.

For the Company s short-term investments and marketable securities, fair value was determined based on the closing price reported on the active market on which the individual securities are traded. There were no transfers between levels during the year ended December 31, 2013. The Company held no assets or liabilities measured at fair value on a recurring basis as of December 31, 2013 or 2012.

As of both December 31, 2013 and 2012, the Company did not have any financial assets or liabilities that were measured at fair value on a non-recurring basis. Refer to discussions of intangible asset impairments below for nonfinancial assets measured at fair value on a non-recurring

basis.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The carrying amounts and fair values of financial instruments for which the fair value option was not elected were as follows:

|                                   | December 31, 2013 |            | December 31, 2012 |            |
|-----------------------------------|-------------------|------------|-------------------|------------|
|                                   | Carrying Amount   | Fair Value | Carrying Amount   | Fair Value |
| Cash and cash equivalents         | \$ 343,637        | \$ 343,637 | \$ 97,190         | \$ 97,190  |
| Long-term debt                    | 430,300           | 559,986    | 198,337           | 249,113    |
| Current portion of long-term debt | 1,914             | 1,914      | 957               | 957        |

The fair value of long-term debt includes the \$114,381 remaining principle outstanding related to the \$230,000 aggregate principle amount 3.000% Convertible Senior Notes due 2015 (the 2015 Notes ) and the \$402,500 aggregate principal amount 1.625% Convertible Senior Notes due 2019 (the 2019 Notes ) and is inclusive of the conversion feature, which was originally allocated for reporting purposes at \$122.5 million, and is included in the Consolidated Balance Sheets within additional paid-in capital. The fair value of long-term debt was estimated based on the quoted market price for the debt (Level 2).

**Cash and cash equivalents:**

The Company considers all highly-liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents principally consist of investments in short-term money market funds and corporate commercial paper.

Cash and cash equivalents consisted of the following:

|                                 | December 31,<br>2013 | December 31,<br>2012 |
|---------------------------------|----------------------|----------------------|
| Cash                            | \$ 62,394            | \$ 37,473            |
| Cash equivalents:               |                      |                      |
| Commercial paper                | 150,978              | 32,642               |
| Money market mutual funds       | 130,265              | 27,075               |
| Total cash and cash equivalents | \$ 343,637           | \$ 97,190            |

**Receivables:**

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

|                                       | December 31,<br>2013 | December 31,<br>2012 |
|---------------------------------------|----------------------|----------------------|
| Trade and commercial customers        | \$ 106,091           | \$ 105,075           |
| Less: Allowance for doubtful accounts | (820)                | (721)                |



|                   |            |            |
|-------------------|------------|------------|
| Total receivables | \$ 105,271 | \$ 104,354 |
|-------------------|------------|------------|

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

**Inventories:**

Inventories are valued at cost as determined by the last-in, first-out ( LIFO ) method for approximately 56% and 55%, respectively, of the Company's inventories as of December 31, 2013 and 2012. The remaining inventories are valued at cost determined by a combination of the first-in, first-out ( FIFO ) and weighted-average cost methods. Inventory costs generally include materials, labor, and manufacturing overhead (including depreciation). When market conditions indicate an excess of carrying cost over market value, a lower-of-cost-or-market provision is recorded. There were no LIFO decrements for the years ended December 31, 2013 or 2012.

Inventories consisted of the following:

|                                    | December 31, |            |
|------------------------------------|--------------|------------|
|                                    | 2013         | 2012       |
| Raw materials and supplies         | \$ 166,359   | \$ 160,627 |
| Work-in-process and finished goods | 314,438      | 273,412    |
| LIFO reserve                       | (50,709)     | (58,598)   |
| Total inventories                  | \$ 430,088   | \$ 375,441 |

**Costs in excess of billings:**

As of December 31, 2013 and 2012, the Company had costs in excess of billings of \$5,377 and \$3,825, respectively. All \$5,377 of costs in excess of billings are expected to be collected within the next twelve months. The Company had no claims included in inventory, progress payments netted against inventory, or billings in excess of cost at December 31, 2013 or 2012, respectively.

**Other current assets:**

The Company had other current assets of \$16,947 and \$11,270 at December 31, 2013 and 2012, respectively. Other current assets are comprised mainly of prepaid income taxes and other prepaid expenses which do not individually exceed five percent of consolidated current assets, and are expected to be realized within twelve months of the balance sheet date. The increase in other current assets in 2013 is attributable to increases in prepaid taxes of \$2,266, and other prepaid expenses of \$3,411.

**Property, plant, and equipment:**

The cost of property, plant, and equipment includes all direct costs of acquisition and capital improvements. Applicable amounts of interest on borrowings outstanding during the construction or acquisition period for major capital projects are capitalized. During the years ended December 31, 2013 and 2012, the Company capitalized \$0 and \$821, respectively, of interest expense related to its major capital expansion projects.

Property, plant, and equipment is stated at cost and consisted of the following:

|                            | December 31, |           |
|----------------------------|--------------|-----------|
|                            | 2013         | 2012      |
| Land                       | \$ 18,769    | \$ 17,965 |
| Buildings and improvements | 117,225      | 120,973   |

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|                                                                   |            |            |
|-------------------------------------------------------------------|------------|------------|
| Machinery and equipment                                           | 446,787    | 413,718    |
| Computer hardware and software, furniture and fixtures, and other | 65,622     | 64,131     |
| Construction-in-progress                                          | 52,546     | 56,087     |
|                                                                   | 700,949    | 672,874    |
| Less: Accumulated depreciation                                    | (328,609)  | (297,055)  |
| Total property, plant, and equipment, net                         | \$ 372,340 | \$ 375,819 |

**RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES**
**Notes to Consolidated Financial Statements**

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

Depreciation is determined using the straight-line method over the estimated useful lives of the various classes of assets. Depreciation expense for the years ended December 31, 2013, 2012, and 2011 was \$39,439, \$37,364, and \$21,342, respectively. Depreciation is generally recorded over the following useful lives:

|                                |             |
|--------------------------------|-------------|
| Buildings and improvements     | 20-40 years |
| Machinery and equipment        | 7-15 years  |
| Furniture and fixtures         | 5-10 years  |
| Computer hardware and software | 3-10 years  |

The cost of properties retired or otherwise disposed of, together with the accumulated depreciation provided thereon, is eliminated from the accounts. The net gain or loss is recognized in operating income.

Leased property and equipment under capital leases are amortized using the straight-line method over the term of the lease.

Routine maintenance, repairs, and replacements are charged to operations. Expenditures that materially increase values, change capacities, or extend useful lives are capitalized.

The Company recorded an asset impairment of \$1,617 for the year ended December 31, 2012 as a result of the electrical transformer fire at the Titanium Segment's Canton, Ohio facility. This impairment charge was partially offset by \$1,250 for insurance proceeds. The net impairment charge is included in the Consolidated Statement of Operations as Asset and asset-related charges.

***Goodwill and intangible assets:***

In the case of goodwill and intangible assets, if future product demand or market conditions reduce management's expectation of future cash flows from these assets, a write-down of the carrying value or acceleration of the amortization period may be required. Intangible assets were originally valued at fair value at the date of acquisition.

**Goodwill.** The Company performs its goodwill impairment testing at the reporting unit level. The Company's four reporting units, which are one level below its operating segments, where appropriate, are as follows: 1) the Titanium reporting unit; 2) the Fabrication reporting unit; 3) the Medical Device Fabrication reporting unit; and 4) the Energy Fabrication reporting unit. As of December 31, 2013 and 2012, the Energy Fabrication reporting unit had no goodwill.

The carrying value of goodwill at the Company's four reporting units as of the Company's October 1, 2013 annual impairment test was as follows:

|                                           | <b>Goodwill</b>   |
|-------------------------------------------|-------------------|
| Titanium reporting unit                   | \$ 9,662          |
| Fabrication reporting unit                | 63,548            |
| Medical Device Fabrication reporting unit | 58,748            |
| Energy Fabrication reporting unit         |                   |
| <b>Total Goodwill</b>                     | <b>\$ 131,958</b> |



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

### Notes to Consolidated Financial Statements

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

Goodwill is tested annually during the fourth quarter and is assessed between annual tests if an event occurs or circumstances change that would indicate the carrying value of a reporting unit may exceed its fair value. These events and circumstances may include, but are not limited to: significant adverse changes in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; a material negative change in relationships with significant customers; strategic decisions made in response to economic or competitive conditions; loss of key personnel; or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or disposed.

The fair value of the Company's four reporting units is calculated by averaging the fair values determined using an income approach (i.e. a discounted cash flow model) and a market approach. A discounted cash flow model is based on historical and projected financial information and provides a fair value estimate based upon each reporting unit's long-term operating and cash flow performance. This approach also considers the impact of cyclical downturns that occur in the titanium and aerospace industries. The market valuation approach applies market multiples, such as EBITDA and revenue multiples, developed from a set of peer group companies to each reporting unit to determine its fair value. The Company considered the use of a cost approach but determined such an approach was not appropriate.

Utilizing a discounted cash flow model, the Company estimates its cash flow projections using business and economic data available at the time the projection is calculated. A significant number of assumptions and estimates are involved in the application of the discounted cash flow model to forecast operating cash flows, including overall business conditions, sales volumes and prices, costs of production, and working capital changes. The Company considers historical experience and available information at the time the reporting units' fair values are estimated. Discount rates were developed using a Weighted-Average Cost of Capital (WACC) methodology. The WACC represents the blended average required rate of return for equity and debt capital based on observed market return data and reporting unit specific risk factors.

The discount rates used in the Company's October 1, 2013 annual impairment test were as follows:

|                                           |       |
|-------------------------------------------|-------|
| Titanium reporting unit                   | 11.0% |
| Fabrication reporting unit                | 12.5% |
| Medical Device Fabrication reporting unit | 13.0% |

The Company performed a Step One impairment test for all reporting units with a goodwill balance as of the testing date. Significant assumptions that changed from the prior year included the impact of the Patient Protection and Affordable Care Act (the Healthcare Acts) and the related 2.3% excise tax on medical devices.

Step One of the goodwill impairment test indicated that the fair value of the Titanium and Fabrication reporting units each exceeded their respective carrying values by a significant margin, while the Medical Device Fabrication reporting unit's carrying value exceeded its fair value by approximately 17% as of the October 1, 2013 testing date. A Step Two analysis was then performed for the Medical Device Fabrication reporting unit which indicated that the implied fair value of goodwill of the Medical Device Fabrication reporting unit was \$44,789 as of October 1, 2013, resulting in an impairment charge of \$13,959.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

In addition to the impairment at the Medical Device Fabrication reporting unit, an immaterial goodwill impairment was recognized in the Company's Titanium reporting unit as a result of the Company's decision to dispose of RTI Pierce Spafford and RTI Connecticut businesses. This impairment is included as a component of net loss from discontinued operations for the year ended December 31, 2013. Excluding the Energy Fabrication reporting unit, whose goodwill was fully impaired in 2009, and the items mentioned above, there have been no other impairments to date at the Company's reporting units. Uncertainties or other factors that could result in a potential impairment in future periods may include any cancellation of or material modification to one of the major aerospace programs the Company currently supplies, including the Joint Strike fighter program, the Boeing 787 program, or the Airbus family of aircraft, including the A350XWB, A320neo, or A380 programs. In addition, the Company's ability to ramp up its production of these programs in a cost efficient manner may also impact the results of a future impairment test. Furthermore, additional pricing pressures or other impacts from the Healthcare Acts could result in an additional goodwill impairment at our Medical Device Fabrication reporting unit.

The carrying amount of goodwill attributable to each segment at December 31, 2011, 2012, and 2013 was as follows:

|                              | <b>Titanium<br/>Segment</b> | <b>Engineered<br/>Products and<br/>Services Segment</b> | <b>Total</b> |
|------------------------------|-----------------------------|---------------------------------------------------------|--------------|
| December 31, 2011            | \$ 9,662                    | \$ 44,463                                               | \$ 54,125    |
| Additions (Note 5)           |                             | 75,824                                                  | 75,824       |
| Translation adjustment       |                             | 303                                                     | 303          |
| December 31, 2012            | 9,662                       | 120,590                                                 | 130,252      |
| Additions (Note 5)           |                             | 2,185                                                   | 2,185        |
| Impairments                  |                             | (13,959)                                                | (13,959)     |
| Translation adjustment       |                             | (900)                                                   | (900)        |
| Balance at December 31, 2013 | \$ 9,662                    | \$ 107,916                                              | \$ 117,578   |

At December 31, 2013 and 2012, the Engineered Products and Services Segment had accumulated goodwill impairment losses of \$22,858 and \$8,899, respectively, while the Titanium Segment has no accumulated impairment losses, other than those relating to discontinued operations, not included in the table above.

*Intangible assets.* Intangible assets consist primarily of customer relationships, trade names, and developed technology acquired through various business combinations. These intangible assets were valued at fair value at acquisition. In the event that long-term demand or market conditions change and the expected future cash flows associated with these assets is reduced, a write-down or acceleration of the amortization period may be required. The Company has one indefinite-lived intangible asset, the Remmele trade name, which it does not amortize. The Company currently intends to utilize the Remmele trade name indefinitely. Other intangible assets are being amortized over the following periods:

|                        |               |
|------------------------|---------------|
| Customer relationships | 7-20 years    |
| Developed technology   | 12-20 years   |
| Backlog                | 0.5 - 2 years |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Amortization expense was \$4,386, \$3,760, and \$1,091 for the years ended December 31, 2013, 2012, and 2011, respectively. Estimated annual amortization expense expected in each of the next five successive years is as follows:

|            | <b>Amortization</b> |
|------------|---------------------|
| 2014       | \$ 4,080            |
| 2015       | \$ 4,011            |
| 2016       | \$ 4,011            |
| 2017       | \$ 4,011            |
| 2018       | \$ 4,011            |
| Thereafter | \$ 27,430           |

There were no intangible assets attributable to the Titanium Segment at December 31, 2013, 2012, and 2011. The carrying amount of intangible assets attributable to the EP&S Segment at December 31, 2013, 2012, and 2011, as well as a summary of intangible assets, by class, at December 31, 2013 and 2012, is presented below:

|                                     | <b>Intangible<br/>Assets</b> |
|-------------------------------------|------------------------------|
| December 31, 2011                   | \$ 22,576                    |
| Intangible assets acquired (Note 5) | 37,400                       |
| Amortization                        | (3,760)                      |
| Translation adjustment              | 279                          |
| December 31, 2012                   | 56,495                       |
| Intangible assets acquired (Note 5) | 3,800                        |
| Amortization                        | (4,386)                      |
| Impairment                          | (1,400)                      |
| Translation adjustment              | (755)                        |
| December 31, 2013                   | \$ 53,754                    |

|                                 | <b>December 31,<br/>2013</b> | <b>2012</b> |
|---------------------------------|------------------------------|-------------|
| Backlog                         | \$ 1,300                     | \$ 1,100    |
| Accumulated amortization        | (1,236)                      | (481)       |
| Backlog, net                    | 64                           | 619         |
| Customer relationships          | 45,013                       | 41,413      |
| Effects of currency translation | 1,930                        | 3,183       |
| Accumulated amortization        | (10,961)                     | (8,754)     |
| Customer relationships, net     | 35,982                       | 35,842      |
| Developed technology            | 13,290                       | 13,290      |



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|                              |           |           |
|------------------------------|-----------|-----------|
| Accumulated amortization     | (1,782)   | (856)     |
| Developed technology, net    | 11,508    | 12,434    |
| Remmele trade name           | 6,200     | 7,600     |
| Total intangible assets, net | \$ 53,754 | \$ 56,495 |

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

**Notes to Consolidated Financial Statements**

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

Management evaluates the recovery of indefinite-lived intangible assets by first determining, through a qualitative analysis, whether there have been any events or changes in circumstances that would indicate a potential impairment. If the qualitative analysis indicates that it is more-likely-than-not that an impairment has incurred, management compares the fair value of the indefinite lived intangible asset to its carrying value and then measures the impairment, if any. As of October 1, 2013, the Company's only indefinite-lived intangible asset other than goodwill was the Remmele trade name. In conjunction with the Company's goodwill impairment test, a two-step impairment analysis of the Remmele trade name intangible asset was performed which indicated a fair value of \$6,200, and as a result recorded an impairment of \$1,400 as a component of Goodwill and other intangible asset impairment on the Consolidated Statement of Operations. The fair value of the Remmele trade name was determined using a discounted cash flow model (level 3) utilizing a discount rate of 13.5%.

***Other long-lived assets:***

The Company evaluates the potential impairment of other long-lived assets including property, plant, and equipment when events or circumstances indicate that a change in value may have occurred. If the carrying value of the assets exceeds the sum of the undiscounted expected future cash flows, the carrying value of the asset is written down to fair value.

The Company considered the Medical Device Fabrication reporting unit goodwill impairment and the establishment of a valuation allowance against its Canadian net deferred tax asset as triggering events for potential impairments of its long-lived assets within those asset groups. The Company's evaluation determined that no impairment of these asset groups was required.

***Other non-current assets:***

The Company had other non-current assets of \$23,247 and \$8,898 at December 31, 2013 and 2012, respectively. Other non-current assets are comprised mainly of pension assets, deferred financing costs, and non-refundable engineering costs which do not exceed five percent of total assets individually, and are not expected to be realized within twelve months of the balance sheet date. The increase in other non-current assets in 2013 is primarily attributable to a \$6,517 increase in deferred financing costs attributable to the issuance of the Company's 1.625% Convertible Senior Notes due 2019 (the 2019 Notes), offset by the write-off of a portion of the deferred financing costs associated with the repurchase, through individually negotiated, private transactions, of \$115.6 million aggregate principal amount of the 3.000% Convertible Senior Notes due 2015 (the 2015 Notes), as well as an increase of \$6,292 in assets related to a pension plan with plan assets in excess of obligations.

***Environmental:***

The Company expenses environmental costs related to existing conditions from which no future benefit is determinable. Expenditures that enhance or extend the life of the asset are capitalized. The Company determines its liability for remediation on a site-by-site basis and records a liability when it is probable and can be reasonably estimated. The estimated liability of the Company is not discounted or reduced for possible recoveries from insurance carriers.

***Treasury stock:***

The Company accounts for treasury stock under the cost method and includes such shares as a reduction of total shareholders' equity.

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

**Notes to Consolidated Financial Statements**

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

***Revenue Recognition:***

Product and service revenues are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service revenues are recognized as services are rendered.

Revenue under long-term construction-type contracts are recorded on a percentage-of-completion method measured on the cost-to-cost basis and the units-of-delivery basis for long-term production-type contracts. Since the Company had not been historically recording revenue and expenses in accordance with ASC 605-35, such estimates are not available for historical periods and it is not practical to create such estimates. As a result, revenues and costs under contracts measured on the cost-to-cost have been recorded using the zero profit method under ASC 605-35 until the period when the Company believes it would have been able to estimate the remaining revenues and costs, at which point the cumulative contract gross profit earned to date was recorded. This generally occurred when the primary deliverable under the contract was delivered. The Company will continue to use this methodology until such time as a reliable process for estimating total contract revenues and costs is implemented, at which time the Company will recognize contract revenues in proportion to costs.

Provisions for anticipated losses on long-term contracts are recorded in full when such losses become evident. No such losses have been recorded at December 31, 2013, 2012, or 2011.

Revenues from contracts with multiple element arrangements are recognized as each element is earned based on the relative fair value of each element provided the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately.

Value added taxes collected on sales are excluded from revenue and recorded as a liability on the Consolidated Balance Sheet until remitted to the taxing authority.

***Shipping and handling fees and costs:***

All amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned and are reported as revenue. Costs incurred by the Company for shipping and handling, including transportation costs paid to third-party shippers, are reported as a component of cost of sales. Shipping and handling expenses were immaterial for the years ended December 31, 2013, 2012, and 2011, respectively.

***Research and development:***

Research and development costs are expensed as incurred. These costs totaled \$3,931, \$4,164, and \$3,392 for the years ended December 31, 2013, 2012, and 2011, respectively, and typically include employment costs, contractor fees, and other administrative costs.

***Pensions:***

The Company provides defined benefit pension plans for certain of its salaried and represented workforce. Benefits for its salaried participants are generally based on participants' years of service and compensation. Benefits for represented pension participants are generally determined based on an amount for years of service. Other employees participate in 401(k) plans whereby the Company may provide a match of employee contributions. Most employees in the Titanium Segment are covered by defined benefit plans in which benefits

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

**Notes to Consolidated Financial Statements**

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

are based on years of service and annual compensation. Contributions to the defined benefit plans, as determined by an independent actuary in accordance with applicable regulations, provide not only for benefits attributed to date, but also for those expected to be earned in the future. The Company's policy is to fund pension costs at amounts equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA), as amended, for U.S. plans plus additional amounts as may be approved from time to time.

The Company accounts for its defined benefit pension plans in accordance with the FASB's authoritative guidance, which requires amounts recognized in the financial statements to be determined on an actuarial basis, rather than as contributions are made to the plans, and requires recognition of the funded status of the Company's plans in its Consolidated Balance Sheet. In addition, it also requires actuarial gains and losses, prior service costs and credits, and transition obligations that have not yet been recognized to be recorded as a component of accumulated other comprehensive loss.

***Other post-retirement benefits:***

The Company provides health care benefits and life insurance coverage for certain of its employees and their dependents. Under the Company's current plans, certain of the Company's employees will become eligible for those benefits if they reach retirement age while working with the Company. In general, employees of the Titanium Segment are covered by post-retirement health care and life insurance benefits.

The Company also sponsors another post-retirement plan covering certain employees. This plan provides health care benefits for eligible employees. These benefits are accounted for on an actuarial basis, rather than as benefits are paid. The Company does not pre-fund post-retirement benefit costs, but rather pays claims as billed.

***Income taxes:***

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax basis of assets and liabilities multiplied by the enacted tax rates which will be in effect when these differences are expected to reverse. In addition, deferred tax assets may arise from net operating losses (NOLs) and tax credits which may be carried back to obtain refunds or carried forward to offset future cash tax liabilities.

On a quarterly basis, the Company evaluates the available evidence supporting the realization of deferred tax assets and makes adjustments for a valuation allowance, as necessary.

Tax benefits related to uncertain tax provisions taken or expected to be taken on a tax return are recorded when such benefits meet a more-likely-than-not threshold. Otherwise, these tax benefits are recorded when a tax position has been effectively settled, which means that either the appropriate taxing authority has completed their examination even though the statute of limitations remains open, or the statute of limitation has expired. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

***Foreign currencies:***

For the Company's foreign subsidiaries in the United Kingdom and France, whose functional currency is the U.S. Dollar, monetary assets and liabilities are remeasured at current rates, non-monetary assets and liabilities are remeasured at historical rates, and revenues and expenses are translated at average rates on a monthly basis throughout the year. Resulting differences from the remeasurement process are recognized in income and reported as other income (expense).

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The functional currency of the Company's Canadian subsidiary is the Canadian Dollar. Assets and liabilities are translated at year-end exchange rates. Income statement accounts are translated at the average rates of exchange prevailing during the year. Translation adjustments are reported as a component of accumulated other comprehensive loss in shareholders' equity and are included in comprehensive income (loss).

Transactions and balances denominated in currencies other than the functional currency of the transacting entity are remeasured at current rates when the transaction occurs and at each balance sheet date. Transaction gains and losses are included in net income for the period.

**Accumulated other comprehensive income (loss):**

The components of accumulated other comprehensive income (loss), net of tax, on the Company's Consolidated Balance sheet at December 31, 2013 and 2012 were as follows:

|                                                                        | Foreign<br>Currency<br>Translation | Actuarial<br>Losses on<br>Benefit<br>Plans | Unrealized<br>losses on<br>Investments | Total       |
|------------------------------------------------------------------------|------------------------------------|--------------------------------------------|----------------------------------------|-------------|
| Balance at December 31, 2012 (as restated)                             | \$ 12,708                          | \$ (57,712)                                | \$                                     | \$ (45,004) |
| Other comprehensive income (loss) before reclassifications, net of tax | (6,928)                            | 3,651                                      | 21                                     | (3,256)     |
| Amounts reclassified from other comprehensive loss, net of tax         |                                    | 7,884                                      | (21)                                   | 7,863       |
| Accumulated other comprehensive income (loss) at December 31, 2013     | \$ 5,780                           | \$ (46,177)                                | \$                                     | \$ (40,397) |

Amounts reclassified from accumulated other comprehensive loss, net of tax, for December 31, 2013 are presented below. These amounts are reclassified to Cost of sales and Selling, general, and administrative expenses within the Consolidated Statement of Operations.

|                                                | December 31, 2013 |
|------------------------------------------------|-------------------|
| <b>Impact of Defined Benefit Pension Items</b> |                   |
| Actuarial losses and prior service costs       | \$ 9,416          |
| Special termination benefits                   | 3,196             |
| Tax expense                                    | (4,728)           |
| <b>Total reclassifications</b>                 | <b>\$ 7,884</b>   |

Refer to Note 9 of these Consolidated Financial Statements for further information about the Company's benefit plans.

**Stock-based compensation:**

The Company utilizes a graded vesting approach to recognize compensation expense over the vesting period of stock awards. For employees who have reached retirement age, the Company recognizes compensation expense at the date of grant. For employees approaching retirement eligibility, the Company amortizes compensation expense over the period from the grant date through the retirement eligibility date.

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

**Notes to Consolidated Financial Statements**

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

Cash flows resulting from the windfall tax benefits from tax deductions in excess of the compensation cost recognized ( excess tax benefits ) are classified as financing cash inflows. For the years ended December 31, 2013, 2012, and 2011, operating cash flows were decreased and financing cash flows were increased by \$552, \$196, and \$302, respectively.

Total compensation expense recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was \$6,026, \$4,797, and \$4,599 for the years ended December 31, 2013, 2012, and 2011, respectively. The total income tax benefit recognized in the Consolidated Statements of Operations for stock-based compensation arrangements was \$1,886, \$1,727, and \$2,060 for the years ended December 31, 2013, 2012, and 2011, respectively. There was no stock-based compensation cost capitalized for the years ended December 31, 2013, 2012, and 2011.

***New Accounting Standards:***

In July 2013, the FASB issued Accounting Standards Update ( ASU ) 2013-11, *Income Taxes Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This ASU prescribes the Balance Sheet presentation for unrecognized tax benefits in the presence of a net operating loss carryforward, tax loss or tax credit carryforward. The amendments in the ASU do not require any new recurring disclosures, and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

In March 2013, the FASB issued ASU 2013-05, *Foreign Currency Matters Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity*. This ASU clarifies the applicable guidance for the release of the cumulative translation adjustment under current U.S. GAAP. The amendments in this ASU are effective prospectively for annual and interim reporting periods beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-04, *Liabilities Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date*. This ASU provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the ASU is fixed at the reporting date. The amendments in this ASU are effective prospectively for annual and interim reporting periods beginning after December 15, 2013. The Company does not expect this guidance to have a material impact on the Company's Consolidated Financial Statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. This ASU added disclosure requirements for amounts reclassified out of accumulated other comprehensive income for interim and annual reporting periods. The amendments in this ASU are effective prospectively for all reporting periods beginning after December 15, 2012. The Company adopted this guidance during the first quarter of 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In January 2013, the FASB issued ASU 2013-01, *Balance Sheet Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU clarified the types of instruments to which ASU 2011-11 applied. This update is effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

In July 2012, the FASB issued ASU No. 2012-02, *Intangibles—Goodwill and Other: Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU added an optional qualitative analysis to the yearly testing for indefinite-lived intangible asset impairment. Depending on the outcome of this analysis, the quantitative process could be eliminated for the year the analysis is performed. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

In December 2011, the FASB issued ASU No. 2011-11 *Balance Sheet Disclosures about Offsetting Assets and Liabilities*. This new guidance requires the disclosure of both net and gross information in the notes for relevant assets and liabilities that are offset. This update is effective for annual reporting periods beginning on or after January 1, 2013. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

**Note 5 ACQUISITIONS:**

*RTI Extrusions Europe Limited.* On October 1, 2013, the Company purchased all of the outstanding common stock of RTI Extrusions Europe for total consideration of approximately \$20.4 million, including \$16.2 million in cash, and the assumption of \$4.2 million in liabilities. RTI Extrusions Europe manufactures extruded, hot-or-cold stretched steel and titanium parts for a number of markets including the aerospace and oil and gas markets. The results of RTI Extrusions Europe are reported in the EP&S Segment. From acquisition date, RTI Extrusions Europe has generated revenues of \$4,849 and an operating loss of \$417.

The purchase price allocation, which has not been finalized, is as follows:

|                                     |           |
|-------------------------------------|-----------|
| Assets purchased:                   |           |
| Current assets, excluding inventory | \$ 4,827  |
| Inventories                         | 5,230     |
| Plant and equipment                 | 4,346     |
| Intangible assets:                  |           |
| Customer relationships              | 3,600     |
| Backlog                             | 200       |
| Goodwill                            | 2,185     |
| Liabilities assumed:                |           |
| Current liabilities                 | 2,621     |
| Deferred tax liabilities            | 1,553     |
| Net assets acquired                 | \$ 16,214 |

The customer relationship intangible asset is being amortized over a seven year life, while the backlog is being amortized over six months. Goodwill is primarily attributable to the assembled workforce of RTI Extrusions Europe. Goodwill is not deductible for tax purposes. The purchase price allocation remains open for the final valuation of fixed assets, intangible assets, and goodwill.

Pro forma financial information has not been prepared for the acquisition of RTI Extrusions Europe as the acquisition was not material to the Consolidated Financial Statements.

*Remmele.* On February 13, 2012, the Company purchased all of the outstanding common stock of Remmele for total consideration of approximately \$185.4 million, including approximately \$182.6 million in cash and the assumption of \$2.8 million of capitalized equipment leases. Remmele has four facilities in the





## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Minneapolis, Minnesota area and engages in precision machining and manufacturing engineering services, as well as supply sourcing, assembly and integration, and other key services and technologies for the commercial aerospace, defense, and medical device sectors, and is included in the EP&S Segment.

The purchase price allocation, which has been finalized, is as follows:

|                                     |            |
|-------------------------------------|------------|
| Assets purchased:                   |            |
| Current assets, excluding inventory | \$ 17,491  |
| Inventories                         | 17,380     |
| Plant and equipment                 | 68,772     |
| Costs in excess of billings         | 3,884      |
| Other assets                        | 1,972      |
| Intangible assets:                  |            |
| Customer relationships              | 19,300     |
| Developed technologies              | 9,400      |
| Backlog                             | 1,100      |
| Trade name                          | 7,600      |
| Goodwill                            | 75,568     |
| Liabilities assumed:                |            |
| Current liabilities                 | 15,489     |
| Deferred tax liabilities            | 22,407     |
| Other liabilities                   | 2,016      |
| Net assets acquired                 | \$ 182,555 |

Goodwill is primarily attributable to Remmele's assembled workforce and exposure to new customers for the Company's products. It is not deductible for tax purposes. Customer relationships and developed technologies are being amortized over a period of twelve to fifteen years and backlog over a period of two years. Trade names are not amortized as the Company believes that these assets have an indefinite life as the Company intends to continue use of the Remmele name indefinitely.

The amount of Remmele's net sales and earnings included in the Company's Consolidated Statements of Operations for the year ended December 31, 2012, and the pro forma net sales and earnings of the combined entity had the acquisition date been January 1, 2011, are as follows:

|                                     | Years Ended December 31, |            |
|-------------------------------------|--------------------------|------------|
|                                     | 2012                     | 2011       |
| Net sales:                          |                          |            |
| Actual Remmele                      | \$ 118,977               | \$         |
| Supplemental pro forma consolidated | \$ 712,650               | \$ 614,502 |
| Net income:                         |                          |            |
| Actual Remmele                      | \$ 2,713                 | \$         |
| Earnings per share (diluted)        | \$ 0.09                  | \$         |
| Supplemental pro forma consolidated | \$ 16,055                | \$ (1,639) |
| Earnings per share (diluted)        | \$ 0.53                  | \$ (0.05)  |



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

Earnings per share ( EPS ) amounts for each period are presented in accordance with the FASB's authoritative guidance which requires the presentation of basic and diluted EPS. Basic EPS was computed by dividing net income attributable to common shareholders by the weighted-average number of shares of Common Stock outstanding for each respective period. Diluted EPS was calculated by dividing net income attributable to common shareholders by the weighted-average of all potentially dilutive shares of Common Stock that were outstanding during the periods presented.

At December 31, 2013, the Company had \$114.4 million aggregate principal amount of the 2015 Notes and \$402.5 million aggregate principal amount the 2019 Notes outstanding. Shares underlying the 2019 Notes and the 2015 Notes and certain stock options were excluded from the calculation of EPS as their effects were antidilutive. Shares excluded from the calculation of EPS were as follows:

|                           | Year ended December 31, |           |           |
|---------------------------|-------------------------|-----------|-----------|
|                           | 2013                    | 2012      | 2011      |
| 2015 Notes                | 3,185,213               | 6,404,902 | 6,404,902 |
| 2019 Notes                | 9,885,561               | N/A       | N/A       |
| Anti-dilutive options (1) | 238,255                 | 421,700   | 566,451   |

- (1) Average option price of shares excluded from calculation of earnings per share were \$48.10, \$38.43 and \$31.23 for the years ended December 31, 2013, 2012 and 2011, respectively.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Actual weighted-average shares of Common Stock outstanding used in the calculation of basic and diluted EPS for the years ended December 31, 2013, 2012 and 2011, were as follows:

|                                                                                                                                                                                        | Years ended December 31, |                       |                       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-----------------------|-----------------------|
|                                                                                                                                                                                        | 2013                     | 2012<br>(as restated) | 2011<br>(as restated) |
| Numerator basic earnings per share:                                                                                                                                                    |                          |                       |                       |
| Net income (loss) from continuing operations before allocation of earnings to participating securities                                                                                 | \$ 15,657                | \$ 13,453             | \$ (2,308)            |
| Less: Earnings allocated to participating securities                                                                                                                                   | (99)                     | (80)                  |                       |
| Net income (loss) from continuing operations attributable to common shareholders, after earnings allocated to participating securities used in calculation of basic earnings per share | \$ 15,558                | \$ 13,373             | \$ (2,308)            |
| Net income (loss) from discontinued operations before allocation of earnings to participating securities                                                                               | \$ (1,584)               | \$ 1,487              | \$ 2,258              |
| Less: Earnings allocated to participating securities                                                                                                                                   |                          | (9)                   |                       |
| Net income (loss) from discontinued operations attributable to common shareholders, after earnings allocated to participating securities                                               | \$ (1,584)               | \$ 1,478              | \$ 2,258              |
| Denominator:                                                                                                                                                                           |                          |                       |                       |
| Basic weighted-average shares outstanding                                                                                                                                              | 30,303,328               | 30,127,275            | 30,017,677            |
| Effect of dilutive securities                                                                                                                                                          | 227,173                  | 130,413               |                       |
| Diluted weighted-average shares outstanding                                                                                                                                            | 30,530,501               | 30,257,688            | 30,017,677            |
| Earnings (loss) per share attributable to continuing operations:                                                                                                                       |                          |                       |                       |
| Basic                                                                                                                                                                                  | \$ 0.51                  | \$ 0.44               | \$ (0.08)             |
| Diluted                                                                                                                                                                                | \$ 0.51                  | \$ 0.44               | \$ (0.08)             |
| Earnings (loss) per share attributable to discontinued operations:                                                                                                                     |                          |                       |                       |
| Basic                                                                                                                                                                                  | \$ (0.05)                | \$ 0.05               | \$ 0.08               |
| Diluted                                                                                                                                                                                | \$ (0.05)                | \$ 0.05               | \$ 0.08               |

**Note 7 INCOME TAXES:**

The Provision for income taxes caption in the Consolidated Statements of Operations includes the following income tax expense:

|         | December 31, 2013 |            |          | December 31, 2012<br>(as restated) |          |           | December 31, 2011<br>(as restated) |           |          |
|---------|-------------------|------------|----------|------------------------------------|----------|-----------|------------------------------------|-----------|----------|
|         | Current           | Deferred   | Total    | Current                            | Deferred | Total     | Current                            | Deferred  | Total    |
| Federal | \$ 12,875         | \$ (3,728) | \$ 9,147 | \$ 2,806                           | \$ 9,402 | \$ 12,208 | \$ (5,633)                         | \$ 14,263 | \$ 8,630 |
| State   | 1,152             | (6,630)    | (5,478)  | 2,330                              | (2,258)  | 72        | 479                                | (1,101)   | (622)    |
| Foreign | 5,376             | (1,906)    | 3,470    | 3,916                              | (511)    | 3,405     | 1,076                              | 1,017     | 2,093    |

|       |           |             |          |          |          |           |            |           |           |
|-------|-----------|-------------|----------|----------|----------|-----------|------------|-----------|-----------|
| Total | \$ 19,403 | \$ (12,264) | \$ 7,139 | \$ 9,052 | \$ 6,633 | \$ 15,685 | \$ (4,078) | \$ 14,179 | \$ 10,101 |
|-------|-----------|-------------|----------|----------|----------|-----------|------------|-----------|-----------|

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The following table sets forth the components of income (loss) before income taxes by jurisdiction:

|                            | Years Ended December 31, |                       |                       |
|----------------------------|--------------------------|-----------------------|-----------------------|
|                            | 2013                     | 2012<br>(as restated) | 2011<br>(as restated) |
| United States              | \$ 12,530                | \$ 34,583             | \$ 19,086             |
| Foreign                    | 10,266                   | (5,445)               | (11,293)              |
| Income before income taxes | \$ 22,796                | \$ 29,138             | \$ 7,793              |

A reconciliation of the expected tax at the federal statutory tax rate to the actual provision follows:

|                                                                    | Years Ended December 31, |                       |                       |
|--------------------------------------------------------------------|--------------------------|-----------------------|-----------------------|
|                                                                    | 2013                     | 2012<br>(as restated) | 2011<br>(as restated) |
| Statutory rate of 35% applied to income (loss) before income taxes | \$ 7,979                 | \$ 10,198             | \$ 2,727              |
| Adjustments of tax reserves and prior years income taxes           | 51                       | 1,322                 | 1,643                 |
| Officers excess compensation/Acquisition costs                     | 434                      | 413                   | 875                   |
| Effects of foreign operations                                      | (3,042)                  | (1,399)               | (1,115)               |
| Change in valuation allowance                                      | 1,662                    | 5,200                 | 6,082                 |
| State income taxes, net of federal tax effects                     | (3,802)                  | 147                   | (305)                 |
| Goodwill and other intangible asset impairment                     | 3,953                    |                       |                       |
| Section 249 bond premium disallowance                              | 925                      |                       |                       |
| Section 199 deduction                                              | (1,173)                  | (335)                 |                       |
| Other                                                              | 152                      | 139                   | 194                   |
| Total provision                                                    | \$ 7,139                 | \$ 15,685             | \$ 10,101             |
| Effective tax rate                                                 | 31.3%                    | 53.8%                 | 129.6%                |

The effective tax rates in each year vary from the U.S. federal statutory rate of 35% principally due to the effects of foreign operations, adjustments to unrecognized tax benefits, state taxes and, in 2011, certain nondeductible business costs. The effects of foreign operations include the impact of lower foreign statutory tax rates, certain statutory allowances, foreign exchange rate movements, and modest amounts of US foreign tax credits. These factors and the mix of domestic and foreign income or loss as well as the level of income significantly influence each year's overall effective tax rate.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Deferred tax assets and liabilities resulted from the following:

|                                                              | December 31, |                       |
|--------------------------------------------------------------|--------------|-----------------------|
|                                                              | 2013         | 2012<br>(as restated) |
| Deferred tax assets:                                         |              |                       |
| Canadian tax loss carryforwards (expiring 2015 through 2033) | \$ 39,989    | \$ 41,389             |
| Postretirement benefit costs                                 | 17,400       | 18,066                |
| Employment costs                                             | 11,745       | 11,797                |
| State tax loss carryforwards (expiring 2023 through 2032)    | 8,073        | 7,133                 |
| Inventories                                                  | 14,671       | 12,022                |
| Start-up costs                                               | 2,988        | 4,650                 |
| Revenue recognition                                          | 4,544        | 4,304                 |
| Pension costs                                                | 288          | 3,835                 |
| Duty drawback claims                                         | 212          | 1,786                 |
| Other                                                        | 3,617        | 3,566                 |
| Total deferred tax assets                                    | 103,527      | 108,548               |
| Valuation allowance                                          | (37,172)     | (37,726)              |
| Deferred tax assets, net of valuation allowance              | 66,355       | 70,822                |
| Deferred tax liabilities:                                    |              |                       |
| Property, plant and equipment                                | (58,856)     | (58,129)              |
| Convertible debt                                             | (33,511)     | (13,005)              |
| Intangible assets                                            | (15,063)     | (14,412)              |
| Other                                                        | (973)        | (963)                 |
| Total deferred tax liabilities                               | (108,403)    | (86,509)              |
| Net deferred tax liabilities                                 | \$ (42,048)  | \$ (15,687)           |

The valuation allowances at December 31, 2013 and 2012 are entirely attributable to the Company's Canadian net deferred tax asset for which, due to the Company's Canadian subsidiary's cumulative losses over a number of years, the Company has recorded a full valuation allowance against the Canadian deferred tax asset, net of its Canadian deferred tax liabilities, and to certain state deferred tax assets pertaining to the related state tax loss carry-forwards that are not anticipated to generate a tax benefit. For further information on the valuation allowance recorded against the Canadian net deferred tax asset, see Note 2.

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

A reconciliation of the total amounts of unrecognized tax benefits for the years ended December 31 is as follows:

|                                                               | <b>Unrecognized Tax Benefits</b> |             |             |
|---------------------------------------------------------------|----------------------------------|-------------|-------------|
|                                                               | <b>2013</b>                      | <b>2012</b> | <b>2011</b> |
| Gross balance at January 1                                    | \$ 9,161                         | \$ 6,157    | \$ 4,817    |
| Prior period tax positions                                    |                                  |             |             |
| Increases                                                     | 861                              | 1,556       |             |
| Decreases                                                     | (2,109)                          | (30)        | (14)        |
| Current period tax positions                                  | 1,608                            | 1,478       | 1,376       |
| Lapse of Statute                                              |                                  |             | (22)        |
| Settlements with tax authorities                              | (1,094)                          |             |             |
| Gross balance at December 31                                  | \$ 8,427                         | \$ 9,161    | \$ 6,157    |
| Amount that would affect the effective tax rate if recognized | \$ 6,168                         | \$ 5,946    | \$ 4,614    |

The Company's unrecognized tax benefits principally relate to the sale of products and provision of services by the U.S. companies to their foreign affiliates. The decrease in prior period tax positions resulted from an audit settlement. The settlements with tax authorities represents tax payments to tax authorities as a result of an audit settlement.

The Company classifies interest and penalties as an element of tax expense. The amount of tax-related interest and penalties recognized in the Consolidated Statement of Operations for fiscal years 2013, 2012, and 2011, and the total of such amounts accrued in the Consolidated Balance Sheets at December 31, 2013 and 2012 were not material.

The Company's U.S. Federal income tax returns for tax years 2008, 2010, 2011, and 2012 remain open to examination, though any examination of 2008 is limited to the extent that net operating losses have been carried back to that year. The field examination of the Company's Canadian tax returns for tax years 2006 and 2007 by the Canadian Revenue Authority (CRA) has been completed. The Company has filed an administrative appeal of the agent's proposed adjustments. The examination of the tax year 2008 by CRA is continuing. Tax years after 2008 are open to examination by CRA. It is reasonably possible that the total amount of unrecognized tax benefits could be decreased within the next twelve months by approximately \$2 million.

Undistributed earnings of certain foreign subsidiaries considered to be indefinitely reinvested or which may be remitted tax free in certain situations, amounted to \$4.2 million at December 31, 2013. The Company has determined that the deferred tax liability associated with these undistributed earnings, net of embedded foreign tax credits, is not material.

**Note 8 OTHER INCOME (EXPENSE), NET:**

Other income (expense), net, for the years ended December 31, 2013, 2012, and 2011 was \$938, \$(501), and \$56, respectively. Other income (expense), net, consists primarily of foreign exchange gains and losses from the Company's international operations.

**Note 9 EMPLOYEE BENEFIT PLANS:**

The Company provides defined benefit pension plans for certain of its salaried and represented workforce. Benefits for its salaried participants are generally based on participants' years of service and compensation. Benefits for represented pension participants are generally determined based on an amount for years of service.





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

**Notes to Consolidated Financial Statements**

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

Other employees participate in 401(k) plans whereby the Company may provide a match of employee contributions. 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. For the years ended December 31, 2013, 2012, and 2011, expenses related to 401(k) plans were approximately \$4,199, \$3,390, and \$1,519, respectively.

As of the signing of the Labor Agreement with USW at the Niles, Ohio plant on December 1, 2004, all new hourly, clerical and technical employees covered by the Labor Agreement are covered by a defined contribution pension plan rather than a defined benefit plan. Effective January 1, 2006, all new salaried non-represented employees in the Titanium Segment are covered by a defined contribution pension plan rather than a defined benefit plan. As a result of these changes, no future hires will be covered by defined benefit pension plans. During 2013, the Company offered a voluntary early retirement program to certain qualifying employees. As a result, the Company recorded an after-tax expense of \$3,196 in net periodic benefit cost during the year. The signing of the new labor agreement in March 2012 resulted in benefit enhancements which resulted in a \$6,748 increase in the Company's projected benefit obligation in 2012.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The Company uses a December 31 measurement date for all benefit plans. Of the Company's four qualified pension plans and two non-qualified pension plans, two of the qualified plans, with assets totaling \$93,311, have assets in excess of their benefit obligations by \$6,983. The following table provides reconciliations of the changes in the Company's pension and other post-employment benefit plan obligations, the values of plan assets, amounts recognized in Company's financial statements, and principal weighted-average assumptions used:

|                                                                     | Pension Benefit Plans |             | Post-Retirement Benefit Plan |             |
|---------------------------------------------------------------------|-----------------------|-------------|------------------------------|-------------|
|                                                                     | 2013                  | 2012        | 2013                         | 2012        |
| Change in projected benefit obligation:                             |                       |             |                              |             |
| Projected benefit obligation at beginning of year                   | \$ 167,482            | \$ 143,687  | \$ 47,934                    | \$ 44,391   |
| Service cost                                                        | 2,469                 | 2,450       | 747                          | 671         |
| Interest cost                                                       | 6,789                 | 7,093       | 1,920                        | 2,102       |
| Actuarial loss (gain)                                               | 4,404                 | 16,750      | (2,466)                      | 2,558       |
| Special termination benefits                                        | 2,052                 |             | 162                          |             |
| Amendment                                                           |                       | 6,748       |                              |             |
| Settlements                                                         | (2,486)               | (695)       |                              |             |
| Benefits paid                                                       | (9,707)               | (8,551)     | (2,981)                      | (2,837)     |
| Plan participants' contributions                                    |                       |             | 933                          | 928         |
| Medicare retiree drug subsidy received                              |                       |             | 164                          | 121         |
| Projected benefit obligation at end of year                         | \$ 171,003            | \$ 167,482  | \$ 46,413                    | \$ 47,934   |
| Change in plan assets:                                              |                       |             |                              |             |
| Fair value of plan assets at beginning of year                      | \$ 146,722            | \$ 122,444  | \$                           | \$          |
| Actual return on plan assets                                        | 21,406                | 14,678      |                              |             |
| Employer contributions                                              | 6,806                 | 18,846      | 1,884                        | 1,788       |
| Medicare retiree drug subsidy received                              |                       |             | 164                          | 121         |
| Settlements                                                         | (2,486)               | (695)       |                              |             |
| Plan participants' contributions                                    |                       |             | 933                          | 928         |
| Benefits paid                                                       | (9,707)               | (8,551)     | (2,981)                      | (2,837)     |
| Fair value of plan assets at end of year                            | \$ 162,741            | \$ 146,722  | \$                           | \$          |
| Funded status                                                       | \$ (8,262)            | \$ (20,760) | \$ (46,413)                  | \$ (47,934) |
| Amounts recognized in the Consolidated Balance Sheets consisted of: |                       |             |                              |             |
| Noncurrent assets                                                   | \$ 6,983              | \$ 691      | \$                           | \$          |
| Current liabilities                                                 | (1,458)               | (740)       | (2,966)                      | (2,868)     |
| Noncurrent liabilities                                              | (13,787)              | (20,711)    | (43,447)                     | (45,066)    |
| Net amount recognized                                               | \$ (8,262)            | \$ (20,760) | \$ (46,413)                  | \$ (47,934) |
| Accumulated benefit obligation                                      | \$ 166,357            | \$ 161,482  | N/A                          | N/A         |



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Amounts recognized in accumulated other comprehensive loss consisted of:

|                          | December 31, |           | December 31, |           |
|--------------------------|--------------|-----------|--------------|-----------|
|                          | 2013         | 2012      | 2013         | 2012      |
| Net actuarial loss       | \$ 63,496    | \$ 77,032 | \$ 5,771     | \$ 8,486  |
| Prior service cost       | 6,237        | 7,227     | 689          | 1,904     |
| Total, before tax effect | \$ 69,733    | \$ 84,259 | \$ 6,460     | \$ 10,390 |

Activity related to amounts recognized in accumulated other comprehensive loss is as follows:

|                                    | 2012       |              |           | 2013       |              |            |
|------------------------------------|------------|--------------|-----------|------------|--------------|------------|
|                                    | 12/31/2011 | Amortization | Activity  | 12/31/2012 | Amortization | Activity   |
| <b>Pension Benefit Plans</b>       |            |              |           |            |              |            |
| Actuarial losses                   | \$ 70,987  | \$ (5,734)   | \$ 11,779 | \$ 77,032  | \$ (6,963)   | \$ (6,573) |
| Prior service cost                 | 1,460      | (980)        | 6,747     | 7,227      | (990)        | 6,237      |
| <b>Postretirement Medical Plan</b> |            |              |           |            |              |            |
| Actuarial losses                   | 6,086      | (157)        | 2,557     | 8,486      | (248)        | (2,467)    |
| Prior service cost                 | 3,118      | (1,214)      |           | 1,904      | (1,215)      | 689        |

|                                                                                                                      | Pension Benefit Plans |       | Post-Retirement Benefit Plan |       |
|----------------------------------------------------------------------------------------------------------------------|-----------------------|-------|------------------------------|-------|
|                                                                                                                      | 2013                  | 2012  | 2013                         | 2012  |
| Weighted-average assumptions used to determine benefit obligation at December 31:                                    |                       |       |                              |       |
| Discount rate qualified plan                                                                                         | 4.78%                 | 4.10% | N/A                          | N/A   |
| Discount rate non-qualified plan                                                                                     | 3.71%                 | 4.10% | N/A                          | N/A   |
| Discount rate post-retirement medical plan                                                                           | N/A                   | N/A   | 4.75%                        | 4.10% |
| Rate of increase to compensation levels qualified plans                                                              | 3.80%                 | 3.80% | N/A                          | N/A   |
| Rate of increase to compensation levels non-qualified plans                                                          | 2.90%                 | 3.80% | N/A                          | N/A   |
| Measurement date                                                                                                     | 12/31                 | 12/31 | 12/31                        | 12/31 |
| Health cost trend rate assumed for next year                                                                         | N/A                   | N/A   | 6.73%                        | 6.78% |
| Ultimate trend rate                                                                                                  | N/A                   | N/A   | 4.50%                        | 4.50% |
| Year that rate reaches ultimate trend rate                                                                           | N/A                   | N/A   | 2026                         | 2026  |
| Weighted-average assumptions used to determine net periodic benefit obligation cost for the years ended December 31: |                       |       |                              |       |
| Discount rate                                                                                                        | 4.10%                 | 4.90% | 4.10%                        | 4.90% |
| Expected long-term return on plan assets                                                                             | 7.50%                 | 7.50% | N/A                          | N/A   |
| Rate of increase to compensation levels qualified plans                                                              | 3.80%                 | 3.80% | N/A                          | N/A   |
| Rate of increase to compensation levels non-qualified plans                                                          | 2.90%                 | 3.80% | N/A                          | N/A   |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The Company's expected long-term return on plan assets assumption is based on a periodic review and modeling of each plan's asset allocation and liability structure over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by (a) historical real returns, net of inflation, for the asset classes covered by the investment policy and (b) projections of inflation over the long-term period during which benefits are payable to plan participants.

A change of one quarter of a percentage point in the expected rate of return on plan assets would have the following effect on the defined benefit plan:

|                                                                   | <b>.25%</b> | <b>+ .25%</b> |
|-------------------------------------------------------------------|-------------|---------------|
| Effect on subsequent years periodic pension expense (in millions) | \$ 0.4      | \$ (0.4)      |

The discount rate is used to determine the present value of future payments. In general, the Company's liability increases as the discount rate decreases and decreases as the discount rate increases. The discount rate was determined by taking into consideration an above-mean yield curve model in order to select a discount rate that best matches the expected payment streams of the future payments. Under this model, a hypothetical bond portfolio is constructed with cash flows that are expected to settle the benefit payment stream from the plans. The portfolio is developed using bonds with a Moody's or Standard & Poor's rating of Aa or better based on those bonds available as of the measurement date. The appropriate discount rate is then selected based on the resulting yield from this portfolio.

A change of one quarter of a percentage point in the discount rates used at December 31, 2013 would have the following effect on the defined benefit plans:

|                                                                   | <b>0.25%</b> | <b>+0.25%</b> |
|-------------------------------------------------------------------|--------------|---------------|
| Effect on total projected benefit obligation (PBO) (in millions)  | \$ 4.5       | \$ (4.2)      |
| Effect on subsequent years periodic pension expense (in millions) | \$ 0.3       | \$ (0.3)      |

A change of one-quarter of a percentage point in the discount rate used at December 31, 2013 would have the following effect on the postretirement medical plan:

|                                                                       | <b>.25%</b> | <b>+ .25%</b> |
|-----------------------------------------------------------------------|-------------|---------------|
| Effect on total net periodic benefit cost (in millions)               | \$ 0.1      | \$ (0.1)      |
| Effect on accumulated postretirement benefit obligation (in millions) | \$ 1.3      | \$ (1.2)      |

A change of one percentage point in the health cost trend rate of 6.78% used at December 31, 2013 would have the following effect on the postretirement medical plan:

|                                                                         | <b>1.00%</b> | <b>+1.00%</b> |
|-------------------------------------------------------------------------|--------------|---------------|
| Effect on total service cost and interest cost components (in millions) | \$ (0.1)     | \$ 0.1        |
| Effect on accumulated postretirement benefit obligation (in millions)   | \$ (2.6)     | \$ 2.9        |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The components of net periodic pension and post-retirement benefit cost were as follows:

|                                 | Pension Benefit Plans |          |          | Post-Retirement Benefit Plan |          |          |
|---------------------------------|-----------------------|----------|----------|------------------------------|----------|----------|
|                                 | 2013                  | 2012     | 2011     | 2013                         | 2012     | 2011     |
| Service cost                    | \$ 2,469              | \$ 2,450 | \$ 2,047 | \$ 747                       | \$ 671   | \$ 746   |
| Interest cost                   | 6,789                 | 7,093    | 7,177    | 1,920                        | 2,102    | 2,361    |
| Expected return on plan assets  | (10,429)              | (9,707)  | (7,791)  |                              |          |          |
| Prior service cost amortization | 990                   | 980      | 401      | 1,214                        | 1,214    | 1,214    |
| Amortization of actuarial loss  | 5,982                 | 5,361    | 4,017    | 248                          | 157      | 171      |
| Settlement charges              | 981                   | 373      |          |                              |          |          |
| Special termination benefit     | 2,052                 |          |          | 162                          |          |          |
| Net periodic benefit cost       | \$ 8,834              | \$ 6,550 | \$ 5,851 | \$ 4,291                     | \$ 4,144 | \$ 4,492 |

The amounts in accumulated other comprehensive loss expected to be recognized as components of net periodic benefit cost during 2014 are as follows:

|                                                            | Pension Benefit<br>Plans<br>2014 | Postretirement<br>Medical Plan<br>2014 |
|------------------------------------------------------------|----------------------------------|----------------------------------------|
| Amortization of actuarial loss                             | \$ 5,433                         | \$ 95                                  |
| Amortization of prior service cost                         | 914                              | 689                                    |
| Total recognized from accumulated other comprehensive loss | \$ 6,347                         | \$ 784                                 |

The fair value of the Company's defined benefit pension plans' assets as of December 31, 2013 and 2012 were as follows:

|                             | 2013       | 2012       |
|-----------------------------|------------|------------|
| Investment category:        |            |            |
| U.S. government securities  | \$ 24,996  | \$ 22,034  |
| Corporate bonds             | 40,633     | 37,487     |
| Equities                    | 88,894     | 81,445     |
| Short-term investment funds | 1,550      | 597        |
| Real estate funds           | 3,835      | 3,468      |
| Timberlands                 | 1,875      | 1,691      |
| Other                       | 957        |            |
| Total                       | \$ 162,740 | \$ 146,722 |

The Company's target asset allocation as of December 31, 2013 by asset category is as follows:

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2013

|                                       |      |
|---------------------------------------|------|
| Investment category:                  |      |
| Equity securities                     | 55%  |
| Debt and other short-term investments | 43%  |
| Cash                                  | 2%   |
| Total                                 | 100% |



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The Company's investment policy for the defined benefit pension plans includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges, shown above, by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies. Within these broad investment categories, the Company's investment policy places certain restrictions on the types and amounts of plan investments. For example, no individual stock may account for more than 5% of total equities, no single corporate bond issuer rated below AA may equal more than 10% of the total bond portfolio, non-investment grade bonds may not exceed 10% of the total bond portfolio, and private equity and real estate investments may not exceed 8% of total plan assets.

The Company and a designated third-party fiduciary periodically review the investment policy. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The Company uses appropriate valuation techniques based on the available inputs to measure the fair value of plan investments. When available, the Company measures the fair value using Level 1 inputs as they generally provide the most reliable evidence of fair value. When Level 1 and Level 2 inputs are not available, the Company uses Level 3 inputs to fair value its plan assets. A summary of the plan investments, their fair value and their level within the fair value hierarchy is presented below.

As of December 31, 2013:

|                             | Quoted Market<br>Prices<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total      |
|-----------------------------|--------------------------------------|--------------------------------------------------------|----------------------------------------------------|------------|
| Investment category:        |                                      |                                                        |                                                    |            |
| U.S. government securities  | \$                                   | \$ 24,996                                              | \$                                                 | \$ 24,996  |
| Corporate bonds             |                                      | 40,633                                                 |                                                    | 40,633     |
| Equities                    | 2,529                                | 82,365                                                 | 4,000                                              | 88,894     |
| Short-term investment funds | 1,072                                | 478                                                    |                                                    | 1,550      |
| Real estate funds           |                                      |                                                        | 3,835                                              | 3,835      |
| Timberlands                 |                                      |                                                        | 1,875                                              | 1,875      |
| Other                       | 1,015                                | (58)                                                   |                                                    | 957        |
| Total assets                | \$ 4,616                             | \$ 148,414                                             | \$ 9,710                                           | \$ 162,740 |

As of December 31, 2012:

|                            | Quoted Market<br>Prices<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total     |
|----------------------------|--------------------------------------|--------------------------------------------------------|----------------------------------------------------|-----------|
| Investment category:       |                                      |                                                        |                                                    |           |
| U.S. government securities | \$                                   | \$ 22,034                                              | \$                                                 | \$ 22,034 |
| Corporate bonds            |                                      | 37,487                                                 |                                                    | 37,487    |
| Equities                   | 3,613                                | 73,794                                                 | 4,038                                              | 81,445    |

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|                             |          |            |          |            |
|-----------------------------|----------|------------|----------|------------|
| Short-term investment funds | 597      |            |          | 597        |
| Real estate funds           |          |            | 3,468    | 3,468      |
| Timberlands                 |          |            | 1,691    | 1,691      |
| Total assets                | \$ 4,210 | \$ 133,315 | \$ 9,197 | \$ 146,722 |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

Level 1 Fair Value Measurements:

*Short-term Investment Funds* Short-term Investment Funds are carried at the reported net asset values.

*Equities* The fair values of equities are based upon quoted market prices.

Level 2 Fair Value Measurements:

*Corporate Bonds and U.S. Government Securities* The plans hold certain U.S. government securities and corporate bonds in a limited partnership with the assets of other plan sponsors. The fair values of these securities held in the partnership are based upon quoted market prices.

*Equities* The plans hold common stock in a limited partnership with the assets of other plan sponsors.

The fair values of these securities held in the partnerships are based upon quoted market prices.

Level 3 Fair Value Measurements:

*Equities (Private Equity Funds) and Real Estate Funds* The fair value of private equity funds and real estate funds are determined by the fair value of the underlying investments in the funds plus working capital adjusted for liabilities, currency translation and estimated performance incentives. Various methods of determining the fair value of the underlying assets in each fund are used which may include, but are not limited to, expected cash flows, multiples of earnings, discounted cash flow models, direct capitalization analyses, third-party appraisals and other market-based information. Valuations are reviewed utilizing available market data to determine whether or not any fair value adjustments are necessary.

*Timberlands* The value of the Timberlands investment is based upon the appraised value of the Timberlands plus net working capital. It is based upon inventory obtained pursuant to a review of this inventory at the time of acquisition, updated periodically based upon a cash projection model for a 50-year period using real prices and a real discount rate based upon current market activity. Valuations are reviewed utilizing industry information to determine whether or not any fair value adjustments are necessary.

The following table provides further details of the Level 3 fair value measurements using significant unobservable inputs:

|                                                                                   | Private<br>Equity Funds | Real Estate<br>Funds | Timberlands | Total    |
|-----------------------------------------------------------------------------------|-------------------------|----------------------|-------------|----------|
| December 31, 2011                                                                 | \$ 3,434                | \$ 2,584             | \$ 1,652    | \$ 7,670 |
| Realized gains/losses                                                             | 301                     | 109                  |             | 410      |
| Unrealized gain/losses relating to investments still held at<br>December 31, 2012 | 267                     | 279                  | 39          | 585      |
| Purchases                                                                         | 861                     | 925                  |             | 1,786    |
| Sales                                                                             | (825)                   | (429)                |             | (1,254)  |
| December 31, 2012                                                                 | \$ 4,038                | \$ 3,468             | \$ 1,691    | \$ 9,197 |
| Realized gains/losses                                                             | 788                     | 216                  |             | 1,004    |
| Unrealized gain/losses relating to investments still held at<br>December 31, 2013 | 23                      | 322                  | 184         | 529      |
| Purchases                                                                         | 857                     | 725                  |             | 1,582    |
| Sales                                                                             | (1,706)                 | (896)                |             | (2,602)  |

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|                   |          |          |          |          |
|-------------------|----------|----------|----------|----------|
| December 31, 2013 | \$ 4,000 | \$ 3,835 | \$ 1,875 | \$ 9,710 |
|-------------------|----------|----------|----------|----------|

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

*Other post-retirement benefit plans.* The ultimate costs of certain of the Company's retiree health care plans are capped at predetermined out-of-pocket spending limits. The annual rate of increase in the per capita costs for these plans is limited to the predetermined spending cap.

All of the benefit payments are expected to be paid from Company assets. These estimates are based on current benefit plan coverages and, in accordance with the Company's rights under the plan, these coverages may be modified, reduced, or terminated in the future.

The following pension and post-retirement benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

|              | Pension<br>Benefit<br>Plans | Post-Retirement<br>Benefit Plan<br>(including Plan D<br>subsidy) | Post-Retirement<br>Benefit Plan<br>(not<br>including Plan<br>D<br>subsidy) |
|--------------|-----------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------|
| 2014         | \$ 12,694                   | \$ 2,966                                                         | \$ 3,215                                                                   |
| 2015         | 11,408                      | 3,222                                                            | 3,495                                                                      |
| 2016         | 11,565                      | 3,143                                                            | 3,442                                                                      |
| 2017         | 11,671                      | 2,892                                                            | 3,218                                                                      |
| 2018         | 12,064                      | 3,028                                                            | 3,382                                                                      |
| 2019 to 2023 | 62,340                      | 18,023                                                           | 20,257                                                                     |

The Company contributed \$4,320 and \$18,152 to its qualified defined benefit pension plans in 2013 and 2012, respectively. In light of the current market conditions, the Company is currently assessing its future funding requirements. The Company expects to make cash contributions of approximately \$9.4 million during 2014 to maintain its desired funding status.

*Supplemental pension plan.* Company officers who participate in the incentive compensation plan are eligible for the Company's supplemental pension plan which entitles participants to receive additional pension benefits based upon their annual bonuses paid under the incentive compensation plan. Participation in this plan is subject to approval by the Company's Board of Directors.

*Excess pension plan.* The Company sponsors an excess pension plan for designated individuals whose salary amounts exceed IRS limits allowed in the Company's qualified pension plans. Participation in this plan is subject to approval by the Company's Board of Directors.

The supplemental and excess pension plans are included and disclosed within the pension benefit plan information within this Note.

*Employee Stock Purchase Plan.* At the Company's 2009 Annual Meeting of Shareholders, its shareholders approved the Employee Stock Purchase Plan (the "ESPP"), which authorized the issuance of 2.0 million shares of the Company's Common Stock for purchase by eligible employee participants through payroll deductions. Employees purchase shares in each quarterly purchase period at a 5% discount to the fair market value of the Company's Common Stock on the valuation date. Under current accounting guidance, the ESPP qualifies as a non-compensatory plan.

Approximately 35,000 shares have been purchased under the ESPP since its inception. As of December 31, 2013, more than 1.9 million shares of the Company's Common Stock remained available for future purchase under the ESPP.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

**Note 10 LEASES:**

The Company and its subsidiaries have entered into various operating and capital leases for the use of certain manufacturing equipment, office and manufacturing facilities, office equipment, and vehicles. The operating leases generally contain renewal options and provide that the lessee pay insurance and maintenance costs. The total rental expense under operating leases amounted to \$6,596, \$5,587, and \$4,561 in the years ended December 31, 2013, 2012, and 2011, respectively. Capital lease obligations are generally entered into for the use of machinery and equipment. Obligations under capital leases totaled \$9,580 at December 31, 2013. Of this amount, \$1,914 was recorded as a component of other current liabilities and \$7,666, was recorded as a component of long term debt on the Company's Consolidated Balance Sheet. Expense related to capital lease amortization assets is included within depreciation expense.

In December 2013, the Company entered into a capital lease for machinery at one of its EP&S Segment businesses. Principal and interest payments under this lease total \$8,055, and extend through December, 2020, including an option to purchase the machinery.

The Company's future minimum commitments under operating and capital leases for years after 2013 are as follows:

|                      | Operating<br>Leases | Capital<br>Leases |
|----------------------|---------------------|-------------------|
| 2014                 | \$ 5,715            | \$ 2,352          |
| 2015                 | 5,367               | 1,919             |
| 2016                 | 5,075               | 1,513             |
| 2017                 | 4,321               | 1,297             |
| 2018                 | 4,149               | 958               |
| Thereafter           | 4,781               | 3,188             |
| Total lease payments | \$ 29,408           | \$ 11,227         |

**Note 11 UNEARNED REVENUE:**

The Company reported liabilities of \$26,095 and \$38,877 for unearned revenue balances as of December 31, 2013 and 2012, respectively. These balances represented payments received in advance, primarily from energy market customers on long-term orders to fund working capital requirements. Amounts expected to be realized within one year, which represent the majority of the balance, are recorded as current liabilities. The remaining amount is recorded as a non-current liability. Unearned revenue balances are presented in the following table:

|                              | December 31, |           |
|------------------------------|--------------|-----------|
|                              | 2013         | 2012      |
| Current unearned revenue     | \$ 15,625    | \$ 25,864 |
| Non-current unearned revenue | 10,470       | 13,013    |
| Total unearned revenue       | \$ 26,095    | \$ 38,877 |

**Note 12 TRANSACTIONS WITH RELATED PARTIES:**

The Company did not enter into any significant related-party transactions during the years ended December 31, 2013, 2012, and 2011.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

**Note 13 SEGMENT REPORTING:**

The Company's chief operating decision maker is the Vice Chair, President, and Chief Executive Officer. The Company conducts its operations in two reportable segments: the Titanium Segment and the EP&S Segment. Refer to Note 1 of these Consolidated Financial Statements for a description of each reportable segment.

The EP&S Segment utilizes the Titanium Segment as its primary source of titanium mill products. Intersegment sales are accounted for at prices that are generally established by reference to similar transactions with unaffiliated customers. Reportable segments are measured based on segment operating income after an allocation of certain corporate items such as general corporate overhead and expenses. Assets of general corporate activities include unallocated cash and deferred taxes. A summary of financial information by reportable segment is as follows:

|                                                                        | Years Ended December 31, |            |            |
|------------------------------------------------------------------------|--------------------------|------------|------------|
|                                                                        | 2013                     | 2012       | 2011       |
| Net sales:                                                             |                          |            |            |
| Titanium Segment                                                       | \$ 346,627               | \$ 352,847 | \$ 324,908 |
| Intersegment sales                                                     | 92,502                   | 82,265     | 73,226     |
| Total Titanium Segment sales                                           | 439,129                  | 435,112    | 398,134    |
| Engineered Products and Services Segment                               | 436,646                  | 347,140    | 163,444    |
| Intersegment sales                                                     | 67,791                   | 80,394     | 60,292     |
| Total Engineered Products and Services Segment sales                   | 504,437                  | 427,534    | 223,736    |
| Eliminations                                                           | (160,293)                | (162,659)  | (133,518)  |
| Total consolidated net sales                                           | \$ 783,273               | \$ 699,987 | \$ 488,352 |
| Operating income (loss):                                               |                          |            |            |
| Titanium Segment before corporate allocations                          | \$ 78,637                | \$ 58,542  | \$ 51,848  |
| Corporate allocations                                                  | (19,626)                 | (19,477)   | (15,784)   |
| Total Titanium Segment operating income                                | 59,011                   | 39,065     | 36,064     |
| Engineered Products and Services Segment before corporate allocations  | 24,981                   | 23,437     | 5,518      |
| Corporate allocations                                                  | (21,977)                 | (15,085)   | (18,200)   |
| Total Engineered Products and Services Segment operating income (loss) | 3,004                    | 8,352      | (12,682)   |
| Total consolidated operating income                                    | 62,015                   | 47,417     | 23,382     |
| Other income (expense), net                                            | 938                      | (501)      | 56         |
| Interest expense, net                                                  | (40,157)                 | (17,778)   | (15,645)   |
| Total consolidated income before income taxes                          | \$ 22,796                | \$ 29,138  | \$ 7,793   |



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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|                                                         | Years Ended December 31, |            |            |
|---------------------------------------------------------|--------------------------|------------|------------|
|                                                         | 2013                     | 2012       | 2011       |
| Revenue by market information:                          |                          |            |            |
| Titanium Segment                                        |                          |            |            |
| Commercial aerospace                                    | \$ 216,599               | \$ 217,607 | \$ 188,729 |
| Defense                                                 | 98,976                   | 104,313    | 98,496     |
| Energy, medical, and other                              | 31,052                   | 30,927     | 37,683     |
| Total Titanium Segment net sales                        | 346,627                  | 352,847    | 324,908    |
| Engineered Products and Services Segment                |                          |            |            |
| Commercial aerospace                                    | \$ 215,087               | \$ 168,760 | \$ 100,779 |
| Defense                                                 | 71,471                   | 53,435     | 35,426     |
| Energy, medical, and other                              | 150,088                  | 124,945    | 27,239     |
| Total Engineered Product and Services Segment net sales | 436,646                  | 347,140    | 163,444    |
| Total consolidated net sales                            | \$ 783,273               | \$ 699,987 | \$ 488,352 |
| Geographic location of trade sales:                     |                          |            |            |
| United States                                           | \$ 548,609               | \$ 450,518 | \$ 309,509 |
| France                                                  | 69,658                   | 72,810     | 51,951     |
| England                                                 | 56,658                   | 52,931     | 41,963     |
| Germany                                                 | 30,955                   | 40,011     | 38,976     |
| Italy                                                   | 14,344                   | 11,575     | 3,660      |
| Spain                                                   | 12,713                   | 16,285     | 7,702      |
| Canada                                                  | 11,492                   | 12,456     | 10,063     |
| Japan                                                   | 10,660                   | 9,389      | 4,580      |
| Austria                                                 | 10,035                   | 7,162      | 7,993      |
| Malaysia                                                |                          | 10,624     | 1,962      |
| Other countries                                         | 18,149                   | 16,226     | 9,993      |
| Total trade sales                                       | \$ 783,273               | \$ 699,987 | \$ 488,352 |
| Capital expenditures:                                   |                          |            |            |
| Titanium Segment                                        | \$ 15,976                | \$ 44,741  | \$ 36,008  |
| Engineered Products and Services Segment                | 16,398                   | 16,797     | 2,837      |
| Total capital expenditures                              | \$ 32,374                | \$ 61,538  | \$ 38,845  |
| Depreciation and amortization:                          |                          |            |            |
| Titanium Segment                                        | \$ 19,973                | \$ 18,421  | \$ 14,248  |
| Engineered Products and Services Segment                | 23,852                   | 22,703     | 8,185      |
| Total depreciation and amortization                     | \$ 43,825                | \$ 41,124  | \$ 22,433  |

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

The following geographic area information includes property, plant, and equipment based on physical location.

|                                          | <b>December 31,<br/>2013</b> | <b>December 31,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|------------------------------------------|------------------------------|------------------------------|------------------------------|
| United States                            | \$ 606,369                   | \$ 590,621                   | \$ 475,121                   |
| England                                  | 23,036                       | 16,017                       | 14,473                       |
| France                                   | 1,928                        | 1,312                        | 1,022                        |
| Canada                                   | 69,616                       | 64,924                       | 64,132                       |
| Less: Accumulated depreciation           | (328,609)                    | (297,055)                    | (265,509)                    |
| Property, plant, and equipment, net      | \$ 372,340                   | \$ 375,819                   | \$ 289,239                   |
| Total assets:                            |                              |                              |                              |
| Titanium Segment                         | \$ 604,123                   | \$ 566,359                   | \$ 492,224                   |
| Engineered Products and Services Segment | 585,867                      | 544,928                      | 272,480                      |
| General corporate assets                 | 310,281                      | 83,637                       | 309,365                      |
| Assets of discontinued operations        | 5,274                        | 25,168                       | 26,530                       |
| Total consolidated assets                | \$ 1,505,545                 | \$ 1,220,092                 | \$ 1,100,599                 |

In the years ended December 31, 2013, 2012, and 2011, export sales were \$234,664, \$249,472 and \$178,843, respectively, principally to customers in Western Europe. Geographic location of trade sales are determined based on the location of customers.

Substantially all of the Company's sales and operating revenues are generated from its North American and European operations. A significant portion of the Company's sales are made to customers in the aerospace industry. The concentration of aerospace customers may expose the Company to cyclical and other risks generally associated with the aerospace industry. For the years ended December 31, 2013, 2012, and 2011, Boeing, through multiple contracts with various Company subsidiaries covering varying periods, accounted for approximately 21.2%, 12.0%, and 10.6%, respectively, of the Company's consolidated net sales. Along with Boeing, for each year presented, Airbus and its subcontractors together aggregate to amounts in excess of 10% of the Company's consolidated net sales and are the ultimate consumers of a significant portion of the Company's commercial aerospace products.

**Note 14 COMMITMENTS AND CONTINGENCIES:**

From time to time, the Company is involved in litigation relating to claims arising out of its operations in the normal course of business. In the Company's opinion, the ultimate liability, if any, resulting from these matters will have no significant effect on its Consolidated Financial Statements. Given the critical nature of many of the aerospace end uses for the Company's products, including specifically their use in critical rotating parts of gas turbine engines, the Company maintains aircraft products liability insurance of \$500 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 years ended 2013, 2012, and 2011 the Company paid approximately \$14, \$72, and \$60, respectively, for environmental remediation, compliance, and related services. While the costs of compliance for these matters have not had a material adverse impact on



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

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 obligation for environmental-related costs on a quarterly basis and make adjustments as necessary.

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

Based on available information, the Company believes that its share of possible environmental-related costs is in a range from \$631 to \$2,103 in the aggregate. At December 31, 2013 and 2012, the amounts accrued for future environmental-related costs were \$1,263 and \$1,277, respectively. Of the total amount accrued at December 31, 2013, \$85 is expected to be paid out within one year and is included as a component of other accrued liabilities on the Company's Consolidated Balance Sheet. The remaining \$1,178 is recorded as a component of other noncurrent liabilities in the Company's Consolidated Balance Sheet.

The following table summarizes the changes in the Company's environmental liabilities for the year ended December 31, 2013:

|                               | <b>Environmental<br/>Liabilities</b> |
|-------------------------------|--------------------------------------|
| Balance at December 31, 2012  | \$ 1,277                             |
| Environmental-related expense |                                      |
| Cash paid                     | (14)                                 |
| Balance at December 31, 2013  | \$ 1,263                             |

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.

***Other Matters***

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

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

**Note 15 LONG-TERM DEBT:**

Long-term debt consisted of:

|                                                                              | Effective<br>Interest<br>Rate | December 31, |            |
|------------------------------------------------------------------------------|-------------------------------|--------------|------------|
|                                                                              |                               | 2013         | 2012       |
| \$402.5 million aggregate principal 1.625% Convertible Senior Notes due 2019 | 5.875%                        | \$ 319,569   | \$         |
| \$114.4 million aggregate principal 3.000% Convertible Senior Notes due 2015 | 8.675%                        | 103,065      | 196,644    |
| Capital leases                                                               | Various                       | 9,580        | 2,650      |
| Total debt                                                                   |                               | 432,214      | 199,294    |
| Less: Current portion of capital leases                                      |                               | (1,914)      | (957)      |
| Total long-term debt                                                         |                               | \$ 430,300   | \$ 198,337 |

In April, 2013, the Company issued the 2019 Notes. Interest on the 2019 Notes is payable in arrears on April 15 and October 15 of each year, beginning on October 15, 2013, at a rate of 1.625% per annum. The 2019 Notes are the Company's senior unsecured obligations. The 2019 Notes are jointly and severally, fully and unconditionally (subject to the customary exceptions discussed below) guaranteed by several 100% owned subsidiaries (the Guarantor Subsidiaries) of RTI International Metals, Inc. (the Parent). Each Guarantor Subsidiary would be automatically released from its guarantee of the 2019 Notes if either (i) it ceased to be a guarantor under the Parent's \$150 million revolving credit facility under its Second Amended and Restated Credit Agreement (the Credit Agreement), which expires on May 23, 2017 or (ii) it ceased to be a direct or indirect subsidiary of the Parent. Refer to Note 17 of these Consolidated Financial Statements for additional information about the Guarantor Subsidiaries.

The 2019 Notes will be convertible at the applicable conversion rate at any time on or after April 15, 2019, until the close of business on the second scheduled trading day immediately preceding the maturity date. The current conversion rate for the 2019 Notes equals 24.5604 shares of common stock per \$1,000 principal amount of 2019 Notes (equivalent to a conversion price of approximately \$40.72 per share of Common Stock). Upon conversion, holders of the 2019 Notes will receive, at the Company's election, cash, shares of the Company's Common Stock, or a combination of both.

The authoritative guidance of the FASB requires convertible notes that may be settled in cash to be bifurcated into a liability component and an equity component. The fair value of the liability component is determined by calculating the present value of the cash flows of the convertible note using the interest rate of a bond of similar size and rating without a conversion feature (i.e., straight-debt). The fair value of the equity component is the difference between the proceeds from the issuance and the fair value of the liability.

The Company determined similar straight-debt had an interest rate of 5.875% at the time the 2019 Notes were issued. As a result, the fair value of the liability component of the 2019 Notes was calculated to be \$311.2 million and was recorded as long-term debt. The conversion component of the 2019 Notes has a fair value of \$91.3 million and was recorded, net of deferred taxes, as additional paid-in capital. The debt component of the 2019 Notes will accrete to the 2019 Notes' par value of \$402.5 million over the 2019 Notes' 6.5 year term. Debt accretion is recorded in the Company's Consolidated Statement of Operations as a component of interest expense. The Company is accreting the long-term debt balance to par value using the interest method.

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

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

In conjunction with the issuance of the 2019 Notes, the Company incurred debt issuance costs totaling \$12.4 million. Under the FASB's authoritative guidance, debt issuance costs for the 2019 Notes should be allocated to the liability and equity components in proportion to their respective fair values. As such, \$2.8 million of these costs were attributed to the conversion feature of the 2019 Notes and was recorded, net of deferred taxes, as additional paid-in capital. The remaining \$9.6 million of debt issuance costs were attributed to the liability component of the 2019 Notes and were capitalized in the Company's Consolidated Balance Sheet as a component of other current and noncurrent assets. The portion of the costs attributed to the debt component of the 2019 Notes is being amortized over the term of the 2019 Notes using the interest method. Amortization of these costs is included as a component of interest expense in the Company's Consolidated Statement of Operations.

Commensurate with the issuance of the 2019 Notes, the Company repurchased, through individually negotiated private transactions, \$115.6 million aggregate principal amount of its 2015 Notes for cash consideration of \$133.4 million, including \$1.3 million of accrued interest on the repurchased 2015 Notes. The FASB's authoritative guidance regarding repurchases of convertible notes requires that the consideration paid be separated into a component to repurchase the debt instrument and a component to derecognize the equity component. The fair value of the liability component at repurchase is determined by calculating the present value of the cash flows of the note at a similar size and rating without a conversion feature as of the repurchase date. The fair value of the equity component is the difference between the consideration paid and the fair value of the liability component.

The Company determined similar straight-debt had an interest rate of 3.535% at the time the 2015 Notes were repurchased. Using this rate, the fair value of the liability component of the repurchased 2015 Notes was calculated to be \$112.6 million while the equity component of the repurchased 2015 Notes was calculated to be \$19.5 million. The book value of the liability component of the repurchased 2015 Notes was \$100.4 million as of the repurchase date. The \$12.2 million excess of consideration paid for the liability component of the repurchased 2015 Notes over their book value represents a debt extinguishment charge and was recorded as a component of interest expense in the Condensed Consolidated Statement of Operations. Unamortized debt issuance costs totaling \$1.5 million related to the repurchased 2015 Notes were also expensed as a component of interest expense in conjunction with the repurchase.

The Company determined similar straight-debt rates were 8.675% at the time the 2015 Notes were issued. As a result, at issuance, the fair value of the liability component of the 2015 Notes was calculated to be \$177.7 million and was recorded as long-term debt. The conversion component of the 2015 Notes had a fair value of \$52.3 million and was recorded, net of deferred taxes, as additional paid-in capital. The debt component of the 2015 Notes will accrete to the 2015 Notes' remaining par value of \$114.4 million over the 2015 Notes' five-year term. Debt accretion is recorded in the Company's Consolidated Statement of Operations as a component of interest expense. The Company is accreting the long-term debt balance to par value using the interest method.

In conjunction with the issuance of the 2015 Notes, the Company incurred debt issuance costs totaling \$7.2 million. Under the FASB's authoritative guidance, debt issuance costs for the 2015 Notes should be allocated to the liability and equity pieces in proportion to the fair value. As such, \$1.6 million of these costs was attributed to the conversion feature of the 2015 Notes and was recorded, net of deferred taxes, as additional paid-in capital. The remaining \$5.6 million of debt issuance costs were attributed to the liability component of the 2015 Notes and were capitalized in the Company's Consolidated Balance Sheet as a component of other noncurrent assets. The portion of the costs attributed to the debt component of the remaining \$114.4 million aggregate principal 2015 Notes is being amortized over the term of the Notes using the interest method. Amortization of these costs is included as a component of interest expense in the Company's consolidated statement of operations.

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

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

Interest on the remaining \$114.4 million aggregate principal 2015 Notes is payable semiannually in arrears on June 1 and December 1 of each year, at a rate of 3.000% per year. The Notes are general unsecured obligations of the Company. The Notes are guaranteed by the Guarantor Subsidiaries, which are the same subsidiaries that guarantee the Company's obligations under the 2019 Notes and the current credit facility.

The 2015 Notes will be convertible at the applicable conversion rate at any time on or after June 1, 2015, until the close of business on the second scheduled trading day immediately preceding the maturity date. The current conversion rate for the Notes equals 27.8474 shares of common stock per \$1,000 principal amount of Notes (equivalent to a conversion price of \$35.91 per share of Common Stock). Upon conversion, holders will receive, at the Company's election, cash, shares of the Company's Common Stock, or a combination of both.

During the years ended December 31, 2013 and 2012, the Company recorded long-term debt discount amortization of \$14,956 and \$9,683, as a component of interest expense. Interest expense from the amortization of debt issuance costs associated with the Notes was \$1,484, \$1,120 and \$1,120 for the years ended December 31, 2013, 2012, and 2011, respectively.

On May 23, 2012, the Company entered into the Credit Agreement, which provides for a revolving credit facility of \$150 million and matures on May 23, 2017. Borrowings under the Credit Agreement bear interest, at the Company's option, at a rate equal to LIBOR plus an applicable margin or the base rate plus an applicable margin. Both the applicable margin and the facility fee vary based upon the Company's consolidated net debt to consolidated EBITDA ratio, as defined in the Credit Agreement.

The Company's leverage ratio (the ratio of Net Debt to Consolidated EBITDA, as defined in the Credit Agreement) was 1.35 to 1 at December 31, 2013. If this ratio were to exceed 3.50 to 1, the Company would be in default under the Credit Agreement.

The Company's coverage ratio (the ratio of Consolidated EBITDA to Net Interest, as defined in the Credit Agreement) was 13.69 to 1 at December 31, 2013. If this ratio were to fall below 2.0 to 1, the Company would be in default under the Credit Agreement.

Consolidated EBITDA, as defined in the Credit Agreement, allows for adjustments related to unusual gains and losses, certain noncash items, and certain non-recurring charges. As of December 31, 2013, the Company was in compliance with all financial covenants under the Credit Agreement.

The Company had no borrowings outstanding under the Credit Agreement at December 31, 2013 or December 31, 2012.

**Note 16 STOCK-BASED COMPENSATION:**

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

The 2004 Plan limits the number of shares available for issuance to 2,500,000 (plus any shares covered by stock 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

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

stock to 1,250,000. While the 2004 Plan allows for the issuance of shares from treasury, the Company currently issues authorized, unissued shares for awards under the 2004 Plan. The 2004 Plan expires after ten years and requires that the exercise price of stock options, stock appreciation rights, and other similar instruments awarded under the 2004 Plan be not less than the fair market value of the Company's stock on the date of the grant award.

The restricted stock awards vest with graded vesting over a period of one to five years. Restricted stock awarded under the 2004 Plan and the predecessor plans entitle the holder to all the rights of Common Stock ownership except that the shares may not be sold, transferred, pledged, exchanged, or otherwise disposed of during the forfeiture period. The stock option awards vest with graded vesting over a period of one to three years. Certain stock option and restricted stock awards provide for accelerated vesting if there is a change in control.

**Stock Options**

The fair value of stock options granted over the past three years was estimated at the date of grant using the Black-Scholes option-pricing model based upon the following assumptions:

|                           | 2013   | 2012   | 2011   |
|---------------------------|--------|--------|--------|
| Risk-free interest rate   | 0.87%  | 0.75%  | 1.92%  |
| Expected dividend yield   | 0.00%  | 0.00%  | 0.00%  |
| Expected lives (in years) | 5.0    | 5.0    | 4.0    |
| Expected volatility       | 65.00% | 66.00% | 67.00% |

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. The risk-free rate for periods over the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore an expected dividend yield of zero is used. The expected life of options granted represents the period of time that options granted are expected to be outstanding. Expected volatilities are based on historical volatility of the Company's Common Stock. Forfeiture estimates are based upon historical forfeiture rates.

A summary of the status of the Company's stock options as of December 31, 2013 and the activity during the year then ended is presented below:

| Stock Options                    | Shares    | Weighted-Average Exercise Price Per Share | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|-----------|-------------------------------------------|-----------------------------------------------------|---------------------------|
| Outstanding at December 31, 2012 | 590,850   | \$ 31.86                                  |                                                     |                           |
| Granted                          | 98,831    | 29.12                                     |                                                     |                           |
| Forfeited                        | (15,595)  | 27.39                                     |                                                     |                           |
| Expired                          | (15,743)  | 49.88                                     |                                                     |                           |
| Exercised                        | (131,607) | 17.40                                     |                                                     |                           |
| Outstanding at December 31, 2013 | 526,736   | \$ 34.56                                  | 5.84                                                | \$ 3,449                  |
| Exercisable at December 31, 2013 | 361,176   | \$ 37.71                                  | 4.63                                                | \$ 2,368                  |





## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The weighted-average grant-date fair value of stock options granted during the years ended December 31, 2013, 2012, and 2011 was \$15.80, \$13.49, and \$14.70 per share, respectively. The total intrinsic value of stock options exercised during the years ended December 31, 2013, 2012, and 2011 was \$1,892, \$525, and \$172, respectively. As of December 31, 2013, total unrecognized compensation cost related to nonvested stock option awards granted was \$669. That cost is expected to be recognized over a weighted-average period of approximately eight months.

Cash received from stock option exercises under all share-based payment arrangements for the years ended December 31, 2013, 2012, and 2011 was \$2,290, \$494, and \$178, respectively. Cash used to settle equity instruments granted under all share-based arrangements for the years ended December 31, 2013, 2012, and 2011 was \$399, \$742, and \$294, respectively. The actual tax benefit realized for the tax deductions resulting from stock option exercises and vesting of restricted stock awards for share-based payment arrangements totaled \$(4), \$27, and \$2 for the years ended December 31, 2013, 2012, and 2011, respectively. The Company has elected to adopt the short-cut transition method for determining the windfall tax benefits related to share-based payment awards.

**Restricted Stock**

The fair value of the nonvested restricted stock awards was calculated using the market value of Common Stock on the date of issuance. The weighted-average grant-date fair value of restricted stock awards granted during the years ended December 31, 2013, 2012, and 2011 was \$29.00, \$24.63, and \$28.79 per share, respectively.

A summary of the status of the Company's non-vested restricted stock as of December 31, 2013, and the activity during the year then ended, is presented below:

| Nonvested Restricted Stock Awards | Shares   | Weighted-Average Grant-Date Fair Value Per Share |
|-----------------------------------|----------|--------------------------------------------------|
| Nonvested at December 31, 2012    | 182,179  | \$ 24.76                                         |
| Granted                           | 118,737  | 29.00                                            |
| Vested                            | (77,722) | 25.28                                            |
| Forfeited                         | (9,719)  | 25.84                                            |
| Nonvested at December 31, 2013    | 213,475  | \$ 26.88                                         |

As of December 31, 2013, total unrecognized compensation cost related to nonvested restricted stock awards granted was \$1,960. That cost is expected to be recognized over a weighted-average period of twelve months. The total fair value of restricted stock awards vested during the years ended December 31, 2013, 2012, and 2011 was \$2,199, \$1,507, and \$1,637, respectively.

**Performance Share Awards**

The Company also maintains performance share awards for executive officers and certain key managers. The purpose of the performance share awards is to more closely align the compensation of the Company's executives and key managers with the interests of the Company's shareholders. These performance share awards will earn shares of the Company's Common Stock in amounts ranging from 0% to 200% of the target number of shares based upon the total shareholder return of the Company compared to the total shareholder return of a designated peer group over a pre-determined performance period.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

A summary of the Company's performance share activity during the year ended December 31, 2013 is presented below:

| Performance Share Awards         | Awards Activity | Maximum Shares Eligible to Receive |
|----------------------------------|-----------------|------------------------------------|
| Outstanding at December 31, 2012 | 107,057         | 214,114                            |
| Granted                          | 72,164          | 144,328                            |
| Forfeited                        | (24,888)        | (49,776)                           |
| Outstanding at December 31, 2013 | 154,333         | 308,666                            |

The fair value of the performance share awards granted was estimated by the Company at the grant date using a Monte Carlo model. A Monte Carlo model uses stock price volatility and other variables to estimate the probability of satisfying market conditions and the resulting fair value of the award. The four primary inputs for the Monte Carlo model are the risk-free rate, expected dividend yield, volatility of returns, and correlation of returns within the designated peer group. The risk-free rate for periods over the expected term of the award is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore an expected dividend yield of zero is used. Expected volatility and correlation of returns are based on historical performance of the Company's stock. The weighted-average grant-date fair value of performance shares awarded during the years ended December 31, 2013, 2012, and 2011 was \$41.02, \$35.59, and \$43.68.

**Note 17 GUARANTOR SUBSIDIARIES:**

Each of the 2015 Notes and 2019 Notes (collectively, "The Notes") is jointly and severally, fully and unconditionally (subject to the customary exceptions discussed below) guaranteed by the Guarantor Subsidiaries. Each Guarantor Subsidiary would be automatically released from its guarantee of the Notes if either (i) it ceases to be a guarantor of the Parent's Credit Agreement or (ii) it ceases to be a subsidiary of the Parent. Separate financial statements of the Parent and each of the Guarantor Subsidiaries are not presented because the guarantees are full and unconditional (subject to the aforementioned customary exceptions) and the Guarantor Subsidiaries are jointly and severally liable. The Company believes separate financial statements and other disclosures concerning the Guarantor Subsidiaries would not be material to investors in the Notes.

There are no current restrictions on the ability of the Guarantor Subsidiaries to make payments under the guarantees referred to above, except, however, the obligations of each Guarantor Subsidiary under its guarantee will be limited to the maximum amount as will result in obligations of such Guarantor Subsidiary under its guarantee not constituting a fraudulent conveyance or fraudulent transfer for purposes of bankruptcy law, the Uniform Conveyance Act, the Uniform Fraudulent Transfer Act, or any similar Federal or state law.

The following tables present Condensed Consolidating Financial Statements as of December 31, 2013 and 2012 and for the three years ended December 31, 2013. Refer to Note 2 for details of the restatement adjustments to prior year Condensed Consolidating Financial Statements.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Year Ended December 31, 2013

|                                                                | RTI<br>International<br>Metals, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|----------------------------------------------------------------|--------------------------------------|---------------------------|-------------------------------|--------------|--------------|
| Net sales                                                      | \$                                   | \$ 524,003                | \$ 465,331                    | \$ (206,061) | \$ 783,273   |
| Costs and expenses:                                            |                                      |                           |                               |              |              |
| Cost of sales                                                  |                                      | 426,646                   | 388,834                       | (206,061)    | 609,419      |
| Selling, general, and administrative expenses(1)               | 4,799                                | 43,842                    | 44,280                        |              | 92,921       |
| Goodwill and other intangible asset impairment                 |                                      | 15,359                    |                               |              | 15,359       |
| Research, technical, and product development expenses          |                                      | 3,925                     | 6                             |              | 3,931        |
| Asset and asset-related charges (income)                       |                                      | (372)                     |                               |              | (372)        |
| Operating income (loss)                                        | (4,799)                              | 34,603                    | 32,211                        |              | 62,015       |
| Other income (expense), net                                    | 6,318                                | (5,146)                   | (234)                         |              | 938          |
| Interest income (expense), net                                 | (21,291)                             | (11,503)                  | (7,363)                       |              | (40,157)     |
| Equity in earnings (loss) of subsidiaries                      | 21,936                               | (191)                     | 2,165                         | (23,910)     |              |
| Income before income taxes                                     | 2,164                                | 17,763                    | 26,779                        | (23,910)     | 22,796       |
| Provision for (benefit from) income taxes                      | (13,493)                             | 10,964                    | 9,668                         |              | 7,139        |
| Net income attributable to continuing operations               | \$ 15,657                            | \$ 6,799                  | \$ 17,111                     | \$ (23,910)  | \$ 15,657    |
| Net income attributable to discontinued operations, net of tax | \$ (1,584)                           | \$                        | \$ (1,584)                    | \$ 1,584     | \$ (1,584)   |
| Net income                                                     | \$ 14,073                            | \$ 6,799                  | \$ 15,527                     | \$ (22,326)  | \$ 14,073    |
| Comprehensive income                                           | \$ 18,680                            | \$ 18,327                 | \$ 8,599                      | \$ (26,926)  | \$ 18,680    |

(1) The Parent allocates selling, general, and administrative expenses ( SG&amp;A ) to the subsidiaries based upon its budgeted annual expenses.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Year Ended December 31, 2012

|                                                                | RTI International<br>Metals, Inc.<br>(As Restated) | Guarantors<br>(As Restated) | Non-Guarantors<br>(As Restated) | Eliminations<br>(As<br>Restated) | Consolidated<br>(As<br>Restated) |
|----------------------------------------------------------------|----------------------------------------------------|-----------------------------|---------------------------------|----------------------------------|----------------------------------|
| Net sales                                                      | \$                                                 | \$ 503,018                  | \$ 409,470                      | \$ (212,501)                     | \$ 699,987                       |
| Cost of sales                                                  |                                                    | 426,268                     | 347,651                         | (212,501)                        | 561,418                          |
| Selling, general, and administrative expenses                  | (3,101)                                            | 45,316                      | 44,406                          |                                  | 86,621                           |
| Research, technical, and product development expenses          | 95                                                 | 4,007                       | 62                              |                                  | 4,164                            |
| Asset and asset-related charges (income)                       |                                                    | 367                         |                                 |                                  | 367                              |
| Operating income (loss)                                        | 3,006                                              | 27,060                      | 17,351                          |                                  | 47,417                           |
| Other income (expense), net                                    | (63)                                               | 38                          | (476)                           |                                  | (501)                            |
| Interest income (expense), net                                 | (16,639)                                           | 205                         | (1,344)                         |                                  | (17,778)                         |
| Equity in earnings of subsidiaries                             | 20,741                                             | 5,419                       | 2,138                           | (28,298)                         |                                  |
| Income before income taxes                                     | 7,045                                              | 32,722                      | 17,669                          | (28,298)                         | 29,138                           |
| Provision for (benefit from) income taxes                      | (6,408)                                            | 10,726                      | 11,367                          |                                  | 15,685                           |
| Net income attributable to continuing operations               | 13,453                                             | 21,996                      | 6,302                           | (28,298)                         | 13,453                           |
| Net income attributable to discontinued operations, net of tax | 1,487                                              |                             | 1,487                           | (1,487)                          | 1,487                            |
| Net income                                                     | \$ 14,940                                          | \$ 21,996                   | \$ 7,789                        | \$ (29,785)                      | \$ 14,940                        |
| Comprehensive income                                           | \$ 8,786                                           | \$ 14,465                   | \$ 9,704                        | \$ (24,169)                      | \$ 8,786                         |

- (1) The Parent allocates SG&A to the subsidiaries based upon its budgeted annual expenses. A credit in parent SG&A is offset by an equal debit amount in the subsidiaries SG&A.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)

Year Ended December 31, 2011

|                                                                | RTI<br>International<br>Metals, Inc.<br>(As Restated) | Guarantors<br>(As Restated) | Non-Guarantors<br>(As Restated) | Eliminations<br>(As Restated) | Consolidated<br>(As Restated) |
|----------------------------------------------------------------|-------------------------------------------------------|-----------------------------|---------------------------------|-------------------------------|-------------------------------|
| Net sales                                                      | \$                                                    | \$ 347,963                  | \$ 316,219                      | \$ (175,830)                  | \$ 488,352                    |
| Cost of sales                                                  |                                                       | 296,066                     | 277,193                         | \$ (175,830)                  | 397,429                       |
| Selling, general, and administrative expenses                  | 981                                                   | 22,586                      | 42,083                          |                               | 65,650                        |
| Research, technical, and product development expenses          |                                                       | 3,232                       | 160                             |                               | 3,392                         |
| Asset and asset-related charges (income)                       |                                                       |                             | (1,501)                         |                               | (1,501)                       |
| Operating income (loss)                                        | (981)                                                 | 26,079                      | (1,716)                         |                               | 23,382                        |
| Other income (expense), net                                    | (92)                                                  | (38)                        | 186                             |                               | 56                            |
| Interest income (expense), net                                 | (16,299)                                              | 1,797                       | (1,143)                         |                               | (15,645)                      |
| Equity in earnings of subsidiaries                             | 10,066                                                | 6,128                       | (1,055)                         | (15,139)                      |                               |
| Income before income taxes                                     | (7,306)                                               | 33,966                      | (3,728)                         | (15,139)                      | 7,793                         |
| Provision for (benefit from) income taxes                      | (4,998)                                               | 10,257                      | 4,842                           |                               | 10,101                        |
| Net income (loss) attributable to continuing operations        | (2,308)                                               | 23,709                      | (8,570)                         | (15,139)                      | (2,308)                       |
| Net income attributable to discontinued operations, net of tax | 2,258                                                 |                             | 2,258                           | (2,258)                       | 2,258                         |
| Net income (loss)                                              | \$ (50)                                               | \$ 23,709                   | \$ (6,312)                      | \$ (17,397)                   | \$ (50)                       |
| Comprehensive income (loss)                                    | \$ (6,563)                                            | \$ 19,646                   | \$ (7,827)                      | \$ (11,819)                   | \$ (6,563)                    |

(1) The Parent allocates SG&amp;A to the subsidiaries based upon its budgeted annual expenses.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

As of December 31, 2013

|                                             | RTI<br>International<br>Metals, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations   | Consolidated |
|---------------------------------------------|--------------------------------------|---------------------------|-------------------------------|----------------|--------------|
| <b>ASSETS</b>                               |                                      |                           |                               |                |              |
| Current assets:                             |                                      |                           |                               |                |              |
| Cash and cash equivalents                   | \$                                   | \$ 312,202                | \$ 31,435                     | \$             | \$ 343,637   |
| Receivables, net                            | 786                                  | 57,397                    | 69,847                        | (22,759)       | 105,271      |
| Inventories, net                            |                                      | 265,621                   | 164,467                       |                | 430,088      |
| Costs in excess of billings                 |                                      | 3,800                     | 1,577                         |                | 5,377        |
| Deferred income taxes                       | 31,656                               |                           | 376                           |                | 32,032       |
| Assets of discontinued operations           |                                      |                           | 5,274                         |                | 5,274        |
| Other current assets                        | 9,425                                | 2,984                     | 4,538                         |                | 16,947       |
| Total current assets                        | 41,867                               | 642,004                   | 277,514                       | (22,759)       | 938,626      |
| Property, plant, and equipment, net         | 2,328                                | 292,033                   | 77,979                        |                | 372,340      |
| Goodwill                                    |                                      | 79,705                    | 37,873                        |                | 117,578      |
| Other intangible assets, net                |                                      | 31,184                    | 22,570                        |                | 53,754       |
| Other noncurrent assets                     | 11,025                               | 7,184                     | 5,038                         |                | 23,247       |
| Intercompany investments                    | 1,240,671                            | 26,623                    | 5,721                         | (1,273,015)    |              |
| Total assets                                | \$ 1,295,891                         | \$ 1,078,733              | \$ 426,695                    | \$ (1,295,774) | \$ 1,505,545 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                      |                           |                               |                |              |
| Current liabilities:                        |                                      |                           |                               |                |              |
| Accounts payable                            | \$ 1,948                             | \$ 54,111                 | \$ 45,739                     | \$ (22,759)    | \$ 79,039    |
| Accrued wages and other employee costs      | 6,598                                | 14,093                    | 9,096                         |                | 29,787       |
| Unearned revenue                            |                                      | 288                       | 15,337                        |                | 15,625       |
| Liabilities of discontinued operations      |                                      |                           | 458                           |                | 458          |
| Other accrued liabilities                   | 6,800                                | 5,101                     | 10,673                        |                | 22,574       |
| Total current liabilities                   | 15,346                               | 73,593                    | 81,303                        | (22,759)       | 147,483      |
| Long-term debt                              | 422,634                              | 738                       | 6,928                         |                | 430,300      |
| Intercompany debt                           |                                      | 357,144                   | 106,633                       | (463,777)      |              |
| Liability for post-retirement benefits      |                                      | 43,447                    |                               |                | 43,447       |
| Liability for pension benefits              | 5,943                                | 7,685                     | 159                           |                | 13,787       |
| Deferred income taxes                       | 70,006                               |                           | 4,072                         |                | 74,078       |
| Unearned revenue                            |                                      |                           | 10,470                        |                | 10,470       |
| Other noncurrent liabilities                | 7,988                                | 3,763                     | 255                           |                | 12,006       |
| Total liabilities                           | 521,917                              | 486,370                   | 209,820                       | (486,536)      | 731,571      |
| Shareholders' equity                        | 773,974                              | 592,363                   | 216,875                       | (809,238)      | 773,974      |



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|                                            |              |              |            |                |              |
|--------------------------------------------|--------------|--------------|------------|----------------|--------------|
| Total liabilities and shareholders' equity | \$ 1,295,891 | \$ 1,078,733 | \$ 426,695 | \$ (1,295,774) | \$ 1,505,545 |
|--------------------------------------------|--------------|--------------|------------|----------------|--------------|

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

As of December 31, 2012

|                                             | RTI<br>International<br>Metals, Inc.<br>(As Restated) | Guarantors<br>(As Restated) | Non-Guarantors<br>(As Restated) | Eliminations<br>(As<br>Restated) | Consolidated<br>(As Restated) |
|---------------------------------------------|-------------------------------------------------------|-----------------------------|---------------------------------|----------------------------------|-------------------------------|
| <b>ASSETS</b>                               |                                                       |                             |                                 |                                  |                               |
| Current assets:                             |                                                       |                             |                                 |                                  |                               |
| Cash and cash equivalents                   | \$                                                    | \$ 87,283                   | \$ 9,907                        | \$                               | \$ 97,190                     |
| Receivables, net                            | 126                                                   | 72,773                      | 58,676                          | (27,221)                         | 104,354                       |
| Inventories, net                            |                                                       | 220,290                     | 155,151                         |                                  | 375,441                       |
| Costs in excess of billings                 |                                                       | 1,565                       | 2,260                           |                                  | 3,825                         |
| Deferred income taxes                       | 31,264                                                |                             | 116                             |                                  | 31,380                        |
| Assets of discontinued operations           |                                                       |                             | 25,168                          |                                  | 25,168                        |
| Other current assets                        | 5,410                                                 | 2,072                       | 3,788                           |                                  | 11,270                        |
| Total current assets                        | 36,800                                                | 383,983                     | 255,066                         | (27,221)                         | 648,628                       |
| Property, plant, and equipment, net         | 1,327                                                 | 308,467                     | 66,025                          |                                  | 375,819                       |
| Goodwill                                    |                                                       | 93,665                      | 36,587                          |                                  | 130,252                       |
| Other intangible assets, net                |                                                       | 35,152                      | 21,343                          |                                  | 56,495                        |
| Other noncurrent assets                     | 4,149                                                 | 892                         | 3,857                           |                                  | 8,898                         |
| Intercompany investments                    | 931,041                                               | 26,814                      | 3,736                           | (961,591)                        |                               |
| Total assets                                | \$ 973,317                                            | \$ 848,973                  | \$ 386,614                      | \$ (988,812)                     | \$ 1,220,092                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                                       |                             |                                 |                                  |                               |
| Current liabilities:                        |                                                       |                             |                                 |                                  |                               |
| Accounts payable                            | \$ 1,177                                              | \$ 70,086                   | \$ 46,693                       | \$ (27,221)                      | \$ 90,735                     |
| Accrued wages and other employee costs      | 6,519                                                 | 16,368                      | 11,109                          |                                  | 33,996                        |
| Unearned revenue                            |                                                       | 1,555                       | 24,309                          |                                  | 25,864                        |
| Liabilities of discontinued operations      |                                                       |                             | 3,431                           |                                  | 3,431                         |
| Other accrued liabilities                   | 3,277                                                 | 9,197                       | 10,044                          |                                  | 22,518                        |
| Total current liabilities                   | 10,973                                                | 97,206                      | 95,586                          | (27,221)                         | 176,544                       |
| Long-term debt                              | 196,644                                               | 1,693                       |                                 |                                  | 198,337                       |
| Intercompany debt                           |                                                       | 118,229                     | 104,084                         | (222,313)                        |                               |
| Liability for post-retirement benefits      |                                                       | 45,066                      |                                 |                                  | 45,066                        |
| Liability for pension benefits              | 6,419                                                 | 14,133                      | 159                             |                                  | 20,711                        |
| Deferred income taxes                       | 42,902                                                |                             | 3,482                           |                                  | 46,384                        |
| Unearned revenue                            |                                                       |                             | 13,013                          |                                  | 13,013                        |
| Other noncurrent liabilities                | 8,140                                                 | 3,434                       | 224                             |                                  | 11,798                        |
| Total liabilities                           | 265,078                                               | 279,761                     | 216,548                         | (249,534)                        | 511,853                       |
| Shareholders' equity                        | 708,239                                               | 569,212                     | 170,066                         | (739,278)                        | 708,239                       |

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|                                            |            |            |            |              |              |
|--------------------------------------------|------------|------------|------------|--------------|--------------|
| Total liabilities and shareholders' equity | \$ 973,317 | \$ 848,973 | \$ 386,614 | \$ (988,812) | \$ 1,220,092 |
|--------------------------------------------|------------|------------|------------|--------------|--------------|

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2013

|                                                              | RTI<br>International<br>Metals, Inc. | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--------------------------------------------------------------|--------------------------------------|---------------------------|-------------------------------|--------------|--------------|
| Cash provided by (used in) operating activities              | \$ 5,143                             | \$ 8,944                  | \$ (1,919)                    |              | \$ 12,168    |
| Investing activities:                                        |                                      |                           |                               |              |              |
| Capital expenditures                                         | (1,192)                              | (21,947)                  | (9,235)                       |              | (32,374)     |
| Investments in subsidiaries, net                             | (36,099)                             |                           |                               | 36,099       |              |
| Acquisitions, net of cash acquired                           |                                      |                           | (16,214)                      |              | (16,214)     |
| Divestitures                                                 |                                      |                           | 10,475                        |              | 10,475       |
| Proceeds from disposal of property, plant, and equipment     |                                      | 42                        | 519                           |              | 561          |
| Short-term investments and marketable securities, net        |                                      | (174)                     |                               |              | (174)        |
| Intercompany debt activity, net                              | (241,821)                            |                           |                               | 241,821      |              |
| Cash provided by (used in) investing activities              | \$ (279,112)                         | \$ (22,079)               | \$ (14,455)                   | \$ 277,920   | \$ (37,726)  |
| Financing activities:                                        |                                      |                           |                               |              |              |
| Proceeds from exercise of employee stock options             | 2,637                                |                           |                               |              | 2,637        |
| Excess tax benefits from stock-based compensation activity   | 552                                  |                           |                               |              | 552          |
| Parent company investments, net of distributions             | 966                                  | 33                        | 35,105                        | (36,104)     |              |
| Borrowings on long-term debt                                 | 402,500                              |                           |                               |              | 402,500      |
| Repayments on long-term debt                                 | (119,917)                            | (903)                     |                               |              | (120,820)    |
| Intercompany debt activity, net                              |                                      | 238,924                   | 2,892                         | (241,816)    |              |
| Purchase of common stock held in treasury                    | (399)                                |                           |                               |              | (399)        |
| Financing fees                                               | (12,370)                             |                           |                               |              | (12,370)     |
| Cash provided by (used in) financing activities              | \$ 273,969                           | \$ 238,054                | \$ 37,997                     | \$ (277,920) | \$ 272,100   |
| Effect of exchange rate changes on cash and cash equivalents |                                      |                           | (95)                          |              | (95)         |
| Decrease in cash and cash equivalents                        |                                      | 224,919                   | 21,528                        |              | 246,447      |
| Cash and cash equivalents at beginning of period             |                                      | 87,283                    | 9,907                         |              | 97,190       |
| Cash and cash equivalents at end of period                   | \$                                   | \$ 312,202                | \$ 31,435                     | \$           | \$ 343,637   |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2012

|                                                              | RTI International<br>Metals, Inc.<br>(As Restated) | Guarantor<br>Subsidiaries<br>(As Restated) | Non-Guarantor<br>Subsidiaries<br>(As Restated) | Eliminations<br>(As Restated) | Consolidated<br>(As Restated) |
|--------------------------------------------------------------|----------------------------------------------------|--------------------------------------------|------------------------------------------------|-------------------------------|-------------------------------|
| Cash provided by (used in) operating activities              | \$ 21,972                                          | \$ 2,957                                   | \$ (16,863)                                    | \$                            | \$ 8,066                      |
| Investing activities:                                        |                                                    |                                            |                                                |                               |                               |
| Capital expenditures                                         | (970)                                              | (54,715)                                   | (5,853)                                        |                               | (61,538)                      |
| Investments in subsidiaries, net                             | 178,633                                            |                                            |                                                | (178,633)                     |                               |
| Acquisitions, net of cash acquired                           | (182,811)                                          |                                            |                                                |                               | (182,811)                     |
| Proceeds from disposal of property, plant, and equipment     |                                                    |                                            | 10                                             |                               | 10                            |
| Short-term investments and marketable securities, net        |                                                    | 176,771                                    |                                                |                               | 176,771                       |
| Intercompany debt activity, net (1)                          | (16,184)                                           |                                            |                                                | 16,184                        |                               |
| Cash provided by (used in) investing activities              | (21,332)                                           | 122,056                                    | (5,843)                                        | (162,449)                     | (67,568)                      |
| Financing activities:                                        |                                                    |                                            |                                                |                               |                               |
| Proceeds from exercise of employee stock options             | 729                                                |                                            |                                                |                               | 729                           |
| Excess tax benefits from stock-based compensation activity   | 196                                                |                                            |                                                |                               | 196                           |
| Parent company investments, net of distributions             |                                                    | (194,783)                                  | 16,150                                         | 178,633                       |                               |
| Repayments on long-term debt                                 |                                                    | (758)                                      |                                                |                               | (758)                         |
| Intercompany debt activity, net (1)                          |                                                    | 13,540                                     | 2,644                                          | (16,184)                      |                               |
| Purchase of common stock held in treasury                    | (742)                                              |                                            |                                                |                               | (742)                         |
| Financing fees                                               | (823)                                              |                                            |                                                |                               | (823)                         |
| Cash provided by (used in) financing activities              | (640)                                              | (182,001)                                  | 18,794                                         | 162,449                       | (1,398)                       |
| Effect of exchange rate changes on cash and cash equivalents |                                                    |                                            | 1,248                                          |                               | 1,248                         |
| Decrease in cash and cash equivalents                        |                                                    | (56,988)                                   | (2,664)                                        |                               | (59,652)                      |
| Cash and cash equivalents at beginning of period             |                                                    | 144,271                                    | 12,571                                         |                               | 156,842                       |
| Cash and cash equivalents at end of period                   | \$                                                 | \$ 87,283                                  | \$ 9,907                                       | \$                            | \$ 97,190                     |

- (1) The Condensed Consolidating Statements of Cash Flows have been adjusted to reclassify intercompany debt activities between investing and financing, rather than entirely as financing activities as previously reported. These adjustments increased (decreased) cash flows from investing activities for the RTI International Metals, Inc. Parent Company and Eliminations by \$(16,184) and \$16,184 and increased (decreased) cash flows from financing activities for the RTI International Metals, Inc. Parent Company and Eliminations by \$16,184 and \$(16, 184), respectively.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Cash Flows

Year Ended December 31, 2011

|                                                              | RTI International<br>Metals, Inc.<br>(As Restated) | Guarantor<br>Subsidiaries<br>(As Restated) | Non-Guarantor<br>Subsidiaries<br>(As Restated) | Eliminations<br>(As Restated) | Consolidated<br>(As Restated) |
|--------------------------------------------------------------|----------------------------------------------------|--------------------------------------------|------------------------------------------------|-------------------------------|-------------------------------|
| Cash provided by (used in) operating activities              | \$ 28,498                                          | \$ 21,099                                  | \$ (34,762)                                    | \$                            | \$ 14,835                     |
| Investing activities:                                        |                                                    |                                            |                                                |                               |                               |
| Capital expenditures                                         |                                                    | (35,793)                                   | (3,052)                                        |                               | (38,845)                      |
| Investments in subsidiaries, net                             | (35,812)                                           |                                            |                                                |                               | (35,812)                      |
| Acquisitions, net of cash acquired                           | 33,831                                             | 1,735                                      | (36,248)                                       | 682                           |                               |
| Proceeds from disposal of property, plant, and equipment     |                                                    |                                            | 20                                             |                               | 20                            |
| Short-term investments and marketable securities, net        |                                                    | (160,409)                                  |                                                |                               | (160,409)                     |
| Intercompany debt activity, net (1)                          | (26,892)                                           |                                            |                                                | 26,892                        |                               |
| Cash provided by (used in) investing activities              | (28,873)                                           | (194,467)                                  | (39,280)                                       | 27,574                        | (235,046)                     |
| Financing activities:                                        |                                                    |                                            |                                                |                               |                               |
| Proceeds from exercise of employee stock options             | 367                                                |                                            |                                                |                               | 367                           |
| Excess tax benefits from stock-based compensation activity   | 302                                                |                                            |                                                |                               | 302                           |
| Parent company investments, net of distributions             |                                                    | (38,200)                                   | 38,882                                         | (682)                         |                               |
| Repayments on long-term debt                                 |                                                    | (20)                                       | (5)                                            |                               | (25)                          |
| Intercompany debt activity, net (1)                          |                                                    | 5,230                                      | 21,662                                         | (26,892)                      |                               |
| Purchase of common stock held in treasury                    | (294)                                              |                                            |                                                |                               | (294)                         |
| Cash provided by (used in) financing activities              | 375                                                | (32,990)                                   | 60,539                                         | (27,574)                      | 350                           |
| Effect of exchange rate changes on cash and cash equivalents |                                                    |                                            | (248)                                          |                               | (248)                         |
| Decrease in cash and cash equivalents                        |                                                    | (206,358)                                  | (13,751)                                       |                               | (220,109)                     |
| Cash and cash equivalents at beginning of period             |                                                    | 350,629                                    | 26,322                                         |                               | 376,951                       |
| Cash and cash equivalents at end of period                   | \$                                                 | \$ 144,271                                 | \$ 12,571                                      | \$                            | \$ 156,842                    |

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- (1) The Condensed Consolidating Statements of Cash Flows have been adjusted to reclassify intercompany debt activities between investing and financing, rather than entirely as financing activities as previously reported. These adjustments increased (decreased) cash flows from investing activities for the RTI International Metals, Inc. Parent Company and Eliminations by \$(26,892) and \$26,892 and increased (decreased) cash flows from financing activities for the RTI International Metals, Inc. Parent Company and Eliminations by \$26,892 and \$(26,892), respectively.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

**Note 18 SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED):**

The following table sets forth selected quarterly financial data for 2013 and 2012, and was recast to reflect the classification of RTI Connecticut as a discontinued operation. It has been derived from the Company's unaudited Condensed Consolidated Financial Statements, which have been restated for the recognition of a valuation allowance at our Canadian subsidiary as described in Note 2, as well as revisions related to revenue recognition errors related to certain long-term contracts as described in the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2013, as filed with the SEC on November 12, 2013. Refer to the restatement tables following the selected quarterly financial information for details on these adjustments.

|                                                            | 1st<br>Quarter<br>(As<br>Restated) | 2nd<br>Quarter<br>(As<br>Restated) | 3rd<br>Quarter<br>(As<br>Restated) | 4th<br>Quarter                     |
|------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| <b>2013</b>                                                |                                    |                                    |                                    |                                    |
| Net Sales                                                  | \$ 189,202                         | \$ 199,123                         | \$ 194,936                         | \$ 200,012                         |
| Gross profit                                               | 39,253                             | 43,777                             | 45,139                             | 45,685                             |
| Operating income                                           | 13,647                             | 20,481                             | 21,879                             | 6,008                              |
| Net income attributable to continuing operations           | 4,968                              | 1,059                              | 12,575                             | (2,945)                            |
| Earnings per share attributable to continuing operations   |                                    |                                    |                                    |                                    |
| Basic                                                      | \$ 0.16                            | \$ 0.03                            | \$ 0.41                            | \$ (0.10)                          |
| Diluted                                                    | \$ 0.16                            | \$ 0.03                            | \$ 0.38                            | \$ (0.10)                          |
| Earnings per share attributable to discontinued operations |                                    |                                    |                                    |                                    |
| Basic                                                      | \$                                 | \$ (0.01)                          | \$ (0.01)                          | \$ (0.03)                          |
| Diluted                                                    | \$                                 | \$ (0.01)                          | \$ (0.01)                          | \$ (0.03)                          |
|                                                            | 1st<br>Quarter<br>(As<br>Restated) | 2nd<br>Quarter<br>(As<br>Restated) | 3rd<br>Quarter<br>(As Restated)    | 4th<br>Quarter<br>(As<br>Restated) |
| <b>2012</b>                                                |                                    |                                    |                                    |                                    |
| Net Sales                                                  | \$ 151,272                         | \$ 182,419                         | \$ 180,666                         | \$ 185,630                         |
| Gross profit                                               | 31,852                             | 33,572                             | 33,367                             | 39,778                             |
| Operating income                                           | 10,421                             | 10,118                             | 9,322                              | 17,556                             |
| Net income attributable to continuing operations           | 1,887                              | 2,491                              | 2,412                              | 6,663                              |
| Earnings per share attributable to continuing operations   |                                    |                                    |                                    |                                    |
| Basic                                                      | \$ 0.06                            | \$ 0.08                            | \$ 0.08                            | \$ 0.22                            |
| Diluted                                                    | \$ 0.06                            | \$ 0.08                            | \$ 0.08                            | \$ 0.22                            |
| Earnings per share attributable to discontinued operations |                                    |                                    |                                    |                                    |
| Basic                                                      | \$ 0.02                            | \$ 0.02                            | \$ 0.01                            | \$                                 |
| Diluted                                                    | \$ 0.02                            | \$ 0.02                            | \$ 0.01                            | \$                                 |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                       | Three Months Ended March 31, 2013 |                            |               |                           |                 |                            |                       |
|-----------------------------------------------------------------------|-----------------------------------|----------------------------|---------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                       | Previously<br>Reported (1)        | Revision<br>Adjustment (2) | As<br>Revised | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                             | \$ 191,900                        | \$ (662)                   | \$ 191,238    | \$                        | \$ 191,238      | \$ (2,036)                 | \$ 189,202            |
| Cost and expenses:                                                    |                                   |                            |               |                           |                 |                            |                       |
| Cost of sales                                                         | 151,986                           | (26)                       | 151,960       |                           | 151,960         | (2,011)                    | 149,949               |
| Selling, general, and administrative expenses                         | 24,908                            |                            | 24,908        |                           | 24,908          | (303)                      | 24,605                |
| Research, technical, and product development expenses                 | 1,001                             |                            | 1,001         |                           | 1,001           |                            | 1,001                 |
| Operating income                                                      | 14,005                            | (636)                      | 13,369        |                           | 13,369          | 278                        | 13,647                |
| Other income, net                                                     | 559                               |                            | 559           |                           | 559             |                            | 559                   |
| Interest income                                                       | 31                                |                            | 31            |                           | 31              |                            | 31                    |
| Interest expense                                                      | (4,796)                           |                            | (4,796)       |                           | (4,796)         |                            | (4,796)               |
| Income before income taxes                                            | 9,799                             | (636)                      | 9,163         |                           | 9,163           | 278                        | 9,441                 |
| Provision for income taxes                                            | 2,982                             | (178)                      | 2,804         | 1,625                     | 4,429           | 44                         | 4,473                 |
| Net income attributable to continuing operations                      | 6,817                             | (458)                      | 6,359         | (1,625)                   | 4,734           | 234                        | 4,968                 |
| Net income (loss) attributable to discontinued operations, net of tax | 151                               |                            | 151           |                           | 151             | (234)                      | (83)                  |
| Net income                                                            | \$ 6,968                          | \$ (458)                   | \$ 6,510      | \$ (1,625)                | \$ 4,885        | \$                         | \$ 4,885              |
| Earnings per share attributable to continuing operations:             |                                   |                            |               |                           |                 |                            |                       |
| Basic                                                                 | \$ 0.22                           | \$ (0.02)                  | \$ 0.21       | \$ (0.05)                 | \$ 0.16         | \$ 0.01                    | \$ 0.16               |
| Diluted                                                               | \$ 0.22                           | \$ (0.02)                  | \$ 0.21       | \$ (0.05)                 | \$ 0.15         | \$ 0.01                    | \$ 0.16               |
| Earnings per share attributable to discontinued operations:           |                                   |                            |               |                           |                 |                            |                       |
| Basic                                                                 | \$                                | \$                         | \$            | \$                        | \$              | \$ (0.01)                  | \$                    |
| Diluted                                                               | \$                                | \$                         | \$            | \$                        | \$              | \$ (0.01)                  | \$                    |

- (1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Operations in the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2013 as filed with the SEC on September 24, 2013.
- (2): Amounts presented as Revision Adjustment represent revisions for revenue recognition errors related to certain long-term projects as disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                       | Three Months Ended June 30, 2013 |                            |               |                           |                 |                            |                       |
|-----------------------------------------------------------------------|----------------------------------|----------------------------|---------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                       | Previously<br>Reported (1)       | Revision<br>Adjustment (2) | As<br>Revised | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                             | \$ 200,950                       | \$ (206)                   | \$ 200,744    | \$                        | \$ 200,744      | \$ (1,621)                 | \$ 199,123            |
| Cost and expenses:                                                    |                                  |                            |               |                           |                 |                            |                       |
| Cost of sales                                                         | 156,782                          | 15                         | 156,797       |                           | 156,797         | (1,451)                    | 155,346               |
| Selling, general, and administrative expenses                         | 22,641                           |                            | 22,641        |                           | 22,641          | (327)                      | 22,314                |
| Research, technical, and product development expenses                 | 982                              |                            | 982           |                           | 982             |                            | 982                   |
| Operating income                                                      | 20,545                           | (221)                      | 20,324        |                           | 20,324          | 157                        | 20,481                |
| Other income, net                                                     | 700                              |                            | 700           |                           | 700             |                            | 700                   |
| Interest income                                                       | 50                               |                            | 50            |                           | 50              |                            | 50                    |
| Interest expense                                                      | (20,693)                         |                            | (20,693)      |                           | (20,693)        |                            | (20,693)              |
| Income before income taxes                                            | 602                              | (221)                      | 381           |                           | 381             | 157                        | 538                   |
| Benefit from income taxes                                             | (878)                            | (89)                       | (967)         | 371                       | (596)           | 75                         | (521)                 |
| Net income attributable to continuing operations                      | 1,480                            | (132)                      | 1,348         | (371)                     | 977             | 82                         | 1,059                 |
| Net income (loss) attributable to discontinued operations, net of tax | (307)                            |                            | (307)         |                           | (307)           | (82)                       | (389)                 |
| Net income                                                            | \$ 1,173                         | \$ (132)                   | \$ 1,041      | \$ (371)                  | \$ 670          | \$                         | \$ 670                |
| Earnings per share attributable to continuing operations:             |                                  |                            |               |                           |                 |                            |                       |
| Basic                                                                 | \$ 0.05                          | \$                         | \$ 0.04       | \$ (0.01)                 | \$ 0.03         | \$                         | \$ 0.03               |
| Diluted                                                               | \$ 0.05                          | \$                         | \$ 0.04       | \$ (0.01)                 | \$ 0.03         | \$                         | \$ 0.03               |
| Loss per share attributable to discontinued operations:               |                                  |                            |               |                           |                 |                            |                       |
| Basic                                                                 | \$ (0.01)                        | \$                         | \$ (0.01)     | \$                        | \$ (0.01)       | \$                         | \$ (0.01)             |
| Diluted                                                               | \$ (0.01)                        | \$                         | \$ (0.01)     | \$                        | \$ (0.01)       | \$                         | \$ (0.01)             |

- (1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 as filed with the SEC on September 24, 2013.
- (2): Amounts presented as Revision Adjustment represent revisions for revenue recognition errors related to certain long-term projects as disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                       | Six Months Ended June 30, 2013 |                            |            |                           |                 |                            |                       |
|-----------------------------------------------------------------------|--------------------------------|----------------------------|------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                       | Previously<br>Reported (1)     | Revision<br>Adjustment (2) | As Revised | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                             | \$ 392,850                     | \$ (868)                   | \$ 391,982 | \$                        | \$ 391,982      | \$ (3,657)                 | \$ 388,325            |
| Cost and expenses:                                                    |                                |                            |            |                           |                 |                            |                       |
| Cost of sales                                                         | 308,768                        | (11)                       | 308,757    |                           | 308,757         | (3,462)                    | 305,295               |
| Selling, general, and administrative expenses                         | 47,549                         |                            | 47,549     |                           | 47,549          | (630)                      | 46,919                |
| Research, technical, and product development expenses                 | 1,983                          |                            | 1,983      |                           | 1,983           |                            | 1,983                 |
| Operating income                                                      | 34,550                         | (857)                      | 33,693     |                           | 33,693          | 435                        | 34,128                |
| Other income, net                                                     | 1,259                          |                            | 1,259      |                           | 1,259           |                            | 1,259                 |
| Interest income                                                       | 81                             |                            | 81         |                           | 81              |                            | 81                    |
| Interest expense                                                      | (25,489)                       |                            | (25,489)   |                           | (25,489)        |                            | (25,489)              |
| Income before income taxes                                            | 10,401                         | (857)                      | 9,544      |                           | 9,544           | 435                        | 9,979                 |
| Provision for income taxes                                            | 2,104                          | (267)                      | 1,837      | 1,996                     | 3,833           | 119                        | 3,952                 |
| Net income attributable to continuing operations                      | 8,297                          | (590)                      | 7,707      | (1,996)                   | 5,711           | 316                        | 6,027                 |
| Net income (loss) attributable to discontinued operations, net of tax | (156)                          |                            | (156)      |                           | (156)           | (316)                      | (472)                 |
| Net income                                                            | \$ 8,141                       | \$ (590)                   | \$ 7,551   | \$ (1,996)                | \$ 5,555        | \$                         | \$ 5,555              |
| Earnings per share attributable to continuing operations:             |                                |                            |            |                           |                 |                            |                       |
| Basic                                                                 | \$ 0.27                        | \$ (0.02)                  | \$ 0.25    | \$ (0.07)                 | \$ 0.19         | \$ 0.01                    | \$ 0.20               |
| Diluted                                                               | \$ 0.27                        | \$ (0.02)                  | \$ 0.25    | \$ (0.07)                 | \$ 0.19         | \$ 0.01                    | \$ 0.20               |
| Loss per share attributable to discontinued operations:               |                                |                            |            |                           |                 |                            |                       |
| Basic                                                                 | \$ (0.01)                      | \$                         | \$ (0.01)  | \$                        | \$ (0.01)       | \$ (0.01)                  | \$ (0.02)             |
| Diluted                                                               | \$ (0.01)                      | \$                         | \$ (0.01)  | \$                        | \$ (0.01)       | \$ (0.01)                  | \$ (0.02)             |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 as filed with the SEC on September 24, 2013.

(2): Amounts presented as Revision Adjustment represent revisions for revenue recognition errors related to certain long-term projects as disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                       | Three Months Ended September 30, 2013 |                           |                 |                            |                       |
|-----------------------------------------------------------------------|---------------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                       | Previously<br>Reported (1)            | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                             | \$ 196,532                            | \$                        | \$ 196,532      | \$ (1,596)                 | \$ 194,936            |
| Cost and expenses:                                                    |                                       |                           |                 |                            |                       |
| Cost of sales                                                         | 151,435                               |                           | 151,435         | (1,638)                    | 149,797               |
| Selling, general, and administrative expenses                         | 22,491                                |                           | 22,491          | (272)                      | 22,219                |
| Research, technical, and product development expenses                 | 1,041                                 |                           | 1,041           |                            | 1,041                 |
| Operating income                                                      | 21,565                                |                           | 21,565          | 314                        | 21,879                |
| Other income, net                                                     | (294)                                 |                           | (294)           |                            | (294)                 |
| Interest income                                                       | 78                                    |                           | 78              |                            | 78                    |
| Interest expense                                                      | (7,387)                               |                           | (7,387)         |                            | (7,387)               |
| Income before income taxes                                            | 13,962                                |                           | 13,962          | 314                        | 14,276                |
| Provision for income taxes                                            | 1,670                                 | (3)                       | 1,667           | 34                         | 1,701                 |
| Net income attributable to continuing operations                      | 12,292                                | 3                         | 12,295          | 280                        | 12,575                |
| Net income (loss) attributable to discontinued operations, net of tax |                                       |                           |                 | (280)                      | (280)                 |
| Net income                                                            | \$ 12,292                             | \$ 3                      | \$ 12,295       | \$                         | \$ 12,295             |
| Earnings per share attributable to continuing operations:             |                                       |                           |                 |                            |                       |
| Basic                                                                 | \$ 0.40                               | \$                        | \$ 0.40         | \$ 0.01                    | \$ 0.41               |
| Diluted                                                               | \$ 0.37                               | \$                        | \$ 0.37         | \$ 0.01                    | \$ 0.38               |
| Loss per share attributable to discontinued operations:               |                                       |                           |                 |                            |                       |
| Basic                                                                 | \$                                    | \$                        | \$              | \$ (0.01)                  | \$ (0.01)             |
| Diluted                                                               | \$                                    | \$                        | \$              | \$ (0.01)                  | \$ (0.01)             |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                          | Nine Months Ended September 30, 2013 |                           |                 |                            |                       |
|--------------------------------------------------------------------------|--------------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                          | Previously<br>Reported (1)           | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                                | \$ 588,514                           | \$                        | \$ 588,514      | \$ (5,253)                 | \$ 583,261            |
| Cost and expenses:                                                       |                                      |                           |                 |                            |                       |
| Cost of sales                                                            | 460,192                              |                           | 460,192         | (5,100)                    | 455,092               |
| Selling, general, and administrative expenses                            | 70,040                               |                           | 70,040          | (902)                      | 69,138                |
| Research, technical, and product development expenses                    | 3,024                                |                           | 3,024           |                            | 3,024                 |
| Operating income                                                         | 55,258                               |                           | 55,258          | 749                        | 56,007                |
| Other income, net                                                        | 965                                  |                           | 965             |                            | 965                   |
| Interest income                                                          | 159                                  |                           | 159             |                            | 159                   |
| Interest expense                                                         | (32,876)                             |                           | (32,876)        |                            | (32,876)              |
| Income before income taxes                                               | 23,506                               |                           | 23,506          | 749                        | 24,255                |
| Provision for income taxes                                               | 3,507                                | 1,993                     | 5,500           | 153                        | 5,653                 |
| Net income attributable to continuing operations                         | 19,999                               | (1,993)                   | 18,006          | 596                        | 18,602                |
| Net income (loss) attributable to discontinued operations,<br>net of tax | (156)                                |                           | (156)           | (596)                      | (752)                 |
| Net income                                                               | \$ 19,843                            | \$ (1,993)                | \$ 17,850       | \$                         | \$ 17,850             |
| Earnings per share attributable to continuing operations:                |                                      |                           |                 |                            |                       |
| Basic                                                                    | \$ 0.66                              | \$ (0.07)                 | \$ 0.59         | \$ 0.02                    | \$ 0.61               |
| Diluted                                                                  | \$ 0.65                              | \$ (0.07)                 | \$ 0.59         | \$ 0.02                    | \$ 0.61               |
| Loss per share attributable to discontinued operations:                  |                                      |                           |                 |                            |                       |
| Basic                                                                    | \$ (0.01)                            | \$                        | \$ (0.01)       | \$ (0.02)                  | \$ (0.02)             |
| Diluted                                                                  | \$ (0.01)                            | \$                        | \$ (0.01)       | \$ (0.02)                  | \$ (0.02)             |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                | Three Months Ended March 31, 2012 |                           |                 |                            |                       |
|----------------------------------------------------------------|-----------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                | Previously<br>Reported (1)        | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                      | \$ 154,070                        | \$                        | \$ 154,070      | \$ (2,798)                 | 151,272               |
| Cost and expenses:                                             |                                   |                           |                 |                            |                       |
| Cost of sales                                                  | 121,563                           |                           | 121,563         | (2,143)                    | 119,420               |
| Selling, general, and administrative expenses                  | 20,833                            |                           | 20,833          | (467)                      | 20,366                |
| Research, technical, and product development expenses          | 1,065                             |                           | 1,065           |                            | 1,065                 |
| Operating income                                               | 10,609                            |                           | 10,609          | (188)                      | 10,421                |
| Other income, net                                              | (268)                             |                           | (268)           |                            | (268)                 |
| Interest income                                                | 82                                |                           | 82              |                            | 82                    |
| Interest expense                                               | (4,278)                           |                           | (4,278)         |                            | (4,278)               |
| Income before income taxes                                     | 6,145                             |                           | 6,145           | (188)                      | 5,957                 |
| Provision for income taxes                                     | 2,087                             | 2,061                     | 4,148           | (78)                       | 4,070                 |
| Net income attributable to continuing operations               | 4,058                             | (2,061)                   | 1,997           | (110)                      | 1,887                 |
| Net income attributable to discontinued operations, net of tax | 571                               |                           | 571             | 110                        | 681                   |
| Net income                                                     | \$ 4,629                          | \$ (2,061)                | \$ 2,568        | \$                         | 2,568                 |
| Earnings per share attributable to continuing operations:      |                                   |                           |                 |                            |                       |
| Basic                                                          | \$ 0.13                           | \$ (0.07)                 | \$ 0.07         | \$                         | 0.06                  |
| Diluted                                                        | \$ 0.13                           | \$ (0.07)                 | \$ 0.07         | \$                         | 0.06                  |
| Earnings per share attributable to discontinued operations:    |                                   |                           |                 |                            |                       |
| Basic                                                          | \$ 0.02                           | \$                        | \$ 0.02         | \$                         | 0.02                  |
| Diluted                                                        | \$ 0.02                           | \$                        | \$ 0.02         | \$                         | 0.02                  |

(1): Previously reported balances represent the amounts presented as 'Currently Reported' in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                          | Three Months Ended June 30, 2012 |                           |                 |                            |                       |
|--------------------------------------------------------------------------|----------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                          | Previously<br>Reported (1)       | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                                | \$ 184,462                       | \$                        | \$ 184,462      | \$ (2,043)                 | \$ 182,419            |
| Cost and expenses:                                                       |                                  |                           |                 |                            |                       |
| Cost of sales                                                            | 150,443                          |                           | 150,443         | (1,596)                    | 148,847               |
| Selling, general, and administrative expenses                            | 22,678                           |                           | 22,678          | (328)                      | 22,350                |
| Research, technical, and product development expenses                    | 1,104                            |                           | 1,104           |                            | 1,104                 |
| Operating income                                                         | 10,237                           |                           | 10,237          | (119)                      | 10,118                |
| Other income, net                                                        | 570                              |                           | 570             |                            | 570                   |
| Interest income                                                          | 33                               |                           | 33              |                            | 33                    |
| Interest expense                                                         | (4,209)                          |                           | (4,209)         |                            | (4,209)               |
| Income before income taxes                                               | 6,631                            |                           | 6,631           | (119)                      | 6,512                 |
| Provision for income taxes                                               | 2,538                            | 1,521                     | 4,059           | (38)                       | 4,021                 |
| Net income attributable to continuing operations                         | 4,093                            | (1,521)                   | 2,572           | (81)                       | 2,491                 |
| Net income (loss) attributable to discontinued operations,<br>net of tax | 453                              |                           | 453             | 81                         | 534                   |
| Net income                                                               | \$ 4,546                         | \$ (1,521)                | \$ 3,025        | \$                         | \$ 3,025              |
| Earnings per share attributable to continuing operations:                |                                  |                           |                 |                            |                       |
| Basic                                                                    | \$ 0.14                          | \$ (0.05)                 | \$ 0.08         | \$                         | \$ 0.08               |
| Diluted                                                                  | \$ 0.13                          | \$ (0.05)                 | \$ 0.08         | \$                         | \$ 0.08               |
| Earnings per share attributable to discontinued operations:              |                                  |                           |                 |                            |                       |
| Basic                                                                    | \$ 0.01                          | \$                        | \$ 0.01         | \$                         | \$ 0.02               |
| Diluted                                                                  | \$ 0.01                          | \$                        | \$ 0.01         | \$                         | \$ 0.02               |

(1): Previously reported balances represent the amounts presented as 'Currently Reported' in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                          | Six Months Ended June 30, 2012 |                           |                 |                            |                       |
|--------------------------------------------------------------------------|--------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                          | Previously<br>Reported (1)     | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                                | \$ 338,532                     | \$                        | \$ 338,532      | \$ (4,841)                 | \$ 333,691            |
| Cost and expenses:                                                       |                                |                           |                 |                            |                       |
| Cost of sales                                                            | 272,006                        |                           | 272,006         | (3,739)                    | 268,267               |
| Selling, general, and administrative expenses                            | 43,511                         |                           | 43,511          | (795)                      | 42,716                |
| Research, technical, and product development expenses                    | 2,169                          |                           | 2,169           |                            | 2,169                 |
| Operating income                                                         | 20,846                         |                           | 20,846          | (307)                      | 20,539                |
| Other income, net                                                        | 302                            |                           | 302             |                            | 302                   |
| Interest income                                                          | 115                            |                           | 115             |                            | 115                   |
| Interest expense                                                         | (8,487)                        |                           | (8,487)         |                            | (8,487)               |
| Income before income taxes                                               | 12,776                         |                           | 12,776          | (307)                      | 12,469                |
| Provision for income taxes                                               | 4,625                          | 3,582                     | 8,207           | (116)                      | 8,091                 |
| Net income attributable to continuing operations                         | 8,151                          | (3,582)                   | 4,569           | (191)                      | 4,378                 |
| Net income (loss) attributable to discontinued operations,<br>net of tax | 1,024                          |                           | 1,024           | 191                        | 1,215                 |
| Net income                                                               | \$ 9,175                       | \$ (3,582)                | \$ 5,593        | \$                         | \$ 5,593              |
| Earnings per share attributable to continuing operations:                |                                |                           |                 |                            |                       |
| Basic                                                                    | \$ 0.27                        | \$ (0.12)                 | \$ 0.15         | \$ (0.01)                  | \$ 0.14               |
| Diluted                                                                  | \$ 0.27                        | \$ (0.12)                 | \$ 0.15         | \$ (0.01)                  | \$ 0.14               |
| Earnings per share attributable to discontinued operations:              |                                |                           |                 |                            |                       |
| Basic                                                                    | \$ 0.03                        | \$                        | \$ 0.03         | \$ 0.01                    | \$ 0.04               |
| Diluted                                                                  | \$ 0.03                        | \$                        | \$ 0.03         | \$ 0.01                    | \$ 0.04               |

(1): Previously reported balances represent the amounts presented as 'Currently Reported' in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                | Three Months Ended September 30, 2012 |                           |                 |                            |                       |
|----------------------------------------------------------------|---------------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                | Previously<br>Reported (1)            | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                      | \$ 182,545                            | \$                        | \$ 182,545      | \$ (1,879)                 | \$ 180,666            |
| Cost and expenses:                                             |                                       |                           |                 |                            |                       |
| Cost of sales                                                  | 148,895                               |                           | 148,895         | (1,596)                    | 147,299               |
| Selling, general, and administrative expenses                  | 21,725                                |                           | 21,725          | (309)                      | 21,416                |
| Research, technical, and product development expenses          | 1,012                                 |                           | 1,012           |                            | 1,012                 |
| Asset and asset-related charges                                | 1,617                                 |                           | 1,617           |                            | 1,617                 |
| Operating income                                               | 9,296                                 |                           | 9,296           | 26                         | 9,322                 |
| Other income, net                                              | 16                                    |                           | 16              |                            | 16                    |
| Interest income                                                | 18                                    |                           | 18              |                            | 18                    |
| Interest expense                                               | (4,708)                               |                           | (4,708)         |                            | (4,708)               |
| Income before income taxes                                     | 4,622                                 |                           | 4,622           | 26                         | 4,648                 |
| Provision for income taxes                                     | 1,423                                 | 813                       | 2,236           |                            | 2,236                 |
| Net income attributable to continuing operations               | 3,199                                 | (813)                     | 2,386           | 26                         | 2,412                 |
| Net income attributable to discontinued operations, net of tax | 389                                   |                           | 389             | (26)                       | 363                   |
| Net income                                                     | \$ 3,588                              | \$ (813)                  | \$ 2,775        | \$                         | \$ 2,775              |
| Earnings per share attributable to continuing operations:      |                                       |                           |                 |                            |                       |
| Basic                                                          | \$ 0.11                               | \$ (0.03)                 | \$ 0.08         | \$                         | \$ 0.08               |
| Diluted                                                        | \$ 0.11                               | \$ (0.03)                 | \$ 0.08         | \$                         | \$ 0.08               |
| Earnings per share attributable to discontinued operations:    |                                       |                           |                 |                            |                       |
| Basic                                                          | \$ 0.01                               | \$                        | \$ 0.01         | \$                         | \$ 0.01               |
| Diluted                                                        | \$ 0.01                               | \$                        | \$ 0.01         | \$                         | \$ 0.01               |

(1): Previously reported balances represent the amounts presented as 'Currently Reported' in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Operations

(Unaudited)

(In thousands, except per share amounts)

|                                                                | Nine Months Ended September 30, 2012 |                           |                 |                            |                       |
|----------------------------------------------------------------|--------------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                | Previously<br>Reported (1)           | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| Net sales                                                      | \$ 521,077                           | \$                        | \$ 521,077      | \$ (6,720)                 | \$ 514,357            |
| Cost and expenses:                                             |                                      |                           |                 |                            |                       |
| Cost of sales                                                  | 420,901                              |                           | 420,901         | (5,335)                    | 415,566               |
| Selling, general, and administrative expenses                  | 65,236                               |                           | 65,236          | (1,104)                    | 64,132                |
| Research, technical, and product development expenses          | 3,181                                |                           | 3,181           |                            | 3,181                 |
| Asset and asset-related charges                                | 1,617                                |                           | 1,617           |                            | 1,617                 |
| Operating income                                               | 30,142                               |                           | 30,142          | (281)                      | 29,861                |
| Other income, net                                              | 318                                  |                           | 318             |                            | 318                   |
| Interest income                                                | 133                                  |                           | 133             |                            | 133                   |
| Interest expense                                               | (13,195)                             |                           | (13,195)        |                            | (13,195)              |
| Income before income taxes                                     | 17,398                               |                           | 17,398          | (281)                      | 17,117                |
| Provision for income taxes                                     | 6,048                                | 4,395                     | 10,443          | (116)                      | 10,327                |
| Net income attributable to continuing operations               | 11,350                               | (4,395)                   | 6,955           | (165)                      | 6,790                 |
| Net income attributable to discontinued operations, net of tax | 1,413                                |                           | 1,413           | 165                        | 1,578                 |
| Net income                                                     | \$ 12,763                            | \$ (4,395)                | \$ 8,368        | \$                         | \$ 8,368              |
| Earnings per share attributable to continuing operations:      |                                      |                           |                 |                            |                       |
| Basic                                                          | \$ 0.37                              | \$ (0.15)                 | \$ 0.23         | \$ (0.01)                  | \$ 0.22               |
| Diluted                                                        | \$ 0.37                              | \$ (0.15)                 | \$ 0.23         | \$ (0.01)                  | \$ 0.22               |
| Earnings per share attributable to discontinued operations:    |                                      |                           |                 |                            |                       |
| Basic                                                          | \$ 0.05                              | \$                        | \$ 0.05         | \$ 0.01                    | \$ 0.05               |
| Diluted                                                        | \$ 0.05                              | \$                        | \$ 0.05         | \$ 0.01                    | \$ 0.05               |

(1): Previously reported balances represent the amounts presented as 'Currently Reported' in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands, except share and per share amounts)

|                                                                                                                       | March 31, 2013                |                            |               |                           |                 |                            |                       |
|-----------------------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------|---------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                                                                                       | Previously<br>Reported<br>(1) | Revision<br>Adjustment (2) | As<br>Revised | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| <b>ASSETS</b>                                                                                                         |                               |                            |               |                           |                 |                            |                       |
| Current assets:                                                                                                       |                               |                            |               |                           |                 |                            |                       |
| Cash and cash equivalents                                                                                             | \$ 58,015                     | \$                         | \$ 58,015     | \$                        | \$ 58,015       | \$                         | \$ 58,015             |
| Receivables, less allowance for doubtful accounts of \$712                                                            | 114,075                       |                            | 114,075       |                           | 114,075         | (812)                      | 113,263               |
| Inventories, net                                                                                                      | 413,233                       | (3,952)                    | 409,281       |                           | 409,281         | (7,948)                    | 401,333               |
| Costs in excess of billings                                                                                           | 3,418                         | 426                        | 3,844         |                           | 3,844           |                            | 3,844                 |
| Deferred income taxes                                                                                                 | 30,184                        | 926                        | 31,110        |                           | 31,110          |                            | 31,110                |
| Assets of discontinued operations                                                                                     | 14,971                        |                            | 14,971        |                           | 14,971          | 8,948                      | 23,919                |
| Other current assets                                                                                                  | 11,749                        |                            | 11,749        |                           | 11,749          |                            | 11,749                |
| Total current assets                                                                                                  | 645,645                       | (2,600)                    | 643,045       |                           | 643,045         | 188                        | 643,233               |
| Property, plant, and equipment, net                                                                                   | 371,299                       |                            | 371,299       |                           | 371,299         | (123)                      | 371,176               |
| Goodwill                                                                                                              | 135,341                       | (5,260)                    | 130,081       |                           | 130,081         | (65)                       | 130,016               |
| Other intangible assets, net                                                                                          | 55,228                        |                            | 55,228        |                           | 55,228          |                            | 55,228                |
| Deferred income taxes                                                                                                 | 29,624                        |                            | 29,624        | (29,624)                  |                 |                            |                       |
| Other noncurrent assets                                                                                               | 8,067                         |                            | 8,067         |                           | 8,067           |                            | 8,067                 |
| Total assets                                                                                                          | \$ 1,245,204                  | \$ (7,860)                 | \$ 1,237,344  | \$ (29,624)               | \$ 1,207,720    | \$                         | \$ 1,207,720          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                           |                               |                            |               |                           |                 |                            |                       |
| Current liabilities:                                                                                                  |                               |                            |               |                           |                 |                            |                       |
| Accounts payable                                                                                                      | \$ 79,587                     | \$                         | \$ 79,587     | \$                        | \$ 79,587       | \$ (342)                   | \$ 79,245             |
| Accrued wages and other employee costs                                                                                | 21,826                        |                            | 21,826        |                           | 21,826          | (97)                       | 21,729                |
| Unearned revenues                                                                                                     | 23,840                        | (1,357)                    | 22,483        |                           | 22,483          |                            | 22,483                |
| Liabilities of discontinued operations                                                                                | 2,821                         |                            | 2,821         |                           | 2,821           | 448                        | 3,269                 |
| Other accrued liabilities                                                                                             | 25,379                        |                            | 25,379        | 462                       | 25,841          | (9)                        | 25,832                |
| Total current liabilities                                                                                             | 153,453                       | (1,357)                    | 152,096       | 462                       | 152,558         |                            | 152,558               |
| Long-term debt                                                                                                        | 200,663                       |                            | 200,663       |                           | 200,663         |                            | 200,663               |
| Liability for post-retirement benefits                                                                                | 43,729                        |                            | 43,729        |                           | 43,729          |                            | 43,729                |
| Liability for pension benefits                                                                                        | 15,229                        |                            | 15,229        |                           | 15,229          |                            | 15,229                |
| Deferred income taxes                                                                                                 | 51,400                        | (5,068)                    | 46,332        | 4,232                     | 50,564          |                            | 50,564                |
| Unearned revenues                                                                                                     | 12,792                        |                            | 12,792        |                           | 12,792          |                            | 12,792                |
| Other noncurrent liabilities                                                                                          | 12,129                        |                            | 12,129        |                           | 12,129          |                            | 12,129                |
| Total liabilities                                                                                                     | 489,395                       | (6,425)                    | 482,970       | 4,694                     | 487,664         |                            | 487,664               |
| Commitments and Contingencies                                                                                         |                               |                            |               |                           |                 |                            |                       |
| Shareholders' equity:                                                                                                 |                               |                            |               |                           |                 |                            |                       |
| Common stock, \$0.01 par value; 50,000,000 shares authorized; 31,300,737 shares issued; 30,498,948 shares outstanding | 313                           |                            | 313           |                           | 313             |                            | 313                   |

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|                                            |              |            |              |             |              |    |              |
|--------------------------------------------|--------------|------------|--------------|-------------|--------------|----|--------------|
| Additional paid-in capital                 | 487,512      |            | 487,512      |             | 487,512      |    | 487,512      |
| Treasury stock, at cost; 801,789 shares    | (18,798)     |            | (18,798)     |             | (18,798)     |    | (18,798)     |
| Accumulated other comprehensive loss       | (40,710)     |            | (40,710)     | 321         | (40,389)     |    | (40,389)     |
| Retained earnings                          | 327,492      | (1,435)    | 326,057      | (34,639)    | 291,418      |    | 291,418      |
| Total shareholders' equity                 | 755,809      | (1,435)    | 754,374      | (34,318)    | 720,056      |    | 720,056      |
| Total liabilities and shareholders' equity | \$ 1,245,204 | \$ (7,860) | \$ 1,237,344 | \$ (29,624) | \$ 1,207,720 | \$ | \$ 1,207,720 |

- (1): Previously reported balances represent the amounts reported in the Condensed Consolidated Balance Sheet in the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2013 as filed with the SEC on September 24, 2013. The previously reported balances of inventory and cost in excess of billings have been adjusted by \$(1,739) and \$1,739 to correct the prior presentation.
- (2): Amounts presented as Revision Adjustment represent revisions related to revenue recognition errors related to certain long-term projects, as well as adjustments to goodwill and deferred taxes related to the acquisition of Remmele in 2012, as disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands, except share and per share amounts)

|                                                            | June 30, 2013                 |                            |               |                           |                 |                            |                       |
|------------------------------------------------------------|-------------------------------|----------------------------|---------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                            | Previously<br>Reported<br>(1) | Revision<br>Adjustment (2) | As<br>Revised | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| <b>ASSETS</b>                                              |                               |                            |               |                           |                 |                            |                       |
| Current assets:                                            |                               |                            |               |                           |                 |                            |                       |
| Cash and cash equivalents                                  | \$ 231,433                    | \$                         | \$ 231,433    | \$                        | \$ 231,433      | \$                         | \$ 231,433            |
| Short-term investments                                     | 128,205                       |                            | 128,205       |                           | 128,205         |                            | 128,205               |
| Receivables, less allowance for doubtful accounts of \$637 | 106,880                       |                            | 106,880       |                           | 106,880         | (593)                      | 106,287               |
| Inventories, net                                           | 420,793                       | (4,265)                    | 416,528       |                           | 416,528         | (7,301)                    | 409,227               |
| Costs in excess of billings                                | 1,455                         | 1,305                      | 2,760         |                           | 2,760           |                            | 2,760                 |
| Deferred income taxes                                      | 30,675                        | 1,015                      | 31,690        |                           | 31,690          |                            | 31,690                |
| Assets of discontinued operations                          |                               |                            |               |                           |                 | 8,076                      | 8,076                 |
| Other current assets                                       | 21,990                        |                            | 21,990        | (22)                      | 21,968          |                            | 21,968                |
| Total current assets                                       | 941,431                       | (1,945)                    | 939,486       | (22)                      | 939,464         | 182                        | 939,646               |
| Property, plant, and equipment, net                        | 368,363                       |                            | 368,363       |                           | 368,363         | (117)                      | 368,246               |
| Goodwill                                                   | 134,823                       | (5,260)                    | 129,563       |                           | 129,563         | (65)                       | 129,498               |
| Other intangible assets, net                               | 53,826                        |                            | 53,826        |                           | 53,826          |                            | 53,826                |
| Deferred income taxes                                      | 29,615                        |                            | 29,615        | (29,615)                  |                 |                            |                       |
| Other noncurrent assets                                    | 13,681                        |                            | 13,681        |                           | 13,681          |                            | 13,681                |
| Total assets                                               | \$ 1,541,739                  | \$ (7,205)                 | \$ 1,534,534  | \$ (29,637)               | \$ 1,504,897    | \$                         | \$ 1,504,897          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |                               |                            |               |                           |                 |                            |                       |
| Current liabilities:                                       |                               |                            |               |                           |                 |                            |                       |
| Accounts payable                                           | \$ 70,796                     | \$                         | \$ 70,796     | \$                        | \$ 70,796       | \$ (341)                   | \$ 70,455             |
| Accrued wages and employee costs                           | 26,355                        |                            | 26,355        |                           | 26,355          | (101)                      | 26,254                |
| Unearned revenues                                          | 49,885                        | (570)                      | 49,315        |                           | 49,315          |                            | 49,315                |
| Liabilities of discontinued operations                     |                               |                            |               |                           |                 | 501                        | 501                   |
| Other accrued liabilities                                  | 19,852                        |                            | 19,852        |                           | 19,852          | (59)                       | 19,793                |
| Total current liabilities                                  | 166,888                       | (570)                      | 166,318       |                           | 166,318         |                            | 166,318               |
| Long-term debt                                             | 415,220                       |                            | 415,220       |                           | 415,220         |                            | 415,220               |
| Liability for post-retirement benefits                     | 43,944                        |                            | 43,944        |                           | 43,944          |                            | 43,944                |
| Liability for pension benefits                             | 14,923                        |                            | 14,923        |                           | 14,923          |                            | 14,923                |
| Deferred income taxes                                      | 81,190                        | (5,068)                    | 76,122        | 3,868                     | 79,990          |                            | 79,990                |
| Unearned revenues                                          | 12,496                        |                            | 12,496        |                           | 12,496          |                            | 12,496                |
| Other noncurrent liabilities                               | 12,307                        |                            | 12,307        |                           | 12,307          |                            | 12,307                |
| Total liabilities                                          | 746,968                       | (5,638)                    | 741,330       | 3,868                     | 745,198         |                            | 745,198               |
| Commitments and Contingencies                              |                               |                            |               |                           |                 |                            |                       |
| Shareholders' equity:                                      |                               |                            |               |                           |                 |                            |                       |
| Common stock, \$0.01 par value;                            | 313                           |                            | 313           |                           | 313             |                            | 313                   |
| 50,000,000 shares authorized; 31,339,200                   |                               |                            |               |                           |                 |                            |                       |

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|                                              |              |            |              |             |              |    |              |
|----------------------------------------------|--------------|------------|--------------|-------------|--------------|----|--------------|
| shares issued; 30,537,411 shares outstanding |              |            |              |             |              |    |              |
| Additional paid-in capital                   | 528,541      |            | 528,541      |             | 528,541      |    | 528,541      |
| Treasury stock, at cost; 801,789 shares      | (18,798)     |            | (18,798)     |             | (18,798)     |    | (18,798)     |
| Accumulated other comprehensive loss         | (43,950)     |            | (43,950)     | 1,505       | (42,445)     |    | (42,445)     |
| Retained earnings                            | 328,665      | (1,567)    | 327,098      | (35,010)    | 292,088      |    | 292,088      |
| Total shareholders' equity                   | 794,771      | (1,567)    | 793,204      | (33,505)    | 759,699      |    | 759,699      |
| Total liabilities and shareholders' equity   | \$ 1,541,739 | \$ (7,205) | \$ 1,534,534 | \$ (29,637) | \$ 1,504,897 | \$ | \$ 1,504,897 |

- (1): Previously reported balances represent the amounts reported in the Condensed Consolidated Balance Sheet in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 as filed with the SEC on September 24, 2013. The previously reported balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(359), \$544, and \$185 to correct the prior presentation.
- (2): Amounts presented as Revision Adjustment represent revisions related to revenue recognition errors related to certain long-term projects, as well as adjustments to goodwill and deferred taxes related to the acquisition of Remmele in 2012, as disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands, except share and per share amounts)

|                                                            | September 30, 2013            |                           |                 |                            |                       |
|------------------------------------------------------------|-------------------------------|---------------------------|-----------------|----------------------------|-----------------------|
|                                                            | Previously<br>Reported<br>(1) | Restatement<br>Adjustment | As<br>Corrected | Discontinued<br>Operations | Currently<br>Reported |
| <b>ASSETS</b>                                              |                               |                           |                 |                            |                       |
| Current assets:                                            |                               |                           |                 |                            |                       |
| Cash and cash equivalents                                  | \$ 315,021                    | \$                        | \$ 315,021      | \$                         | \$ 315,021            |
| Short-term investments                                     | 45,187                        |                           | 45,187          |                            | 45,187                |
| Receivables, less allowance for doubtful accounts of \$698 | 118,827                       |                           | 118,827         | (704)                      | 118,123               |
| Inventories, net                                           | 419,158                       |                           | 419,158         | (6,702)                    | 412,456               |
| Costs in excess of billings                                | 4,667                         |                           | 4,667           |                            | 4,667                 |
| Deferred income taxes                                      | 31,406                        |                           | 31,406          |                            | 31,406                |
| Assets of discontinued operations                          |                               |                           |                 | 7,582                      | 7,582                 |
| Other current assets                                       | 23,041                        | (133)                     | 22,908          |                            | 22,908                |
| Total current assets                                       | 957,307                       | (133)                     | 957,174         | 176                        | 957,350               |
| Property, plant, and equipment, net                        | 367,849                       |                           | 367,849         | (111)                      | 367,738               |
| Goodwill                                                   | 129,838                       |                           | 129,838         | (65)                       | 129,773               |
| Other intangible assets, net                               | 53,042                        |                           | 53,042          |                            | 53,042                |
| Deferred income taxes                                      | 29,435                        | (29,435)                  |                 |                            |                       |
| Other noncurrent assets                                    | 14,910                        |                           | 14,910          |                            | 14,910                |
| Total assets                                               | \$ 1,552,381                  | \$ (29,568)               | \$ 1,522,813    | \$                         | \$ 1,522,813          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |                               |                           |                 |                            |                       |
| Current liabilities:                                       |                               |                           |                 |                            |                       |
| Accounts payable                                           | \$ 75,039                     | \$                        | \$ 75,039       | \$ (347)                   | \$ 74,692             |
| Accrued wages and other employee costs                     | 29,801                        |                           | 29,801          | (104)                      | 29,697                |
| Unearned revenues                                          | 38,467                        |                           | 38,467          |                            | 38,467                |
| Liabilities of discontinued operations                     |                               |                           |                 | 471                        | 471                   |
| Other accrued liabilities                                  | 26,037                        |                           | 26,037          | (20)                       | 26,017                |
| Total current liabilities                                  | 169,344                       |                           | 169,344         |                            | 169,344               |
| Long-term debt                                             | 419,249                       |                           | 419,249         |                            | 419,249               |
| Liability for post-retirement benefits                     | 44,112                        |                           | 44,112          |                            | 44,112                |
| Liability for pension benefits                             | 10,297                        |                           | 10,297          |                            | 10,297                |
| Deferred income taxes                                      | 73,882                        | 4,630                     | 78,512          |                            | 78,512                |
| Unearned revenues                                          | 12,033                        |                           | 12,033          |                            | 12,033                |
| Other noncurrent liabilities                               | 12,134                        |                           | 12,134          |                            | 12,134                |
| Total liabilities                                          | 741,051                       | 4,630                     | 745,681         |                            | 745,681               |
| Commitments and Contingencies                              |                               |                           |                 |                            |                       |
| Shareholders' equity:                                      |                               |                           |                 |                            |                       |

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Common stock, \$0.01 par value; 50,000,000 shares authorized;

|                                                         |              |             |              |    |              |
|---------------------------------------------------------|--------------|-------------|--------------|----|--------------|
| 31,360,663 shares issued; 30,554,253 shares outstanding | 314          |             | 314          |    | 314          |
| Additional paid-in capital                              | 530,415      |             | 530,415      |    | 530,415      |
| Treasury stock, at cost; 806,410 shares                 | (18,798)     |             | (18,798)     |    | (18,798)     |
| Accumulated other comprehensive loss                    | (39,991)     | 809         | (39,182)     |    | (39,182)     |
| Retained earnings                                       | 339,390      | (35,007)    | 304,383      |    | 304,383      |
| Total shareholders' equity                              | 811,330      | (34,198)    | 777,132      |    | 777,132      |
| Total liabilities and shareholders' equity              | \$ 1,552,381 | \$ (29,568) | \$ 1,522,813 | \$ | \$ 1,522,813 |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidated Balance Sheet in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013. The previously reported balances of inventory and cost in excess of billings have been adjusted by \$(1,242) and \$1,242 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands, except share and per share amounts)

|                                                                                                                          | Previously<br>Reported (1) | Restatement<br>Adjustment | March 31, 2012<br>As Corrected | Discontinued<br>Operations | Currently<br>Reported |
|--------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------------------|--------------------------------|----------------------------|-----------------------|
| <b>ASSETS</b>                                                                                                            |                            |                           |                                |                            |                       |
| Current assets:                                                                                                          |                            |                           |                                |                            |                       |
| Cash and cash equivalents                                                                                                | \$ 117,872                 | \$                        | \$ 117,872                     | \$                         | \$ 117,872            |
| Receivables, less allowance for doubtful accounts of \$934                                                               | 103,163                    |                           | 103,163                        | (1,526)                    | 101,637               |
| Inventories, net                                                                                                         | 306,031                    |                           | 306,031                        | (8,972)                    | 297,059               |
| Costs in excess of billings                                                                                              | 1,607                      |                           | 1,607                          |                            | 1,607                 |
| Deferred income taxes                                                                                                    | 20,475                     |                           | 20,475                         |                            | 20,475                |
| Assets of discontinued operations                                                                                        | 18,598                     |                           | 18,598                         | 10,983                     | 29,581                |
| Other current assets                                                                                                     | 11,269                     |                           | 11,269                         |                            | 11,269                |
| Total current assets                                                                                                     | 579,015                    |                           | 579,015                        | 485                        | 579,500               |
| Property, plant, and equipment, net                                                                                      | 361,464                    |                           | 361,464                        | (127)                      | 361,337               |
| Goodwill                                                                                                                 | 133,595                    |                           | 133,595                        | (358)                      | 133,237               |
| Other intangible assets, net                                                                                             | 59,527                     |                           | 59,527                         |                            | 59,527                |
| Deferred income taxes                                                                                                    | 29,111                     | (29,111)                  |                                |                            |                       |
| Other noncurrent assets                                                                                                  | 8,476                      |                           | 8,476                          |                            | 8,476                 |
| Total assets                                                                                                             | \$ 1,171,188               | \$ (29,111)               | \$ 1,142,077                   | \$                         | \$ 1,142,077          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                              |                            |                           |                                |                            |                       |
| Current liabilities:                                                                                                     |                            |                           |                                |                            |                       |
| Accounts payable                                                                                                         | \$ 64,837                  |                           | \$ 64,837                      | \$ (1,512)                 | \$ 63,325             |
| Accrued wages and other employee costs                                                                                   | 19,690                     |                           | 19,690                         | (112)                      | 19,578                |
| Unearned revenues                                                                                                        | 36,589                     |                           | 36,589                         |                            | 36,589                |
| Liabilities of discontinued operations                                                                                   | 3,879                      |                           | 3,879                          | 1,709                      | 5,588                 |
| Other accrued liabilities                                                                                                | 21,768                     | 203                       | 21,971                         | (85)                       | 21,886                |
| Total current liabilities                                                                                                | 146,763                    | 203                       | 146,966                        |                            | 146,966               |
| Long-term debt                                                                                                           | 191,189                    |                           | 191,189                        |                            | 191,189               |
| Liability for post-retirement benefits                                                                                   | 41,806                     |                           | 41,806                         |                            | 41,806                |
| Liability for pension benefits                                                                                           | 15,097                     |                           | 15,097                         |                            | 15,097                |
| Deferred income taxes                                                                                                    | 33,141                     | 753                       | 33,894                         |                            | 33,894                |
| Unearned revenues                                                                                                        | 3,504                      |                           | 3,504                          |                            | 3,504                 |
| Other noncurrent liabilities                                                                                             | 8,895                      |                           | 8,895                          |                            | 8,895                 |
| Total liabilities                                                                                                        | 440,395                    | 956                       | 441,351                        |                            | 441,351               |
| Commitments and Contingencies                                                                                            |                            |                           |                                |                            |                       |
| Shareholders' equity:                                                                                                    |                            |                           |                                |                            |                       |
| Common stock, \$0.01 par value; 50,000,000 shares authorized;<br>31,066,254 shares issued; 30,286,870 shares outstanding | 311                        |                           | 311                            |                            | 311                   |
| Additional paid-in capital                                                                                               | 480,653                    |                           | 480,653                        |                            | 480,653               |

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|                                                |                  |                 |                  |                  |
|------------------------------------------------|------------------|-----------------|------------------|------------------|
| Treasury stock, at cost; 779,375 shares        | (18,399)         |                 | (18,399)         | (18,399)         |
| Accumulated other comprehensive loss           | (35,808)         | (192)           | (36,000)         | (36,000)         |
| Retained earnings                              | 304,036          | (29,875)        | 274,161          | 274,161          |
| <b>Total shareholders' equity</b>              | <b>730,793</b>   | <b>(30,067)</b> | <b>700,726</b>   | <b>700,726</b>   |
| <br>Total liabilities and shareholders' equity | <br>\$ 1,171,188 | <br>\$ (29,111) | <br>\$ 1,142,077 | <br>\$ 1,142,077 |

(1): Previously reported balances represent the amounts presented as "Currently Reported" in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013. The previously reported balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(1,596), \$1,602, and \$6 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands, except share and per share amounts)

|                                                                                                                          | Previously<br>Reported (1) | Restatement<br>Adjustment | June 30, 2012<br>As Corrected | Discontinued<br>Operations | Currently<br>Reported |
|--------------------------------------------------------------------------------------------------------------------------|----------------------------|---------------------------|-------------------------------|----------------------------|-----------------------|
| <b>ASSETS</b>                                                                                                            |                            |                           |                               |                            |                       |
| Current assets:                                                                                                          |                            |                           |                               |                            |                       |
| Cash and cash equivalents                                                                                                | \$ 99,525                  | \$                        | \$ 99,525                     | \$                         | \$ 99,525             |
| Receivables, less allowance for doubtful accounts of \$965                                                               | 103,757                    |                           | 103,757                       | (1,196)                    | 102,561               |
| Inventories, net                                                                                                         | 325,334                    |                           | 325,334                       | (8,861)                    | 316,473               |
| Costs in excess of billings                                                                                              | 2,515                      |                           | 2,515                         |                            | 2,515                 |
| Deferred income taxes                                                                                                    | 20,775                     |                           | 20,775                        |                            | 20,775                |
| Assets of discontinued operations                                                                                        | 17,633                     |                           | 17,633                        | 10,532                     | 28,165                |
| Other current assets                                                                                                     | 13,269                     |                           | 13,269                        |                            | 13,269                |
| Total current assets                                                                                                     | 582,808                    |                           | 582,808                       | 475                        | 583,283               |
| Property, plant, and equipment, net                                                                                      | 365,735                    |                           | 365,735                       | (117)                      | 365,618               |
| Goodwill                                                                                                                 | 133,570                    |                           | 133,570                       | (358)                      | 133,212               |
| Other intangible assets, net                                                                                             | 58,251                     |                           | 58,251                        |                            | 58,251                |
| Deferred income taxes                                                                                                    | 29,239                     | (29,239)                  |                               |                            |                       |
| Other noncurrent assets                                                                                                  | 8,792                      |                           | 8,792                         |                            | 8,792                 |
| Total assets                                                                                                             | \$ 1,178,395               | \$ (29,239)               | \$ 1,149,156                  | \$                         | \$ 1,149,156          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                              |                            |                           |                               |                            |                       |
| Current liabilities:                                                                                                     |                            |                           |                               |                            |                       |
| Accounts payable                                                                                                         | \$ 61,084                  | \$                        | \$ 61,084                     | \$ (433)                   | \$ 60,651             |
| Accrued wages and other employee costs                                                                                   | 24,871                     |                           | 24,871                        | (119)                      | 24,752                |
| Unearned revenue                                                                                                         | 36,866                     |                           | 36,866                        |                            | 36,866                |
| Liabilities of discontinued operations                                                                                   | 3,494                      |                           | 3,494                         | 593                        | 4,087                 |
| Other accrued liabilities                                                                                                | 21,680                     | 237                       | 21,917                        | (41)                       | 21,876                |
| Total current liabilities                                                                                                | 147,995                    | 237                       | 148,232                       |                            | 148,232               |
| Long-term debt                                                                                                           | 193,727                    |                           | 193,727                       |                            | 193,727               |
| Liability for post-retirement benefits                                                                                   | 42,000                     |                           | 42,000                        |                            | 42,000                |
| Liability for pension benefits                                                                                           | 13,402                     |                           | 13,402                        |                            | 13,402                |
| Deferred income taxes                                                                                                    | 33,749                     | 1,480                     | 35,229                        |                            | 35,229                |
| Unearned revenue                                                                                                         | 3,385                      |                           | 3,385                         |                            | 3,385                 |
| Other noncurrent liabilities                                                                                             | 8,969                      |                           | 8,969                         |                            | 8,969                 |
| Total liabilities                                                                                                        | 443,227                    | 1,717                     | 444,944                       |                            | 444,944               |
| Commitments and Contingencies                                                                                            |                            |                           |                               |                            |                       |
| Shareholders' equity                                                                                                     |                            |                           |                               |                            |                       |
| Common stock, \$0.01 par value; 50,000,000 shares authorized;<br>31,097,449 shares issued; 30,314,874 shares outstanding | 311                        |                           | 311                           |                            | 311                   |
| Additional paid-in capital                                                                                               | 481,855                    |                           | 481,855                       |                            | 481,855               |

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|                                                |                  |                 |                  |                  |
|------------------------------------------------|------------------|-----------------|------------------|------------------|
| Treasury stock, at cost; 782,575 shares        | (18,399)         |                 | (18,399)         | (18,399)         |
| Accumulated other comprehensive loss           | (37,181)         | 440             | (36,741)         | (36,741)         |
| Retained earnings                              | 308,582          | (31,396)        | 277,186          | 277,186          |
| <b>Total shareholders' equity</b>              | <b>735,168</b>   | <b>(30,956)</b> | <b>704,212</b>   | <b>704,212</b>   |
| <br>Total liabilities and shareholders' equity | <br>\$ 1,178,395 | <br>\$ (29,239) | <br>\$ 1,149,156 | <br>\$ 1,149,156 |

(1): Previously reported balances represent the amounts presented as "Currently Reported" in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013. The previously reported balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(1,835), \$1,857, and \$22 to correct the prior presentation.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands, except share and per share amounts)

|                                                            | Previously<br>Reported (1) | Restatement<br>Adjustment | September 30, 2012<br>As Corrected | Discontinued<br>Operations | Currently<br>Reported |
|------------------------------------------------------------|----------------------------|---------------------------|------------------------------------|----------------------------|-----------------------|
| <b>ASSETS</b>                                              |                            |                           |                                    |                            |                       |
| Current assets:                                            |                            |                           |                                    |                            |                       |
| Cash and cash equivalents                                  | \$ 73,389                  | \$                        | \$ 73,389                          | \$                         | \$ 73,389             |
| Short-term investments                                     | 3,998                      |                           | 3,998                              |                            | 3,998                 |
| Receivables, less allowance for doubtful accounts of \$909 | 114,248                    |                           | 114,248                            | (919)                      | 113,329               |
| Inventories, net                                           | 351,654                    |                           | 351,654                            | (8,972)                    | 342,682               |
| Costs in excess of billings                                | 3,495                      |                           | 3,495                              |                            | 3,495                 |
| Deferred income taxes                                      | 22,059                     |                           | 22,059                             |                            | 22,059                |
| Assets of discontinued operations                          | 16,799                     |                           | 16,799                             | 10,359                     | 27,158                |
| Other current assets                                       | 11,160                     |                           | 11,160                             |                            | 11,160                |
| Total current assets                                       | 596,802                    |                           | 596,802                            | 468                        | 597,270               |
| Property, plant, and equipment, net                        | 367,768                    |                           | 367,768                            | (110)                      | 367,658               |
| Goodwill                                                   | 131,606                    |                           | 131,606                            | (358)                      | 131,248               |
| Other intangible assets, net                               | 57,664                     |                           | 57,664                             |                            | 57,664                |
| Deferred income taxes                                      | 32,197                     | (32,197)                  |                                    |                            |                       |
| Other noncurrent assets                                    | 8,353                      |                           | 8,353                              |                            | 8,353                 |
| Total assets                                               | \$ 1,194,390               | \$ (32,197)               | \$ 1,162,193                       | \$                         | \$ 1,162,193          |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                |                            |                           |                                    |                            |                       |
| Current liabilities:                                       |                            |                           |                                    |                            |                       |
| Accounts payable                                           | \$ 67,166                  | \$                        | \$ 67,166                          | \$ (854)                   | \$ 66,312             |
| Accrued wages and other employee costs                     | 29,445                     |                           | 29,445                             | (138)                      | 29,307                |
| Unearned revenue                                           | 34,692                     |                           | 34,692                             |                            | 34,692                |
| Liabilities of discontinued operations                     | 3,198                      |                           | 3,198                              | 992                        | 4,190                 |
| Other accrued liabilities                                  | 27,458                     | 96                        | 27,554                             |                            | 27,554                |
| Total current liabilities                                  | 161,959                    | 96                        | 162,055                            |                            | 162,055               |
| Long-term debt                                             | 196,079                    |                           | 196,079                            |                            | 196,079               |
| Liability for post-retirement benefits                     | 42,220                     |                           | 42,220                             |                            | 42,220                |
| Liability for pension benefits                             | 2,555                      |                           | 2,555                              |                            | 2,555                 |
| Deferred income taxes                                      | 33,663                     | 589                       | 34,252                             |                            | 34,252                |
| Unearned revenue                                           | 3,240                      |                           | 3,240                              |                            | 3,240                 |
| Other noncurrent liabilities                               | 8,908                      |                           | 8,908                              |                            | 8,908                 |
| Total liabilities                                          | 448,624                    | 685                       | 449,309                            |                            | 449,309               |

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Commitments and Contingencies

Shareholders' equity

Common stock, \$0.01 par value; 50,000,000 shares

authorized; 31,106,934 shares issued; 30,324,359 shares

|                                         |          |          |          |  |          |
|-----------------------------------------|----------|----------|----------|--|----------|
| outstanding                             | 311      |          | 311      |  | 311      |
| Additional paid-in capital              | 483,156  |          | 483,156  |  | 483,156  |
| Treasury stock, at cost; 782,575 shares | (18,399) |          | (18,399) |  | (18,399) |
| Accumulated other comprehensive loss    | (31,472) | (672)    | (32,144) |  | (32,144) |
| Retained earnings                       | 312,170  | (32,210) | 279,960  |  | 279,960  |

|                            |         |          |         |  |         |
|----------------------------|---------|----------|---------|--|---------|
| Total shareholders' equity | 745,766 | (32,882) | 712,884 |  | 712,884 |
|----------------------------|---------|----------|---------|--|---------|

|                                            |              |             |              |    |              |
|--------------------------------------------|--------------|-------------|--------------|----|--------------|
| Total liabilities and shareholders' equity | \$ 1,194,390 | \$ (32,197) | \$ 1,162,193 | \$ | \$ 1,162,193 |
|--------------------------------------------|--------------|-------------|--------------|----|--------------|

(1): Previously reported balances represent the amounts presented as "Currently Reported" in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013. The previously reported balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(1,175), \$1,344, and \$169 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In thousands)

|                                                              | March 31, 2013             |                            |                           |                       |
|--------------------------------------------------------------|----------------------------|----------------------------|---------------------------|-----------------------|
|                                                              | Previously<br>Reported (1) | Revision<br>Adjustment (2) | Restatement<br>Adjustment | Currently<br>Reported |
| <b>OPERATING ACTIVITIES:</b>                                 |                            |                            |                           |                       |
| Net income                                                   | \$ 6,968                   | \$ (458)                   | \$ (1,625)                | \$ 4,885              |
| Adjustment for non-cash items included in net income:        |                            |                            |                           |                       |
| Depreciation and amortization                                | 11,000                     |                            |                           | 11,000                |
| Asset and asset-related charges (income)                     |                            |                            |                           |                       |
| Goodwill impairments                                         | 484                        |                            |                           | 484                   |
| Deferred income taxes                                        | 3,350                      | (178)                      | 1,625                     | 4,797                 |
| Stock-based compensation                                     | 1,708                      |                            |                           | 1,708                 |
| Excess tax benefits from stock-based compensation activity   | (236)                      |                            |                           | (236)                 |
| (Gain) loss on sale of property, plant and equipment         |                            |                            |                           |                       |
| Amortization of discount on long-term debt                   | 2,562                      |                            |                           | 2,562                 |
| Amortization of deferred financing costs                     | 325                        |                            |                           | 325                   |
| Other                                                        | (41)                       |                            |                           | (41)                  |
| Changes in assets and liabilities:                           |                            |                            |                           |                       |
| Receivables                                                  | (9,994)                    |                            |                           | (9,994)               |
| Inventories                                                  | (26,091)                   | 111                        |                           | (25,980)              |
| Accounts payable                                             | (6,583)                    |                            |                           | (6,583)               |
| Income taxes payable                                         | 416                        |                            |                           | 416                   |
| Unearned revenue                                             | (5,194)                    | 532                        |                           | (4,662)               |
| Cost in excess of billings                                   | (12)                       | (7)                        |                           | (19)                  |
| Liability for pension benefits                               |                            |                            |                           |                       |
| Other current assets and liabilities                         | (10,520)                   |                            | 104                       | (10,416)              |
| Other assets and liabilities                                 | 1,135                      |                            | (104)                     | 1,031                 |
| Cash provided by (used in) operating activities              | (30,723)                   |                            |                           | (30,723)              |
| <b>INVESTING ACTIVITIES:</b>                                 |                            |                            |                           |                       |
| Acquisitions, net of cash required                           |                            |                            |                           |                       |
| Maturity/sale of investments                                 |                            |                            |                           |                       |
| Capital expenditures                                         | (9,160)                    |                            |                           | (9,160)               |
| Purchase of investments                                      |                            |                            |                           |                       |
| Proceeds from disposal of property, plant, and equipment     |                            |                            |                           |                       |
| Cash provided by (used in) investing activities              | (9,160)                    |                            |                           | (9,160)               |
| <b>FINANCING ACTIVITIES:</b>                                 |                            |                            |                           |                       |
| Proceeds from exercise of employee stock options             | 1,239                      |                            |                           | 1,239                 |
| Excess tax benefits from stock-based compensation activity   | 236                        |                            |                           | 236                   |
| Purchase of common stock held in treasury                    | (399)                      |                            |                           | (399)                 |
| Repayments on long-term debt                                 | (220)                      |                            |                           | (220)                 |
| Cash provided by (used in) financing activities              | 856                        |                            |                           | 856                   |
| Effect of exchange rate changes on cash and cash equivalents | (148)                      |                            |                           | (148)                 |

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|                                                  |           |    |    |           |
|--------------------------------------------------|-----------|----|----|-----------|
| Decrease in cash and cash equivalents            | (39,175)  |    |    | (39,175)  |
| Cash and cash equivalents at beginning of period | 97,190    |    |    | 97,190    |
| Cash and cash equivalents at end of period       | \$ 58,015 | \$ | \$ | \$ 58,015 |

- (1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Cash Flows in the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2013 as filed with the SEC on September 24, 2013. The previously reported changes in inventory, cost in excess of billings, and deferred revenue have been adjusted by \$1,040, \$(174), and \$(866) to correct the prior presentation.
- (2): Amounts presented as Revision Adjustment represent revisions related to revenue recognition errors related to certain long-term projects, as well as adjustments to goodwill and deferred taxes related to the acquisition of Remmele in 2012, as disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In thousands)

|                                                              | June 30, 2013              |                            |                           |                       |
|--------------------------------------------------------------|----------------------------|----------------------------|---------------------------|-----------------------|
|                                                              | Previously<br>Reported (1) | Revision<br>Adjustment (2) | Restatement<br>Adjustment | Currently<br>Reported |
| <b>OPERATING ACTIVITIES:</b>                                 |                            |                            |                           |                       |
| Net income                                                   | \$ 8,141                   | \$ (590)                   | \$ (1,996)                | \$ 5,555              |
| Adjustment for non-cash items included in net income:        |                            |                            |                           |                       |
| Depreciation and amortization                                | 21,753                     |                            |                           | 21,753                |
| Goodwill impairments                                         | 484                        |                            |                           | 484                   |
| Deferred income taxes                                        | 1,810                      | (267)                      | 1,996                     | 3,539                 |
| Stock-based compensation                                     | 3,126                      |                            |                           | 3,126                 |
| Excess tax benefits from stock-based compensation activity   | (376)                      |                            |                           | (376)                 |
| Amortization of discount on long-term debt                   | 6,569                      |                            |                           | 6,569                 |
| Amortization of deferred financing costs                     | 753                        |                            |                           | 753                   |
| Deferred financing cost writedown                            | 1,498                      |                            |                           | 1,498                 |
| Other                                                        | (102)                      |                            |                           | (102)                 |
| Changes in assets and liabilities:                           |                            |                            |                           |                       |
| Receivables                                                  | (3,054)                    |                            |                           | (3,054)               |
| Inventories                                                  | (34,979)                   | 424                        |                           | (34,555)              |
| Accounts payable                                             | (12,900)                   |                            |                           | (12,900)              |
| Income taxes payable                                         | (8,356)                    |                            |                           | (8,356)               |
| Unearned revenue                                             | 22,033                     | 1,319                      |                           | 23,352                |
| Cost in excess of billings                                   | 1,951                      | (886)                      |                           | 1,065                 |
| Other current assets and liabilities                         | (11,185)                   |                            | 104                       | (11,081)              |
| Other assets and liabilities                                 | 3,453                      |                            | (104)                     | 3,349                 |
| Cash provided by (used in) operating activities              | 619                        |                            |                           | 619                   |
| <b>INVESTING ACTIVITIES:</b>                                 |                            |                            |                           |                       |
| Divestitures                                                 | 10,475                     |                            |                           | 10,475                |
| Capital expenditures                                         | (19,665)                   |                            |                           | (19,665)              |
| Purchase of investments                                      | (128,291)                  |                            |                           | (128,291)             |
| Cash provided by (used in) investing activities              | (137,481)                  |                            |                           | (137,481)             |
| <b>FINANCING ACTIVITIES:</b>                                 |                            |                            |                           |                       |
| Proceeds from exercise of employee stock options             | 1,489                      |                            |                           | 1,489                 |
| Excess tax benefits from stock-based compensation activity   | 376                        |                            |                           | 376                   |
| Purchase of common stock held in treasury                    | (399)                      |                            |                           | (399)                 |
| Borrowings on long-term debt                                 | 402,500                    |                            |                           | 402,500               |
| Repayments on long-term debt                                 | (120,362)                  |                            |                           | (120,362)             |
| Financing fees                                               | (12,370)                   |                            |                           | (12,370)              |
| Cash provided by (used in) financing activities              | 271,234                    |                            |                           | 271,234               |
| Effect of exchange rate changes on cash and cash equivalents | (129)                      |                            |                           | (129)                 |
| Decrease in cash and cash equivalents                        | 134,243                    |                            |                           | 134,243               |

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|                                                  |            |    |    |            |
|--------------------------------------------------|------------|----|----|------------|
| Cash and cash equivalents at beginning of period | 97,190     |    |    | 97,190     |
| Cash and cash equivalents at end of period       | \$ 231,433 | \$ | \$ | \$ 231,433 |

- (1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Cash Flows in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 as filed with the SEC on September 24, 2013. The previously reported changes in inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(340), \$1,021, and \$(681) to correct the prior presentation.
- (2): Amounts presented as Revision Adjustment represent revisions related to revenue recognition errors related to certain long-term projects, as well as adjustments to goodwill and deferred taxes related to the acquisition of Remmele in 2012, as disclosed in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In thousands)

|                                                            | Previously<br>Reported (1) | September 30, 2013<br>Restatement<br>Adjustment | Currently<br>Reported |
|------------------------------------------------------------|----------------------------|-------------------------------------------------|-----------------------|
| <b><u>OPERATING ACTIVITIES:</u></b>                        |                            |                                                 |                       |
| Net income                                                 | \$ 19,843                  | \$ (1,993)                                      | \$ 17,850             |
| Adjustment for non-cash items included in net income:      |                            |                                                 |                       |
| Depreciation and amortization                              | 32,469                     |                                                 | 32,469                |
| Goodwill impairments                                       | 484                        |                                                 | 484                   |
| Deferred income taxes                                      | 349                        | 1,993                                           | 2,342                 |
| Stock-based compensation                                   | 4,543                      |                                                 | 4,543                 |
| Excess tax benefits from stock-based compensation activity | (405)                      |                                                 | (405)                 |
| Amortization of discount on long-term debt                 | 10,592                     |                                                 | 10,592                |
| Deferred financing cost writedown                          | 1,498                      |                                                 | 1,498                 |
| Other                                                      | 1,115                      |                                                 | 1,115                 |
| Changes in assets and liabilities:                         |                            |                                                 |                       |
| Receivables                                                | (14,169)                   |                                                 | (14,169)              |
| Inventories                                                | (35,851)                   |                                                 | (35,851)              |
| Accounts payable                                           | (11,866)                   |                                                 | (11,866)              |
| Income taxes payable                                       | (11,566)                   |                                                 | (11,566)              |
| Unearned revenue                                           | 12,636                     |                                                 | 12,636                |
| Cost in excess of billings                                 | (842)                      |                                                 | (842)                 |
| Other current assets and liabilities                       | (2,493)                    | 104                                             | (2,389)               |
| Other assets and liabilities                               | 3                          | (104)                                           | (101)                 |
| Cash provided by (used in) operating activities            | 6,340                      |                                                 | 6,340                 |
| <b><u>INVESTING ACTIVITIES:</u></b>                        |                            |                                                 |                       |
| Divestitures                                               | 10,475                     |                                                 | 10,475                |
| Maturity/sale of investments                               | 82,957                     |                                                 | 82,957                |
| Capital expenditures                                       | (26,357)                   |                                                 | (26,357)              |
| Purchase of investments                                    | (128,324)                  |                                                 | (128,324)             |
| Cash provided by (used in) investing activities            | (61,249)                   |                                                 | (61,249)              |
| <b><u>FINANCING ACTIVITIES:</u></b>                        |                            |                                                 |                       |
| Proceeds from exercise of employee stock options           | 1,960                      |                                                 | 1,960                 |
| Excess tax benefits from stock-based compensation activity | 405                        |                                                 | 405                   |
| Purchase of common stock held in treasury                  | (399)                      |                                                 | (399)                 |
| Borrowings on long-term debt                               | 402,500                    |                                                 | 402,500               |
| Repayments on long-term debt                               | (120,590)                  |                                                 | (120,590)             |
| Financing fees                                             | (12,370)                   |                                                 | (12,370)              |

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|                                                              |            |            |
|--------------------------------------------------------------|------------|------------|
| Cash provided by (used in) financing activities              | 271,506    | 271,506    |
| Effect of exchange rate changes on cash and cash equivalents | 1,234      | 1,234      |
| Decrease in cash and cash equivalents                        | 217,831    | 217,831    |
| Cash and cash equivalents at beginning of period             | 97,190     | 97,190     |
| Cash and cash equivalents at end of period                   | \$ 315,021 | \$ 315,021 |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidated Statement of Cash Flows in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013. The previously reported changes in inventory, cost in excess of billings, and deferred revenue have been adjusted by \$543, \$323, and \$(866) to correct the prior presentation.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In thousands)

|                                                              | Previously<br>Reported<br>(1) | March 31, 2012<br>Restatement<br>Adjustment | As Corrected |
|--------------------------------------------------------------|-------------------------------|---------------------------------------------|--------------|
| <b>OPERATING ACTIVITIES:</b>                                 |                               |                                             |              |
| Net income                                                   | \$ 4,629                      | \$ (2,061)                                  | \$ 2,568     |
| Adjustment for non-cash items included in net income:        |                               |                                             |              |
| Depreciation and amortization                                | 8,734                         |                                             | 8,734        |
| Deferred income taxes                                        | (2,436)                       | 2,061                                       | (375)        |
| Stock-based compensation                                     | 1,378                         |                                             | 1,378        |
| Excess tax benefits from stock-based compensation activity   | (61)                          |                                             | (61)         |
| Amortization of discount on long-term debt                   | 2,352                         |                                             | 2,352        |
| Other                                                        | (68)                          |                                             | (68)         |
| Changes in assets and liabilities:                           |                               |                                             |              |
| Receivables                                                  | 4,750                         |                                             | 4,750        |
| Inventories                                                  | (29,743)                      |                                             | (29,743)     |
| Accounts payable                                             | 5,504                         |                                             | 5,504        |
| Income taxes payable                                         | 1,659                         |                                             | 1,659        |
| Unearned revenue                                             | 5,630                         |                                             | 5,630        |
| Cost in excess of billings                                   | 2,677                         |                                             | 2,677        |
| Other current assets and liabilities                         | (14,648)                      |                                             | (14,648)     |
| Other assets and liabilities                                 | (3,316)                       |                                             | (3,316)      |
| Cash provided by (used in) operating activities              | (12,959)                      |                                             | (12,959)     |
| <b>INVESTING ACTIVITIES:</b>                                 |                               |                                             |              |
| Acquisitions, net of cash required                           | (185,633)                     |                                             | (185,633)    |
| Maturity/sale of investments                                 | 176,809                       |                                             | 176,809      |
| Capital expenditures                                         | (17,128)                      |                                             | (17,128)     |
| Purchase of investments                                      | (38)                          |                                             | (38)         |
| Cash provided by (used in) investing activities              | (25,990)                      |                                             | (25,990)     |
| <b>FINANCING ACTIVITIES:</b>                                 |                               |                                             |              |
| Proceeds from exercise of employee stock options             | 120                           |                                             | 120          |
| Excess tax benefits from stock-based compensation activity   | 61                            |                                             | 61           |
| Purchase of common stock held in treasury                    | (742)                         |                                             | (742)        |
| Borrowings on long-term debt                                 | (97)                          |                                             | (97)         |
| Cash provided by (used in) financing activities              | (658)                         |                                             | (658)        |
| Effect of exchange rate changes on cash and cash equivalents | 637                           |                                             | 637          |

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|                                                  |            |    |            |
|--------------------------------------------------|------------|----|------------|
| Decrease in cash and cash equivalents            | (38,970)   |    | (38,970)   |
| Cash and cash equivalents at beginning of period | 156,842    |    | 156,842    |
| Cash and cash equivalents at end of period       | \$ 117,872 | \$ | \$ 117,872 |

(1): Previously reported balances represent the amounts presented as Currently Reported in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013. The previously reported changes in inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(2,288), \$2,282, and \$6 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In thousands)

|                                                              | Previously<br>Reported (1) | June 30, 2012<br>Restatement<br>Adjustment | As<br>Corrected |
|--------------------------------------------------------------|----------------------------|--------------------------------------------|-----------------|
| <b>OPERATING ACTIVITIES:</b>                                 |                            |                                            |                 |
| Net income                                                   | \$ 9,175                   | \$ (3,582)                                 | \$ 5,593        |
| Adjustment for non-cash items included in net income:        |                            |                                            |                 |
| Depreciation and amortization                                | 18,957                     |                                            | 18,957          |
| Deferred income taxes                                        | (2,909)                    | 3,582                                      | 673             |
| Stock-based compensation                                     | 2,518                      |                                            | 2,518           |
| Excess tax benefits from stock-based compensation activity   | (66)                       |                                            | (66)            |
| (Gain) loss on sale of property, plant and equipment         | (74)                       |                                            | (74)            |
| Amortization of discount on long-term debt                   | 4,738                      |                                            | 4,738           |
| Other                                                        | 758                        |                                            | 758             |
| Changes in assets and liabilities:                           |                            |                                            |                 |
| Receivables                                                  | 2,904                      |                                            | 2,904           |
| Inventories                                                  | (49,871)                   |                                            | (49,871)        |
| Accounts payable                                             | 4,172                      |                                            | 4,172           |
| Income taxes payable                                         | 5,117                      |                                            | 5,117           |
| Unearned revenue                                             | 5,917                      |                                            | 5,917           |
| Cost in excess of billings                                   | 1,769                      |                                            | 1,769           |
| Other current assets and liabilities                         | (13,425)                   |                                            | (13,425)        |
| Other assets and liabilities                                 | (3,889)                    |                                            | (3,889)         |
| Cash provided by (used in) operating activities              | (14,209)                   |                                            | (14,209)        |
| <b>INVESTING ACTIVITIES:</b>                                 |                            |                                            |                 |
| Acquisitions, net of cash required                           | (185,633)                  |                                            | (185,633)       |
| Maturity/sale of investments                                 | 176,809                    |                                            | 176,809         |
| Capital expenditures                                         | (34,901)                   |                                            | (34,901)        |
| Purchase of investments                                      | (38)                       |                                            | (38)            |
| Cash provided by (used in) investing activities              | (43,763)                   |                                            | (43,763)        |
| <b>FINANCING ACTIVITIES:</b>                                 |                            |                                            |                 |
| Proceeds from exercise of employee stock options             | 211                        |                                            | 211             |
| Excess tax benefits from stock-based compensation activity   | 66                         |                                            | 66              |
| Purchase of common stock held in treasury                    | (742)                      |                                            | (742)           |
| Repayments on long-term debt                                 | (298)                      |                                            | (298)           |
| Cash provided by (used in) financing activities              | (763)                      |                                            | (763)           |
| Effect of exchange rate changes on cash and cash equivalents | 1,418                      |                                            | 1,418           |

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|                                                  |           |           |
|--------------------------------------------------|-----------|-----------|
| Decrease in cash and cash equivalents            | (57,317)  | (57,317)  |
| Cash and cash equivalents at beginning of period | 156,842   | 156,842   |
| Cash and cash equivalents at end of period       | \$ 99,525 | \$ 99,525 |

(1): Previously reported balances represent the amounts presented as Currently Reported in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013. The previously reported changes in inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(2,049), \$2,027, and \$22 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidated Statement of Cash Flows

(Unaudited)

(In thousands)

|                                                              | Previously<br>Reported (1) | September 30, 2012<br>Restatement<br>Adjustment | As<br>Corrected |
|--------------------------------------------------------------|----------------------------|-------------------------------------------------|-----------------|
| <b>OPERATING ACTIVITIES:</b>                                 |                            |                                                 |                 |
| Net income                                                   | \$ 12,763                  | \$ (4,395)                                      | \$ 8,368        |
| Adjustment for non-cash items included in net income:        |                            |                                                 |                 |
| Depreciation and amortization                                | 29,405                     |                                                 | 29,405          |
| Asset and asset-related charges (income)                     | 1,617                      |                                                 | 1,617           |
| Deferred income taxes                                        | (4,717)                    | 4,395                                           | (322)           |
| Stock-based compensation                                     | 3,658                      |                                                 | 3,658           |
| Excess tax benefits from stock-based compensation activity   | (100)                      |                                                 | (100)           |
| Amortization of discount on long-term debt                   | 7,192                      |                                                 | 7,192           |
| Other                                                        | 1,498                      |                                                 | 1,498           |
| Changes in assets and liabilities:                           |                            |                                                 |                 |
| Receivables                                                  | (11,799)                   |                                                 | (11,799)        |
| Inventories                                                  | (74,061)                   |                                                 | (74,061)        |
| Accounts payable                                             | 10,424                     |                                                 | 10,424          |
| Income taxes payable                                         | 8,893                      |                                                 | 8,893           |
| Unearned revenue                                             | 9,076                      |                                                 | 9,076           |
| Cost in excess of billings                                   | 789                        |                                                 | 789             |
| Other current assets and liabilities                         | (7,181)                    |                                                 | (7,181)         |
| Other assets and liabilities                                 | (12,907)                   |                                                 | (12,907)        |
| Cash provided by (used in) operating activities              | (25,450)                   |                                                 | (25,450)        |
| <b>INVESTING ACTIVITIES:</b>                                 |                            |                                                 |                 |
| Acquisitions, net of cash required                           | (182,811)                  |                                                 | (182,811)       |
| Maturity/sale of investments                                 | 176,809                    |                                                 | 176,809         |
| Capital expenditures                                         | (47,879)                   |                                                 | (47,879)        |
| Purchase of investments                                      | (4,037)                    |                                                 | (4,037)         |
| Cash provided by (used in) investing activities              | (57,918)                   |                                                 | (57,918)        |
| <b>FINANCING ACTIVITIES:</b>                                 |                            |                                                 |                 |
| Proceeds from exercise of employee stock options             | 335                        |                                                 | 335             |
| Excess tax benefits from stock-based compensation activity   | 100                        |                                                 | 100             |
| Deferred financing costs                                     | (823)                      |                                                 | (823)           |
| Purchase of common stock held in treasury                    | (742)                      |                                                 | (742)           |
| Repayments on long-term debt                                 | (543)                      |                                                 | (543)           |
| Cash provided by (used in) financing activities              | (1,673)                    |                                                 | (1,673)         |
| Effect of exchange rate changes on cash and cash equivalents | 1,588                      |                                                 | 1,588           |

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|                                                  |           |    |           |
|--------------------------------------------------|-----------|----|-----------|
| Decrease in cash and cash equivalents            | (83,453)  |    | (83,453)  |
| Cash and cash equivalents at beginning of period | 156,842   |    | 156,842   |
| Cash and cash equivalents at end of period       | \$ 73,389 | \$ | \$ 73,389 |

- (1): Previously reported balances represent the amounts presented as Currently Reported in the Note 2 to the Company's Second Amended Annual Report on Form 10-K/A for the annual period ended December 31, 2012 as filed with the SEC on November 12, 2013. The previously reported changes in inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(2,709), \$2,540, and \$169 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

The following presents the restated Condensed Consolidating Statements of Operations and Condensed Consolidating Balance Sheets of RTI International Metals, Inc., the Company's Guarantor Subsidiaries, and the Company's Non-Guarantor Subsidiaries as of and for the periods presented below. The restatement adjustments primarily impact the provision for income tax, deferred tax assets, and all related subtotals. As Restated amounts also include adjustments for the presentation of RTI Connecticut as a discontinued operation, which is reflected in the Non-Guarantors columns. The restatement adjustments only affected net income (loss) and deferred income taxes on the Condensed Consolidating Statements of Cash Flows, and as such they have not been presented given the condensed presentation. The previously reported values represent the corrected balances reported in the Second Amendment to the Company's Annual Report on Form 10-K/A for the period ended December 31, 2012, as filed on November 12, 2013, unless otherwise noted.

## Condensed Consolidating Statement of Operations and Comprehensive Income

Three Months Ended March 31, 2013

(unaudited)

|                                                                             | RTI International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|-----------------------------------------------------------------------------|-----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                                                             | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated |
| Net sales                                                                   | \$                                | \$             | \$ 136,173                 | \$ 136,173     | \$ 106,162                 | \$ 103,464     | \$ (50,435)                | \$ (50,435)    | \$ 191,900                 | \$ 189,202     |
| Cost of sales                                                               |                                   |                | 113,470                    | 113,470        | 88,951                     | 86,914         | (50,435)                   | \$ (50,435)    | 151,986                    | 149,949        |
| Selling, general, and<br>administrative expenses                            | 1,213                             | 1,213          | 11,708                     | 11,708         | 11,987                     | 11,684         |                            |                | 24,908                     | 24,605         |
| Research, technical, and<br>product development<br>expenses                 |                                   |                | 1,001                      | 1,001          |                            |                |                            |                | 1,001                      | 1,001          |
| Operating income (loss)                                                     | (1,213)                           | (1,213)        | 9,994                      | 9,994          | 5,224                      | 4,866          |                            |                | 14,005                     | 13,647         |
| Other income (expense), net                                                 | 4,277                             | 4,277          | (2,384)                    | (2,384)        | (1,334)                    | (1,334)        |                            |                | 559                        | 559            |
| Interest income (expense),<br>net                                           | (4,417)                           | (4,417)        | 29                         | 29             | (377)                      | (377)          |                            |                | (4,765)                    | (4,765)        |
| Equity in earnings of<br>subsidiaries                                       | 7,175                             | 5,646          | (373)                      | (373)          | 106                        | 106            | (6,908)                    | (5,379)        |                            |                |
| Income before income taxes                                                  | 5,822                             | 4,293          | 7,266                      | 7,266          | 3,619                      | 3,261          | (6,908)                    | (5,379)        | 9,799                      | 9,441          |
| Provision for (benefit from)<br>income taxes                                | (995)                             | (675)          | 2,775                      | 2,775          | 1,202                      | 2,373          |                            |                | 2,982                      | 4,473          |
| Net income attributable to<br>continuing operations                         | 6,817                             | 4,968          | 4,491                      | 4,491          | 2,417                      | 888            | (6,908)                    | (5,379)        | 6,817                      | 4,968          |
| Net income (loss)<br>attributable to discontinued<br>operations, net of tax | 151                               | (83)           |                            |                | 151                        | (83)           | (151)                      | 83             | 151                        | (83)           |
| Net income                                                                  | \$ 6,968                          | \$ 4,885       | \$ 4,491                   | \$ 4,491       | \$ 2,568                   | \$ 805         | \$ (7,059)                 | \$ (5,296)     | \$ 6,968                   | \$ 4,885       |
| Comprehensive income                                                        | \$ 10,980                         | \$ 9,500       | \$ 10,665                  | \$ 10,665      | \$ (244)                   | \$ (1,404)     | \$ (10,421)                | \$ (9,261)     | \$ 10,980                  | \$ 9,500       |

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(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Statement of Operations in the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2013 as filed with the SEC on September 24, 2013.



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income (Loss)

Three Months June 30, 2013

(unaudited)

|                                                                    | RTI International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|--------------------------------------------------------------------|-----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                                                    | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated |
| Net sales                                                          | \$                                | \$             | \$ 136,778                 | \$ 136,778     | \$ 121,444                 | \$ 119,617     | \$ (57,272)                | \$ (57,272)    | \$ 200,950                 | \$ 199,123     |
| Cost of sales                                                      |                                   |                | 108,580                    | 108,580        | 105,474                    | 104,038        | (57,272)                   | (57,272)       | 156,782                    | 155,346        |
| Selling, general, and<br>administrative expenses                   | 491                               | 491            | 11,034                     | 11,034         | 11,116                     | 10,789         |                            |                | 22,641                     | 22,314         |
| Research, technical, and<br>product development<br>expenses        |                                   |                | 982                        | 982            |                            |                |                            |                | 982                        | 982            |
| Operating income (loss)                                            | (491)                             | (491)          | 16,182                     | 16,182         | 4,854                      | 4,790          |                            |                | 20,545                     | 20,481         |
| Other income (expense), net                                        | (4,167)                           | (4,167)        | 1,104                      | 1,104          | 3,763                      | 3,763          |                            |                | 700                        | 700            |
| Interest income<br>(expense), net                                  | (5,605)                           | (5,605)        | (8,668)                    | (8,668)        | (6,370)                    | (6,370)        |                            |                | (20,643)                   | (20,643)       |
| Equity in earnings of<br>subsidiaries                              | 8,220                             | 7,364          | 263                        | 263            | 847                        | 847            | (9,330)                    | (8,474)        |                            |                |
| Income (loss) before income<br>taxes                               | (2,043)                           | (2,899)        | 8,881                      | 8,881          | 3,094                      | 3,030          | (9,330)                    | (8,474)        | 602                        | 538            |
| Provision for (benefit from)<br>income taxes                       | (3,523)                           | (3,958)        | 2,101                      | 2,101          | 544                        | 1,336          |                            |                | (878)                      | (521)          |
| Net income attributable to<br>continuing operations                | 1,480                             | 1,059          | 6,780                      | 6,780          | 2,550                      | 1,694          | (9,330)                    | (8,474)        | 1,480                      | 1,059          |
| Net loss attributable to<br>discontinued operations, net<br>of tax | (307)                             | (389)          |                            |                | (307)                      | (389)          | 307                        | 389            | (307)                      | (389)          |
| Net income                                                         | \$ 1,173                          | \$ 670         | \$ 6,780                   | \$ 6,780       | \$ 2,243                   | \$ 1,305       | \$ (9,023)                 | \$ (8,085)     | \$ 1,173                   | \$ 670         |
| Comprehensive income<br>(loss)                                     | \$ (2,067)                        | \$ (1,386)     | \$ 7,862                   | \$ 7,862       | \$ (2,224)                 | \$ (1,978)     | \$ (5,638)                 | \$ (5,884)     | \$ (2,067)                 | \$ (1,386)     |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 as filed with the SEC on September 24, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Six Months Ended June 30, 2013

(unaudited)

|                                                                    | RTI International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|--------------------------------------------------------------------|-----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                                                    | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated |
| Net sales                                                          | \$                                | \$             | \$ 272,951                 | \$ 272,951     | \$ 227,606                 | \$ 223,081     | \$ (107,707)               | \$ (107,707)   | \$ 392,850                 | \$ 388,325     |
| Cost of sales                                                      |                                   |                | 222,050                    | 222,050        | 194,425                    | 190,952        | (107,707)                  | (107,707)      | 308,768                    | 305,295        |
| Selling, general, and<br>administrative expenses                   | 1,704                             | 1,704          | 22,742                     | 22,742         | 23,103                     | 22,473         |                            |                | 47,549                     | 46,919         |
| Research, technical, and<br>product development<br>expenses        |                                   |                | 1,983                      | 1,983          |                            |                |                            |                | 1,983                      | 1,983          |
| Operating income (loss)                                            | (1,704)                           | (1,704)        | 26,176                     | 26,176         | 10,078                     | 9,656          |                            |                | 34,550                     | 34,128         |
| Other income (expense),<br>net                                     | 110                               | 110            | (1,280)                    | (1,280)        | 2,429                      | 2,429          |                            |                | 1,259                      | 1,259          |
| Interest income (expense),<br>net                                  | (10,022)                          | (10,022)       | (8,639)                    | (8,639)        | (6,747)                    | (6,747)        |                            |                | (25,408)                   | (25,408)       |
| Equity in earnings of<br>subsidiaries                              | 15,395                            | 13,010         | (110)                      | (110)          | 953                        | 953            | (16,238)                   | (13,853)       |                            |                |
| Income before income<br>taxes                                      | 3,779                             | 1,394          | 16,147                     | 16,147         | 6,713                      | 6,291          | (16,238)                   | (13,853)       | 10,401                     | 9,979          |
| Provision for (benefit<br>from) income taxes                       | (4,518)                           | (4,633)        | 4,876                      | 4,876          | 1,746                      | 3,709          |                            |                | 2,104                      | 3,952          |
| Net income attributable to<br>continuing operations                | 8,297                             | 6,027          | 11,271                     | 11,271         | 4,967                      | 2,582          | (16,238)                   | (13,853)       | 8,297                      | 6,027          |
| Net loss attributable to<br>discontinued operations,<br>net of tax | (156)                             | (472)          |                            |                | (156)                      | (472)          | 156                        | 472            | (156)                      | (472)          |
| Net income                                                         | \$ 8,141                          | \$ 5,555       | \$ 11,271                  | \$ 11,271      | \$ 4,811                   | \$ 2,110       | \$ (16,082)                | \$ (13,381)    | \$ 8,141                   | \$ 5,555       |
| Comprehensive income                                               | \$ 8,913                          | \$ 8,114       | \$ 18,528                  | \$ 18,528      | \$ (2,470)                 | \$ (3,384)     | \$ (16,058)                | \$ (15,144)    | \$ 8,913                   | \$ 8,114       |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 as filed with the SEC on September 24, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Three Months Ended September 30, 2013

(unaudited)

|                                                                 | RTI International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|-----------------------------------------------------------------|-----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                                                 | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated |
| Net sales                                                       | \$                                | \$             | \$ 128,285                 | \$ 128,285     | \$ 116,754                 | \$ 115,158     | \$ (48,507)                | \$ (48,507)    | \$ 196,532                 | \$ 194,936     |
| Cost of sales                                                   |                                   |                | 103,808                    | 103,808        | 96,134                     | 94,496         | (48,507)                   | (48,507)       | 151,435                    | 149,797        |
| Selling, general, and<br>administrative expenses                | 712                               | 712            | 10,808                     | 10,808         | 10,971                     | 10,699         |                            |                | 22,491                     | 22,219         |
| Research, technical, and product<br>development expenses        |                                   |                | 1,037                      | 1,037          | 4                          | 4              |                            |                | 1,041                      | 1,041          |
| Operating income (loss)                                         | (712)                             | (712)          | 12,632                     | 12,632         | 9,645                      | 9,959          |                            |                | 21,565                     | 21,879         |
| Other income (expense), net                                     | 4,120                             | 4,120          | (2,520)                    | (2,520)        | (1,894)                    | (1,894)        |                            |                | (294)                      | (294)          |
| Interest income (expense), net                                  | (5,488)                           | (5,488)        | (1,571)                    | (1,571)        | (250)                      | (250)          |                            |                | (7,309)                    | (7,309)        |
| Equity in earnings of subsidiaries                              | 11,876                            | 12,268         | (439)                      | (439)          | 532                        | 532            | (11,969)                   | (12,361)       |                            |                |
| Income before income taxes                                      | 9,796                             | 10,188         | 8,102                      | 8,102          | 8,033                      | 8,347          | (11,969)                   | (12,361)       | 13,962                     | 14,276         |
| Provision for (benefit from)<br>income taxes                    | (2,496)                           | (2,387)        | 2,665                      | 2,665          | 1,501                      | 1,423          |                            |                | 1,670                      | 1,701          |
| Net income attributable to<br>continuing operations             | 12,292                            | 12,575         | 5,437                      | 5,437          | 6,532                      | 6,924          | (11,969)                   | (12,361)       | 12,292                     | 12,575         |
| Net loss attributable to<br>discontinued operations, net of tax |                                   | (280)          |                            |                |                            | (280)          |                            | 280            |                            | (280)          |
| Net income                                                      | \$ 12,292                         | \$ 12,295      | \$ 5,437                   | \$ 5,437       | \$ 6,532                   | \$ 6,644       | \$ (11,969)                | \$ (12,081)    | \$ 12,292                  | \$ 12,295      |
| Comprehensive income                                            | \$ 16,251                         | \$ 15,558      | \$ 6,561                   | \$ 6,561       | \$ 9,224                   | \$ 8,640       | \$ (15,785)                | \$ (15,201)    | \$ 16,251                  | \$ 15,558      |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Nine Months Ended September 30, 2013

(unaudited)

|                                                                    | RTI International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|--------------------------------------------------------------------|-----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                                                    | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated |
| Net sales                                                          | \$                                | \$             | \$ 401,236                 | \$ 401,236     | \$ 343,492                 | \$ 338,239     | \$ (156,214)               | \$ (156,214)   | \$ 588,514                 | \$ 583,261     |
| Cost of sales                                                      |                                   |                | 325,858                    | 325,858        | 290,548                    | 285,448        | (156,214)                  | (156,214)      | 460,192                    | 455,092        |
| Selling, general, and<br>administrative expenses                   | 2,416                             | 2,416          | 33,550                     | 33,550         | 34,074                     | 33,172         |                            |                | 70,040                     | 69,138         |
| Research, technical, and<br>product development expenses           |                                   |                | 3,020                      | 3,020          | 4                          | 4              |                            |                | 3,024                      | 3,024          |
| Operating income (loss)                                            | (2,416)                           | (2,416)        | 38,808                     | 38,808         | 18,866                     | 19,615         |                            |                | 55,258                     | 56,007         |
| Other income (expense), net                                        | 4,230                             | 4,230          | (3,800)                    | (3,800)        | 535                        | 535            |                            |                | 965                        | 965            |
| Interest income (expense), net                                     | (15,510)                          | (15,510)       | (10,210)                   | (10,210)       | (6,997)                    | (6,997)        |                            |                | (32,717)                   | (32,717)       |
| Equity in earnings of<br>subsidiaries                              | 26,681                            | 25,277         | (549)                      | (549)          | 1,485                      | 1,485          | (27,617)                   | (26,213)       |                            |                |
| Income before income taxes                                         | 12,985                            | 11,581         | 24,249                     | 24,249         | 13,889                     | 14,638         | (27,617)                   | (26,213)       | 23,506                     | 24,255         |
| Provision for (benefit from)<br>income taxes                       | (7,014)                           | (7,021)        | 7,541                      | 7,541          | 2,980                      | 5,133          |                            |                | 3,507                      | 5,653          |
| Net income attributable to<br>continuing operations                | 19,999                            | 18,602         | 16,708                     | 16,708         | 10,909                     | 9,505          | (27,617)                   | (26,213)       | 19,999                     | 18,602         |
| Net loss attributable to<br>discontinued operations, net of<br>tax | (156)                             | (752)          |                            |                | (156)                      | (752)          | 156                        | 752            | (156)                      | (752)          |
| Net income                                                         | \$ 19,843                         | \$ 17,850      | \$ 16,708                  | \$ 16,708      | \$ 10,753                  | \$ 8,753       | \$ (27,461)                | \$ (25,461)    | \$ 19,843                  | \$ 17,850      |
| Comprehensive income                                               | \$ 24,574                         | \$ 23,672      | \$ 25,089                  | \$ 25,089      | \$ 6,164                   | \$ 5,255       | \$ (31,253)                | \$ (30,344)    | \$ 24,574                  | \$ 23,672      |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Statement of Operations in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Three Months Ended March 31, 2012

(unaudited)

|                                                                | RTI International<br>Metals, Inc. |                | Guarantors             |                | Non-Guarantors         |                | Eliminations           |                | Consolidated           |                |
|----------------------------------------------------------------|-----------------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
|                                                                | Previously<br>Reported            | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated |
| Net sales                                                      | \$                                | \$             | \$ 116,796             | \$ 116,796     | \$ 95,385              | \$ 92,587      | \$ (58,111)            | \$ (58,111)    | \$ 154,070             | \$ 151,272     |
| Cost of sales                                                  |                                   |                | 96,311                 | 96,311         | 83,363                 | 81,220         | (58,111)               | (58,111)       | 121,563                | 119,420        |
| Selling, general, and administrative expenses                  | (102)                             | (102)          | 9,013                  | 9,013          | 11,922                 | 11,455         |                        |                | 20,833                 | 20,366         |
| Research, technical, and product development expenses          | 95                                | 95             | 930                    | 930            | 40                     | 40             |                        |                | 1,065                  | 1,065          |
| Operating income (loss)                                        | 7                                 | 7              | 10,542                 | 10,542         | 60                     | (128)          |                        |                | 10,609                 | 10,421         |
| Other income (expense), net                                    | (13)                              | (13)           | 280                    | 280            | (535)                  | (535)          |                        |                | (268)                  | (268)          |
| Interest income (expense), net                                 | (4,014)                           | (4,014)        | 138                    | 138            | (320)                  | (320)          |                        |                | (4,196)                | (4,196)        |
| Equity in earnings of subsidiaries                             | 7,022                             | 5,054          | 1,444                  | 1,444          | 1,203                  | 1,203          | (9,669)                | (7,701)        |                        |                |
| Income before income taxes                                     | 3,002                             | 1,034          | 12,404                 | 12,404         | 408                    | 220            | (9,669)                | (7,701)        | 6,145                  | 5,957          |
| Provision for (benefit from) income taxes                      | (1,056)                           | (853)          | 3,030                  | 3,030          | 113                    | 1,893          |                        |                | 2,087                  | 4,070          |
| Net income attributable to continuing operations               | 4,058                             | 1,887          | 9,374                  | 9,374          | 295                    | (1,673)        | (9,669)                | (7,701)        | 4,058                  | 1,887          |
| Net income attributable to discontinued operations, net of tax | 571                               | 681            |                        |                | 571                    | 681            | (571)                  | (681)          | 571                    | 681            |
| Net income                                                     | \$ 4,629                          | \$ 2,568       | \$ 9,374               | \$ 9,374       | \$ 866                 | \$ (992)       | \$ (10,240)            | \$ (8,382)     | \$ 4,629               | \$ 2,568       |
| Comprehensive income                                           | \$ 8,032                          | \$ 5,418       | \$ 10,433              | \$ 10,433      | \$ 3,058               | \$ 647         | \$ (13,491)            | \$ (11,080)    | \$ 8,032               | \$ 5,418       |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Three Months Ended June 30, 2012

(unaudited)

|                                                                | RTI International<br>Metals, Inc. |                | Guarantors             |                | Non-Guarantors         |                | Eliminations           |                | Consolidated           |                |
|----------------------------------------------------------------|-----------------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
|                                                                | Previously<br>Reported            | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated |
| Net sales                                                      | \$                                | \$             | \$ 148,017             | \$ 148,017     | \$ 92,640              | \$ 90,597      | \$ (56,195)            | \$ (56,195)    | \$ 184,462             | \$ 182,419     |
| Cost of sales                                                  |                                   |                | 127,484                | 127,484        | 79,154                 | 77,558         | (56,195)               | (56,195)       | 150,443                | 148,847        |
| Selling, general, and administrative expenses                  | (933)                             | (933)          | 14,635                 | 14,635         | 8,976                  | 8,648          |                        |                | 22,678                 | 22,350         |
| Research, technical, and product development expenses          |                                   |                | 1,208                  | 1,208          | (104)                  | (104)          |                        |                | 1,104                  | 1,104          |
| Operating income (loss)                                        | 933                               | 933            | 4,690                  | 4,690          | 4,614                  | 4,495          |                        |                | 10,237                 | 10,118         |
| Other income (expense), net                                    | (32)                              | (32)           |                        |                | 602                    | 602            |                        |                | 570                    | 570            |
| Interest income (expense), net                                 | (3,903)                           | (3,903)        | (15)                   | (15)           | (258)                  | (258)          |                        |                | (4,176)                | (4,176)        |
| Equity in earnings of subsidiaries                             | 4,258                             | 2,690          | 2,512                  | 2,512          | 413                    | 413            | (7,183)                | (5,615)        |                        |                |
| Income (loss) before income taxes                              | 1,256                             | (312)          | 7,187                  | 7,187          | 5,371                  | 5,252          | (7,183)                | (5,615)        | 6,631                  | 6,512          |
| Provision for (benefit from) income taxes                      | (2,837)                           | (2,803)        | 2,926                  | 2,926          | 2,449                  | 3,898          |                        |                | 2,538                  | 4,021          |
| Net income attributable to continuing operations               | 4,093                             | 2,491          | 4,261                  | 4,261          | 2,922                  | 1,354          | (7,183)                | (5,615)        | 4,093                  | 2,491          |
| Net income attributable to discontinued operations, net of tax | 453                               | 534            |                        |                | 453                    | 534            | (453)                  | (534)          | 453                    | 534            |
| Net income                                                     | \$ 4,546                          | \$ 3,025       | \$ 4,261               | \$ 4,261       | \$ 3,375               | \$ 1,888       | \$ (7,636)             | \$ (6,149)     | \$ 4,546               | \$ 3,025       |
| Comprehensive income                                           | \$ 3,173                          | \$ 2,284       | \$ 5,312               | \$ 5,312       | \$ 798                 | \$ (57)        | \$ (6,110)             | \$ (5,255)     | \$ 3,173               | \$ 2,284       |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Six Months Ended June 30, 2012

(unaudited)

|                                                                      | RTI International<br>Metals, Inc. |                | Guarantors             |                | Non-Guarantors         |                | Eliminations           |                | Consolidated           |                |
|----------------------------------------------------------------------|-----------------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
|                                                                      | Previously<br>Reported            | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated |
| Net sales                                                            | \$                                | \$             | \$ 247,734             | \$ 247,734     | \$ 205,104             | \$ 200,263     | \$ (114,306)           | \$ (114,306)   | \$ 338,532             | \$ 333,691     |
| Cost of sales                                                        |                                   |                | 209,233                | 209,233        | 177,079                | \$ 173,340     | (114,306)              | (114,306)      | 272,006                | 268,267        |
| Selling, general, and<br>administrative expenses                     | (1,035)                           | (1,035)        | 21,324                 | 21,324         | 23,222                 | \$ 22,427      |                        |                | 43,511                 | 42,716         |
| Research, technical, and product<br>development expenses             | 95                                | 95             | 2,024                  | 2,024          | 50                     | \$ 50          |                        |                | 2,169                  | 2,169          |
| Operating income (loss)                                              | 940                               | 940            | 15,153                 | 15,153         | 4,753                  | 4,446          |                        |                | 20,846                 | 20,539         |
| Other income (expense), net                                          | (45)                              | (45)           | 281                    | 281            | 66                     | 66             |                        |                | 302                    | 302            |
| Interest income (expense), net                                       | (7,917)                           | (7,917)        | 159                    | 159            | (614)                  | (614)          |                        |                | (8,372)                | (8,372)        |
| Equity in earnings of subsidiaries                                   | 11,280                            | 7,743          | 3,956                  | 3,956          | 1,616                  | 1,616          | (16,852)               | (13,315)       |                        |                |
| Income before income taxes                                           | 4,258                             | 721            | 19,549                 | 19,549         | 5,821                  | 5,514          | (16,852)               | (13,315)       | 12,776                 | 12,469         |
| Provision for (benefit from)<br>income taxes                         | (3,893)                           | (3,657)        | 5,968                  | 5,968          | 2,550                  | 5,780          |                        |                | 4,625                  | 8,091          |
| Net income attributable to<br>continuing operations                  | 8,151                             | 4,378          | 13,581                 | 13,581         | 3,271                  | (266)          | (16,852)               | (13,315)       | 8,151                  | 4,378          |
| Net income attributable to<br>discontinued operations, net of<br>tax | 1,024                             | 1,215          |                        |                | 1,024                  | 1,215          | (1,024)                | (1,215)        | 1,024                  | 1,215          |
| Net income                                                           | \$ 9,175                          | \$ 5,593       | \$ 13,581              | \$ 13,581      | \$ 4,295               | \$ 949         | \$ (17,876)            | \$ (14,530)    | \$ 9,175               | \$ 5,593       |
| Comprehensive income                                                 | \$ 11,205                         | \$ 7,702       | \$ 15,691              | \$ 15,691      | \$ 3,910               | \$ 643         | \$ (19,601)            | \$ (16,334)    | \$ 11,205              | \$ 7,702       |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Three Months Ended September 30, 2012

(unaudited)

|                                                                      | RTI International<br>Metals, Inc. |                | Guarantors             |                | Non-Guarantors         |                | Eliminations           |                | Consolidated           |                |
|----------------------------------------------------------------------|-----------------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
|                                                                      | Previously<br>Reported            | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated |
| Net sales                                                            | \$                                | \$             | \$ 131,132             | \$ 131,132     | \$ 103,618             | \$ 101,739     | \$ (52,205)            | \$ (52,205)    | \$ 182,545             | \$ 180,666     |
| Cost of sales                                                        |                                   |                | 114,706                | 114,706        | 86,394                 | 84,798         | (52,205)               | \$ (52,205)    | 148,895                | 147,299        |
| Selling, general, and<br>administrative expenses                     | (1,442)                           | (1,442)        | 12,048                 | 12,048         | 11,119                 | 10,810         |                        |                | 21,725                 | 21,416         |
| Research, technical, and<br>product development<br>expenses          |                                   |                | 1,000                  | 1,000          | 12                     | 12             |                        |                | 1,012                  | 1,012          |
| Asset and asset-related<br>charges                                   |                                   |                | 1,617                  | 1,617          |                        |                |                        |                | 1,617                  | 1,617          |
| Operating income (loss)                                              | 1,442                             | 1,442          | 1,761                  | 1,761          | 6,093                  | 6,119          |                        |                | 9,296                  | 9,322          |
| Other income (expense), net                                          | (3)                               | (3)            | 20                     | 20             | (1)                    | (1)            |                        |                | 16                     | 16             |
| Interest income (expense), net                                       | (4,358)                           | (4,358)        | 36                     | 36             | (368)                  | (368)          |                        |                | (4,690)                | (4,690)        |
| Equity in earnings of<br>subsidiaries                                | 5,034                             | 4,106          | 1,231                  | 1,231          | 374                    | 374            | (6,639)                | (5,711)        |                        |                |
| Income before income taxes                                           | 2,115                             | 1,187          | 3,048                  | 3,048          | 6,098                  | 6,124          | (6,639)                | (5,711)        | 4,622                  | 4,648          |
| Provision for (benefit from)<br>income taxes                         | (1,084)                           | (1,225)        | 705                    | 705            | 1,802                  | 2,756          |                        |                | 1,423                  | 2,236          |
| Net income attributable to<br>continuing operations                  | 3,199                             | 2,412          | 2,343                  | 2,343          | 4,296                  | 3,368          | (6,639)                | (5,711)        | 3,199                  | 2,412          |
| Net income attributable to<br>discontinued operations, net<br>of tax | 389                               | 363            |                        |                | 389                    | 363            | (389)                  | (363)          | 389                    | 363            |
| Net income                                                           | \$ 3,588                          | \$ 2,775       | \$ 2,343               | \$ 2,343       | \$ 4,685               | \$ 3,731       | \$ (7,028)             | \$ (6,074)     | \$ 3,588               | \$ 2,775       |
| Comprehensive income                                                 | \$ 9,297                          | \$ 7,372       | \$ 3,394               | \$ 3,394       | \$ 9,193               | \$ 7,127       | \$ (12,587)            | \$ (10,521)    | \$ 9,297               | \$ 7,372       |



## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Statement of Operations and Comprehensive Income

Nine Months Ended September 30, 2012

(unaudited)

|                                                                      | RTI International<br>Metals, Inc. |                | Guarantors             |                | Non-Guarantors         |                | Eliminations           |                | Consolidated           |                |
|----------------------------------------------------------------------|-----------------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|------------------------|----------------|
|                                                                      | Previously<br>Reported            | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated | Previously<br>Reported | As<br>Restated |
| Net sales                                                            | \$                                | \$             | \$ 378,866             | \$ 378,866     | \$ 308,722             | \$ 302,002     | \$ (166,511)           | \$ (166,511)   | \$ 521,077             | \$ 514,357     |
| Cost of sales                                                        |                                   |                | 323,939                | 323,939        | 263,473                | \$ 258,138     | (166,511)              | \$ (166,511)   | 420,901                | 415,566        |
| Selling, general, and<br>administrative expenses                     | (2,477)                           | (2,477)        | 33,372                 | 33,372         | 34,341                 | 33,237         |                        |                | 65,236                 | 64,132         |
| Research, technical, and<br>product development expenses             | 95                                | 95             | 3,024                  | 3,024          | 62                     | 62             |                        |                | 3,181                  | 3,181          |
| Asset and asset-related charges                                      |                                   |                | 1,617                  | 1,617          |                        |                |                        |                | 1,617                  | 1,617          |
| Operating income (loss)                                              | 2,382                             | 2,382          | 16,914                 | 16,914         | 10,846                 | 10,565         |                        |                | 30,142                 | 29,861         |
| Other income (expense), net                                          | (48)                              | (48)           | 301                    | 301            | 65                     | 65             |                        |                | 318                    | 318            |
| Interest income (expense), net                                       | (12,275)                          | (12,275)       | 195                    | 195            | (982)                  | (982)          |                        |                | (13,062)               | (13,062)       |
| Equity in earnings of<br>subsidiaries                                | 16,314                            | 11,849         | 5,185                  | 5,185          | 1,990                  | 1,990          | (23,489)               | (19,024)       |                        |                |
| Income before income taxes                                           | 6,373                             | 1,908          | 22,595                 | 22,595         | 11,919                 | 11,638         | (23,489)               | (19,024)       | 17,398                 | 17,117         |
| Provision for (benefit from)<br>income taxes                         | (4,977)                           | (4,882)        | 6,673                  | 6,673          | 4,352                  | 8,536          |                        |                | 6,048                  | 10,327         |
| Net income attributable to<br>continuing operations                  | 11,350                            | 6,790          | 15,922                 | 15,922         | 7,567                  | 3,102          | (23,489)               | (19,024)       | 11,350                 | 6,790          |
| Net income attributable to<br>discontinued operations, net of<br>tax | 1,413                             | 1,578          |                        |                | 1,413                  | 1,578          | (1,413)                | (1,578)        | 1,413                  | 1,578          |
| Net income                                                           | \$ 12,763                         | \$ 8,368       | \$ 15,922              | \$ 15,922      | \$ 8,980               | \$ 4,680       | \$ (24,902)            | \$ (20,602)    | \$ 12,763              | \$ 8,368       |
| Comprehensive income                                                 | \$ 20,502                         | \$ 15,074      | \$ 19,083              | \$ 19,083      | \$ 13,103              | \$ 7,770       | \$ (32,186)            | \$ (26,853)    | \$ 20,502              | \$ 15,074      |

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

March 31, 2013

(unaudited)

|                                     | RTI International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|-------------------------------------|-----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                     | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated |
| <b>ASSETS</b>                       |                                   |                |                            |                |                            |                |                            |                |                            |                |
| Current assets:                     |                                   |                |                            |                |                            |                |                            |                |                            |                |
| Cash and cash equivalents           | \$                                | \$             | \$ 50,601                  | \$ 50,601      | \$ 7,414                   | \$ 7,414       | \$                         | \$             | \$ 58,015                  | \$ 58,015      |
| Receivables, net                    | 1,049                             | 1,049          | 76,104                     | 76,104         | 63,454                     | 62,642         | (26,532)                   | (26,532)       | 114,075                    | 113,263        |
| Inventories, net                    |                                   |                | 237,340                    | 237,340        | 175,893                    | 163,993        |                            |                | 413,233                    | 401,333        |
| Costs in excess of billings         |                                   |                | 1,739                      | 1,739          | 1,679                      | 2,105          |                            |                | 3,418                      | 3,844          |
| Deferred income taxes               | 30,068                            | 30,994         |                            |                | 116                        | 116            |                            |                | 30,184                     | 31,110         |
| Assets of discontinued operations   |                                   |                |                            |                | 14,971                     | 23,919         |                            |                | 14,971                     | 23,919         |
| Other current assets                | 5,355                             | 5,355          | 2,483                      | 2,483          | 3,911                      | 3,911          |                            |                | 11,749                     | 11,749         |
| Total current assets                | 36,472                            | 37,398         | 368,267                    | 368,267        | 267,438                    | 264,100        | (26,532)                   | (26,532)       | 645,645                    | 643,233        |
| Property, plant, and equipment, net | 1,464                             | 1,464          | 303,604                    | 303,604        | 66,231                     | 66,108         |                            |                | 371,299                    | 371,176        |
| Goodwill                            |                                   |                | 98,925                     | 93,665         | 36,416                     | 36,351         |                            |                | 135,341                    | 130,016        |
| Other intangible assets, net        |                                   |                | 34,511                     | 34,511         | 20,717                     | 20,717         |                            |                | 55,228                     | 55,228         |
| Deferred income taxes               |                                   |                |                            |                | 33,856                     |                | (4,232)                    |                | 29,624                     |                |
| Other noncurrent assets             | 3,792                             | 3,792          | 201                        | 201            | 4,074                      | 4,074          |                            |                | 8,067                      | 8,067          |
| Intercompany investments            | 993,293                           | 952,158        | 26,441                     | 26,441         | 5,130                      | 5,130          | (1,024,864)                | (983,729)      |                            |                |
| Total assets                        | \$ 1,035,021                      | \$ 994,812     | \$ 831,949                 | \$ 826,689     | \$ 433,862                 | \$ 396,480     | \$ (1,055,628)             | \$ (1,010,261) | \$ 1,245,204               | \$ 1,207,720   |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|                                        |          |          |           |           |           |           |             |             |           |           |
|----------------------------------------|----------|----------|-----------|-----------|-----------|-----------|-------------|-------------|-----------|-----------|
| Current liabilities:                   |          |          |           |           |           |           |             |             |           |           |
| Accounts payable                       | \$ 1,355 | \$ 1,355 | \$ 57,013 | \$ 57,013 | \$ 47,751 | \$ 47,409 | \$ (26,532) | \$ (26,532) | \$ 79,587 | \$ 79,245 |
| Accrued wages and other employee costs | 3,487    | 3,487    | 12,091    | 12,091    | 6,248     | 6,151     |             |             | 21,826    | 21,729    |
| Unearned revenue                       |          |          | 1,237     | 1,237     | 22,603    | 21,246    |             |             | 23,840    | 22,483    |
| Liabilities of discontinued operations |          |          |           |           | 2,821     | 3,269     |             |             | 2,821     | 3,269     |
| Other accrued liabilities              | 8,194    | 8,806    | 7,156     | 7,156     | 10,029    | 9,870     |             |             | 25,379    | 25,832    |
| Total current liabilities              | 13,036   | 13,648   | 77,497    | 77,497    | 89,452    | 87,945    | (26,532)    | (26,532)    | 153,453   | 152,558   |
| Long-term debt                         | 199,206  | 199,206  | 1,457     | 1,457     |           |           |             |             | 200,663   | 200,663   |
| Intercompany debt                      |          |          | 109,444   | 109,444   | 119,403   | 119,403   | (228,847)   | (228,847)   |           |           |
| Liability for post-retirement benefits |          |          | 43,729    | 43,729    |           |           |             |             | 43,729    | 43,729    |

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|                                                  |                     |                   |                   |                   |                   |                   |                       |                       |                     |                     |
|--------------------------------------------------|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|-----------------------|---------------------|---------------------|
| Liability for pension benefits                   | 6,678               | 6,678             | 8,392             | 8,392             | 159               | 159               |                       |                       | 15,229              | 15,229              |
| Deferred income taxes                            | 52,150              | 47,082            |                   |                   | 3,482             | 3,482             | (4,232)               |                       | 51,400              | 50,564              |
| Unearned revenue                                 |                     |                   |                   |                   | 12,792            | 12,792            |                       |                       | 12,792              | 12,792              |
| Other noncurrent liabilities                     | 8,142               | 8,142             | 3,785             | 3,785             | 202               | 202               |                       |                       | 12,129              | 12,129              |
| <b>Total liabilities</b>                         | <b>279,212</b>      | <b>274,756</b>    | <b>244,304</b>    | <b>244,304</b>    | <b>225,490</b>    | <b>223,983</b>    | <b>(259,611)</b>      | <b>(255,379)</b>      | <b>489,395</b>      | <b>487,664</b>      |
| <b>Total shareholders equity</b>                 | <b>755,809</b>      | <b>720,056</b>    | <b>587,645</b>    | <b>582,385</b>    | <b>208,372</b>    | <b>172,497</b>    | <b>(796,017)</b>      | <b>(754,882)</b>      | <b>755,809</b>      | <b>720,056</b>      |
| <b>Total liabilities and shareholders equity</b> | <b>\$ 1,035,021</b> | <b>\$ 994,812</b> | <b>\$ 831,949</b> | <b>\$ 826,689</b> | <b>\$ 433,862</b> | <b>\$ 396,480</b> | <b>\$ (1,055,628)</b> | <b>\$ (1,010,261)</b> | <b>\$ 1,245,204</b> | <b>\$ 1,207,720</b> |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Balance Sheet in the Company's Amended Quarterly Report on Form 10-Q/A for the quarterly period ended March 31, 2013 as filed with the SEC on September 24, 2013. The previously reported Guarantor Subsidiary and Consolidated balances of inventory and cost in excess of billings have been adjusted by \$(1,739) and \$1,739 to correct the prior presentation. The previously reported balances of current deferred income tax assets, non-current deferred income tax assets, intercompany investments, other accrued liabilities, non-current deferred income taxes and shareholders' equity, were adjusted by \$3,590, \$-, \$(6,790), \$(685), \$(2,515), and \$- for the Parent; by \$(2,437), \$(28,939), \$-, \$-, \$(26,657) and \$(4,719) for the Guarantor Subsidiaries; by \$(1,153), \$(174), \$-, \$685, \$59, and \$(2,071) for the Non-Guarantor Subsidiaries; and by \$-, \$29,113, \$6,790, \$-, \$29,113, and \$6,790 for the Eliminations, to correct the presentation of deferred income tax balances.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

June 30, 2013

(unaudited)

|                                             | RTI International<br>Metals, Inc. |                | Guarantors                    |                | Non-Guarantors                |                | Eliminations                  |                | Consolidated                  |                |
|---------------------------------------------|-----------------------------------|----------------|-------------------------------|----------------|-------------------------------|----------------|-------------------------------|----------------|-------------------------------|----------------|
|                                             | Previously<br>Reported<br>(1)     | As<br>Restated | Previously<br>Reported<br>(1) | As<br>Restated | Previously<br>Reported<br>(1) | As<br>Restated | Previously<br>Reported<br>(1) | As<br>Restated | Previously<br>Reported<br>(1) | As<br>Restated |
| <b>ASSETS</b>                               |                                   |                |                               |                |                               |                |                               |                |                               |                |
| Current assets:                             |                                   |                |                               |                |                               |                |                               |                |                               |                |
| Cash and cash equivalents                   | \$                                | \$             | \$ 225,802                    | \$ 225,802     | \$ 5,631                      | \$ 5,631       | \$                            | \$             | \$ 231,433                    | \$ 231,433     |
| Short term investments                      |                                   |                | 128,205                       | 128,205        |                               |                |                               |                | 128,205                       | 128,205        |
| Receivables, net                            | 725                               | 725            | 66,951                        | 66,951         | 62,847                        | 62,254         | (23,643)                      | (23,643)       | 106,880                       | 106,287        |
| Inventories, net                            |                                   |                | 240,396                       | 240,396        | 180,397                       | 168,831        |                               |                | 420,793                       | 409,227        |
| Costs in excess of billings                 |                                   |                | 544                           | 544            | 911                           | 2,216          |                               |                | 1,455                         | 2,760          |
| Deferred income taxes                       | 30,559                            | 31,574         |                               |                | 116                           | 116            |                               |                | 30,675                        | 31,690         |
| Assets of discontinued operations           |                                   |                |                               |                |                               | 8,076          |                               |                |                               | 8,076          |
| Other current assets                        | 15,080                            | 14,902         | 2,040                         | 2,040          | 4,870                         | 5,026          |                               |                | 21,990                        | 21,968         |
| Total current assets                        | 46,364                            | 47,201         | 663,938                       | 663,938        | 254,772                       | 252,150        | (23,643)                      | (23,643)       | 941,431                       | 939,646        |
| Property, plant, and equipment, net         | 1,769                             | 1,769          | 301,157                       | 301,157        | 65,437                        | 65,320         |                               |                | 368,363                       | 368,246        |
| Goodwill                                    |                                   |                | 98,925                        | 93,665         | 35,898                        | 35,833         |                               |                | 134,823                       | 129,498        |
| Other intangible assets, net                |                                   |                | 33,869                        | 33,869         | 19,957                        | 19,957         |                               |                | 53,826                        | 53,826         |
| Deferred income taxes                       |                                   |                |                               |                | 33,483                        |                | (3,868)                       |                | 29,615                        |                |
| Other noncurrent assets                     | 9,598                             | 9,598          | 201                           | 201            | 3,882                         | 3,882          |                               |                | 13,681                        | 13,681         |
| Intercompany investments                    | 1,259,553                         | 1,218,576      | 26,704                        | 26,704         | 4,689                         | 4,689          | (1,290,946)                   | (1,249,969)    |                               |                |
| Total assets                                | \$ 1,317,284                      | \$ 1,277,144   | \$ 1,124,794                  | \$ 1,119,534   | \$ 418,118                    | \$ 381,831     | \$ (1,318,457)                | \$ (1,273,612) | \$ 1,541,739                  | \$ 1,504,897   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                   |                |                               |                |                               |                |                               |                |                               |                |
| Current liabilities:                        |                                   |                |                               |                |                               |                |                               |                |                               |                |
| Accounts payable                            | \$ 2,080                          | \$ 2,080       | \$ 48,293                     | \$ 48,293      | \$ 44,066                     | \$ 43,725      | \$ (23,643)                   | \$ (23,643)    | \$ 70,796                     | \$ 70,455      |
| Accrued wages and other                     | 4,989                             | 4,989          | 13,406                        | 13,406         | 7,960                         | 7,859          |                               |                | 26,355                        | 26,254         |

# Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-K

|                                           |              |              |              |              |            |            |                |                |              |              |
|-------------------------------------------|--------------|--------------|--------------|--------------|------------|------------|----------------|----------------|--------------|--------------|
| employee costs                            |              |              |              |              |            |            |                |                |              |              |
| Unearned revenue                          | 185          | 185          | 49,700       | 49,130       |            |            |                | 49,885         | 49,315       |              |
| Liabilities of discontinued operations    |              |              |              | 501          |            |            |                |                | 501          |              |
| Other accrued liabilities                 | 4,955        | 4,955        | 6,961        | 6,961        | 7,936      | 7,877      |                | 19,852         | 19,793       |              |
| Total current liabilities                 | 12,024       | 12,024       | 68,845       | 68,845       | 109,662    | 109,092    | (23,643)       | (23,643)       | 166,888      | 166,318      |
| Long-term debt                            | 414,004      | 414,004      | 1,216        | 1,216        |            |            |                |                | 415,220      | 415,220      |
| Intercompany debt                         |              |              | 403,142      | 403,142      | 86,039     | 86,039     | (489,181)      | (489,181)      |              |              |
| Liability for post-retirement benefits    |              |              | 43,944       | 43,944       |            |            |                |                | 43,944       | 43,944       |
| Liability for pension benefits            | 6,767        | 6,767        | 7,997        | 7,997        | 159        | 159        |                |                | 14,923       | 14,923       |
| Deferred income taxes                     | 81,576       | 76,508       |              |              | 3,482      | 3,482      | (3,868)        |                | 81,190       | 79,990       |
| Unearned revenue                          |              |              |              |              | 12,496     | 12,496     |                |                | 12,496       | 12,496       |
| Other noncurrent liabilities              | 8,142        | 8,142        | 3,950        | 3,950        | 215        | 215        |                |                | 12,307       | 12,307       |
| Total liabilities                         | 522,513      | 517,445      | 529,094      | 529,094      | 212,053    | 211,483    | (516,692)      | (512,824)      | 746,968      | 745,198      |
| Total shareholders equity                 | 794,771      | 759,699      | 595,700      | 590,440      | 206,065    | 170,348    | (801,765)      | (760,788)      | 794,771      | 759,699      |
| Total liabilities and shareholders equity | \$ 1,317,284 | \$ 1,277,144 | \$ 1,124,794 | \$ 1,119,534 | \$ 418,118 | \$ 381,831 | \$ (1,318,457) | \$ (1,273,612) | \$ 1,541,739 | \$ 1,504,897 |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Balance Sheet in the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 as filed with the SEC on September 24, 2013. The previously reported Guarantor Subsidiary and Consolidated balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(359), \$544, and \$185 to correct the prior presentation. The previously reported balances of current deferred income tax assets, non-current deferred income tax assets, intercompany investments, other accrued liabilities, non-current deferred income taxes, and shareholders' equity, were adjusted by \$4,081, \$-, \$(6,671), \$(685), \$(1,905), and \$- for the Parent; by \$(2,437), \$(28,271), \$-, \$-, \$(26,646), and \$(4,062) for the Guarantor Subsidiaries; by \$(1,644), \$(169), \$-, \$685, \$111, and \$(2,609) for the Non-Guarantor Subsidiaries; and by \$-, \$28,440, \$6,671, \$-, \$28,440, and \$6,671 for the Eliminations, to correct the presentation of deferred income tax balances.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

September 30, 2013

(unaudited)

|                                     | RTI<br>International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations                  |                | Consolidated               |                |
|-------------------------------------|--------------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|-------------------------------|----------------|----------------------------|----------------|
|                                     | Previously<br>Reported (1)           | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported<br>(1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated |
| <b>ASSETS</b>                       |                                      |                |                            |                |                            |                |                               |                |                            |                |
| Current assets:                     |                                      |                |                            |                |                            |                |                               |                |                            |                |
| Cash and cash equivalents           | \$                                   | \$             | \$ 263,561                 | \$ 263,561     | \$ 51,460                  | \$ 51,460      | \$                            | \$             | \$ 315,021                 | \$ 315,021     |
| Short term investments              |                                      |                | 45,187                     | 45,187         |                            |                |                               |                | 45,187                     | 45,187         |
| Receivables, net                    | 716                                  | 716            | 64,790                     | 64,790         | 76,167                     | 75,463         | (22,846)                      | (22,846)       | 118,827                    | 118,123        |
| Inventories, net                    |                                      |                | 251,257                    | 251,257        | 167,901                    | 161,199        |                               |                | 419,158                    | 412,456        |
| Costs in excess of billings         |                                      |                | 1,242                      | 1,242          | 3,425                      | 3,425          |                               |                | 4,667                      | 4,667          |
| Deferred income taxes               | 31,290                               | 31,290         |                            |                | 116                        | 116            |                               |                | 31,406                     | 31,406         |
| Assets of discontinued operations   |                                      |                |                            |                |                            | 7,582          |                               |                |                            | 7,582          |
| Other current assets                | 16,361                               | 16,075         | 1,676                      | 1,676          | 5,004                      | 5,157          |                               |                | 23,041                     | 22,908         |
| Total current assets                | 48,367                               | 48,081         | 627,713                    | 627,713        | 304,073                    | 304,402        | (22,846)                      | (22,846)       | 957,307                    | 957,350        |
| Property, plant, and equipment, net | 2,124                                | 2,124          | 297,308                    | 297,308        | 68,417                     | 68,306         |                               |                | 367,849                    | 367,738        |
| Goodwill                            |                                      |                | 93,665                     | 93,665         | 36,173                     | 36,108         |                               |                | 129,838                    | 129,773        |
| Other intangible assets, net        |                                      |                | 33,226                     | 33,226         | 19,816                     | 19,816         |                               |                | 53,042                     | 53,042         |
| Deferred income taxes               |                                      |                |                            |                | 34,065                     |                | (4,630)                       |                | 29,435                     |                |
| Other noncurrent assets             | 10,982                               | 10,982         | 201                        | 201            | 3,727                      | 3,727          |                               |                | 14,910                     | 14,910         |
| Intercompany investments            | 1,274,085                            | 1,240,173      | 26,265                     | 26,265         | 5,221                      | 5,221          | (1,305,571)                   | (1,271,659)    |                            |                |
| Total assets                        | \$ 1,335,558                         | \$ 1,301,360   | \$ 1,078,378               | \$ 1,078,378   | \$ 471,492                 | \$ 437,580     | \$ (1,333,047)                | \$ (1,294,505) | \$ 1,552,381               | \$ 1,522,813   |

**LIABILITIES AND SHAREHOLDERS' EQUITY**

## Current liabilities:

|                  |          |          |           |           |           |           |             |             |           |           |
|------------------|----------|----------|-----------|-----------|-----------|-----------|-------------|-------------|-----------|-----------|
| Accounts payable | \$ 1,256 | \$ 1,256 | \$ 55,171 | \$ 55,171 | \$ 41,458 | \$ 41,111 | \$ (22,846) | \$ (22,846) | \$ 75,039 | \$ 74,692 |
|------------------|----------|----------|-----------|-----------|-----------|-----------|-------------|-------------|-----------|-----------|

# Edgar Filing: RTI INTERNATIONAL METALS INC - Form 10-K

|                                           |              |              |              |              |            |            |                |                |              |              |
|-------------------------------------------|--------------|--------------|--------------|--------------|------------|------------|----------------|----------------|--------------|--------------|
| Accrued wages and other employee costs    | 5,763        | 5,763        | 15,594       | 15,594       | 8,444      | 8,340      |                |                | 29,801       | 29,697       |
| Unearned revenue                          |              |              |              |              | 38,467     | 38,467     |                |                | 38,467       | 38,467       |
| Liabilities of discontinued operations    |              |              |              |              |            | 471        |                |                |              | 471          |
| Other accrued liabilities                 | 8,911        | 8,911        | 8,054        | 8,054        | 9,072      | 9,052      |                |                | 26,037       | 26,017       |
| Total current liabilities                 | 15,930       | 15,930       | 78,819       | 78,819       | 97,441     | 97,441     | (22,846)       | (22,846)       | 169,344      | 169,344      |
| Long-term debt                            | 418,269      | 418,269      | 980          | 980          |            |            |                |                | 419,249      | 419,249      |
| Intercompany debt                         |              |              | 350,821      | 350,821      | 111,758    | 111,758    | (462,579)      | (462,579)      |              |              |
| Liability for post-retirement benefits    |              |              | 44,112       | 44,112       |            |            |                |                | 44,112       | 44,112       |
| Liability for pension benefits            | 6,856        | 6,856        | 3,281        | 3,281        | 160        | 160        |                |                | 10,297       | 10,297       |
| Deferred income taxes                     | 75,030       | 75,030       |              |              | 3,482      | 3,482      | (4,630)        |                | 73,882       | 78,512       |
| Unearned revenue                          |              |              |              |              | 12,033     | 12,033     |                |                | 12,033       | 12,033       |
| Other noncurrent liabilities              | 8,143        | 8,143        | 3,753        | 3,753        | 238        | 238        |                |                | 12,134       | 12,134       |
| Total liabilities                         | 524,228      | 524,228      | 481,766      | 481,766      | 225,112    | 225,112    | (490,055)      | (485,425)      | 741,051      | 745,681      |
| Total shareholders equity                 | 811,330      | 777,132      | 596,612      | 596,612      | 246,380    | 212,468    | (842,992)      | (809,080)      | 811,330      | 777,132      |
| Total liabilities and shareholders equity | \$ 1,335,558 | \$ 1,301,360 | \$ 1,078,378 | \$ 1,078,378 | \$ 471,492 | \$ 437,580 | \$ (1,333,047) | \$ (1,294,505) | \$ 1,552,381 | \$ 1,522,813 |

(1): Previously reported balances represent the amounts reported in the Condensed Consolidating Balance Sheet in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as filed with the SEC on November 12, 2013. The previously reported Guarantor Subsidiary and Consolidated balances of inventory and cost in excess of billings have been adjusted by \$(1,242) and \$1,242 to correct the prior presentation. The previously reported balances of current deferred income tax assets, non-current deferred income tax assets, intercompany investments, other accrued liabilities, non-current deferred income taxes and shareholders' equity, were adjusted by \$4,812, \$-, \$(11,850), \$(685), \$(6,353), and \$- for the Parent; by \$(2,629), \$(27,604), \$-, \$-, \$(21,587), and \$(8,646) for the Guarantor Subsidiaries; by \$(2,183), \$(174), \$-, \$685, \$162, and, \$(3,204) for the Non-Guarantor Subsidiaries; and by \$-, \$27,778, \$11,850, \$-, \$27,778, and \$11,850 for the Eliminations, to correct the presentation of deferred income tax balances.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

March 31, 2012

(unaudited)

|                                             | RTI International<br>Metals, Inc. |                | Guarantors                    |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|---------------------------------------------|-----------------------------------|----------------|-------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                             | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1)(2) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (2) | As<br>Restated |
| <b>ASSETS</b>                               |                                   |                |                               |                |                            |                |                            |                |                            |                |
| Current assets:                             |                                   |                |                               |                |                            |                |                            |                |                            |                |
| Cash and cash equivalents                   | \$                                | \$             | \$ 109,419                    | \$ 109,419     | \$ 8,453                   | \$ 8,453       | \$                         | \$             | \$ 117,872                 | \$ 117,872     |
| Receivables, net                            | 209                               | 209            | 77,874                        | 77,874         | 64,298                     | 62,772         | (39,218)                   | (39,218)       | 103,163                    | 101,637        |
| Inventories, net                            |                                   |                | 166,538                       | 166,538        | 139,493                    | 130,521        |                            |                | 306,031                    | 297,059        |
| Costs in excess of billings                 |                                   |                | 1,602                         | 1,602          | 5                          | 5              |                            |                | 1,607                      | 1,607          |
| Deferred income taxes                       | 20,475                            | 20,475         |                               |                |                            |                |                            |                | 20,475                     | 20,475         |
| Assets of discontinued operations           |                                   |                |                               |                | 18,598                     | 29,581         |                            |                | 18,598                     | 29,581         |
| Other current assets                        | 5,737                             | 5,340          | 4,496                         | 4,496          | 2,963                      | 3,360          | (1,927)                    | (1,927)        | 11,269                     | 11,269         |
| Total current assets                        | 26,421                            | 26,024         | 359,929                       | 359,929        | 233,810                    | 234,692        | (41,145)                   | (41,145)       | 579,015                    | 579,500        |
| Property, plant, and equipment, net         | 634                               | 634            | 296,407                       | 296,407        | 64,423                     | 64,296         |                            |                | 361,464                    | 361,337        |
| Goodwill                                    |                                   |                | 96,942                        | 96,942         | 36,653                     | 36,295         |                            |                | 133,595                    | 133,237        |
| Other intangible assets, net                |                                   |                | 37,079                        | 37,079         | 22,448                     | 22,448         |                            |                | 59,527                     | 59,527         |
| Deferred income taxes                       |                                   |                |                               |                | 29,864                     |                | (753)                      |                | 29,111                     |                |
| Other noncurrent assets                     | 4,329                             | 4,329          | 201                           | 201            | 3,946                      | 3,946          |                            |                | 8,476                      | 8,476          |
| Intercompany investments                    | 940,478                           | 911,011        | 22,840                        | 22,840         | 2,621                      | 2,621          | (965,939)                  | (936,472)      |                            |                |
| Total assets                                | \$ 971,862                        | \$ 941,998     | \$ 813,398                    | \$ 813,398     | \$ 393,765                 | \$ 364,298     | \$ (1,007,837)             | \$ (977,617)   | \$ 1,171,188               | \$ 1,142,077   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                   |                |                               |                |                            |                |                            |                |                            |                |
| Current liabilities:                        |                                   |                |                               |                |                            |                |                            |                |                            |                |
| Accounts payable                            | \$ 1,111                          | \$ 1,111       | \$ 48,077                     | \$ 48,077      | \$ 54,862                  | \$ 53,350      | \$ (39,213)                | \$ (39,213)    | \$ 64,837                  | \$ 63,325      |
| Accrued wages and employee costs            | 3,160                             | 3,160          | 11,248                        | 11,248         | 5,282                      | 5,170          |                            |                | 19,690                     | 19,578         |
| Unearned revenue                            |                                   |                | 804                           | 804            | 35,785                     | 35,785         |                            |                | 36,589                     | 36,589         |
| Liabilities of discontinued operations      |                                   |                |                               |                | 3,879                      | 5,588          |                            |                | 3,879                      | 5,588          |
| Other accrued liabilities                   | 5,947                             | 6,150          | 10,752                        | 10,752         | 7,001                      | 6,916          | (1,932)                    | (1,932)        | 21,768                     | 21,886         |
| Total current liabilities                   | 10,218                            | 10,421         | 70,881                        | 70,881         | 106,809                    | 106,809        | (41,145)                   | (41,145)       | 146,763                    | 146,966        |
| Long-term debt                              | 189,313                           | 189,313        | 1,876                         | 1,876          |                            |                |                            |                | 191,189                    | 191,189        |
| Intercompany debt                           |                                   |                | 113,669                       | 113,669        | 98,057                     | 98,057         | (211,726)                  | (211,726)      |                            |                |
| Liability for post-retirement benefits      |                                   |                | 41,806                        | 41,806         |                            |                |                            |                | 41,806                     | 41,806         |
| Liability for pension benefits              | 6,227                             | 6,227          | 8,193                         | 8,193          | 677                        | 677            |                            |                | 15,097                     | 15,097         |
| Deferred income taxes                       | 30,058                            | 30,058         |                               |                | 3,836                      | 3,836          | (753)                      |                | 33,141                     | 33,894         |
| Unearned revenue                            |                                   |                |                               |                | 3,504                      | 3,504          |                            |                | 3,504                      | 3,504          |
| Other noncurrent liabilities                | 5,253                             | 5,253          | 3,464                         | 3,464          | 199                        | 199            | (21)                       | (21)           | 8,895                      | 8,895          |



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|                                           |            |            |            |            |            |            |                |              |              |              |
|-------------------------------------------|------------|------------|------------|------------|------------|------------|----------------|--------------|--------------|--------------|
| Total liabilities                         | 241,069    | 241,272    | 239,889    | 239,889    | 213,082    | 213,082    | (253,645)      | (252,892)    | 440,395      | 441,351      |
| Total shareholders equity                 | 730,793    | 700,726    | 573,509    | 573,509    | 180,683    | 151,216    | (754,192)      | (724,725)    | 730,793      | 700,726      |
| Total liabilities and shareholders equity | \$ 971,862 | \$ 941,998 | \$ 813,398 | \$ 813,398 | \$ 393,765 | \$ 364,298 | \$ (1,007,837) | \$ (977,617) | \$ 1,171,188 | \$ 1,142,077 |

- (1) The previously reported balances of current deferred income tax assets, non-current deferred income tax assets, intercompany investments, other accrued liabilities, non-current deferred income taxes, and shareholders equity were adjusted by \$3,298, \$-, \$(10,752), \$(764), \$(6,690), and \$- for the Parent; by \$(2,290), \$(25,995), \$-, \$-, \$(19,560), and \$(8,725) for the Guarantor Subsidiaries; by \$(1,008), \$(33), \$-, \$764, \$222, and \$(2,027) for the Non-Guarantor Subsidiaries; and by \$-, \$26,028, \$10,752, \$-, \$26,028, and \$10,752 for the Eliminations, to correct the presentation of deferred income tax balances.
- (2): The previously reported Guarantor Subsidiary and Consolidated balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(1,596), \$1,602, and \$6 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

June 30, 2012

(unaudited)

|                                             | RTI International<br>Metals, Inc. |                | Guarantors                 |                | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|---------------------------------------------|-----------------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                             | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (2) | As<br>Restated |
| <b>ASSETS</b>                               |                                   |                |                            |                |                            |                |                            |                |                            |                |
| Current assets:                             |                                   |                |                            |                |                            |                |                            |                |                            |                |
| Cash and cash equivalents                   | \$                                | \$             | \$ 92,864                  | \$ 92,864      | \$ 6,661                   | \$ 6,661       | \$                         | \$             | \$ 99,525                  | \$ 99,525      |
| Receivables, net                            | 162                               | 162            | 76,198                     | 76,198         | 60,685                     | 59,489         | (33,288)                   | (33,288)       | 103,757                    | 102,561        |
| Inventories, net                            |                                   |                | 176,305                    | 176,305        | 149,029                    | 140,168        |                            |                | 325,334                    | 316,473        |
| Costs in excess of billings                 |                                   |                | 1,857                      | 1,857          | 658                        | 658            |                            |                | 2,515                      | 2,515          |
| Deferred income taxes                       | 20,775                            | 20,775         |                            |                |                            |                |                            |                | 20,775                     | 20,775         |
| Assets of discontinued operations           |                                   |                |                            |                | 17,633                     | 28,165         |                            |                | 17,633                     | 28,165         |
| Other current assets                        | 4,271                             | 3,874          | 4,565                      | 4,565          | 4,433                      | 4,830          |                            |                | 13,269                     | 13,269         |
| Total current assets                        | 25,208                            | 24,811         | 351,789                    | 351,789        | 239,099                    | 239,971        | (33,288)                   | (33,288)       | 582,808                    | 583,283        |
| Property, plant, and equipment, net         | 543                               | 543            | 301,438                    | 301,438        | 63,754                     | 63,637         |                            |                | 365,735                    | 365,618        |
| Goodwill                                    |                                   |                | 96,942                     | 96,942         | 36,628                     | 36,270         |                            |                | 133,570                    | 133,212        |
| Other intangible assets, net                |                                   |                | 36,436                     | 36,436         | 21,815                     | 21,815         |                            |                | 58,251                     | 58,251         |
| Deferred income taxes                       |                                   |                |                            |                | 30,719                     |                | (1,480)                    |                | 29,239                     |                |
| Other noncurrent assets                     | 4,768                             | 4,768          | 201                        | 201            | 3,823                      | 3,823          |                            |                | 8,792                      | 8,792          |
| Intercompany investments                    | 950,229                           | 919,907        | 25,350                     | 25,350         | 3,034                      | 3,034          | (978,613)                  | (948,291)      |                            |                |
| Total assets                                | \$ 980,748                        | \$ 950,029     | \$ 812,156                 | \$ 812,156     | \$ 398,872                 | \$ 368,550     | \$ (1,013,381)             | \$ (981,579)   | \$ 1,178,395               | \$ 1,149,156   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                   |                |                            |                |                            |                |                            |                |                            |                |
| Current liabilities:                        |                                   |                |                            |                |                            |                |                            |                |                            |                |
| Accounts payable                            | \$ 1,021                          | \$ 1,021       | \$ 43,562                  | \$ 43,562      | \$ 49,789                  | \$ 49,356      | \$ (33,288)                | \$ (33,288)    | \$ 61,084                  | \$ 60,651      |
| Accrued wages and other employee costs      | 4,465                             | 4,465          | 13,477                     | 13,477         | 6,929                      | 6,810          |                            |                | 24,871                     | 24,752         |
| Unearned revenue                            |                                   |                | 726                        | 726            | 36,140                     | 36,140         |                            |                | 36,866                     | 36,866         |
| Liabilities of discontinued operations      |                                   |                |                            |                | 3,494                      | 4,087          |                            |                | 3,494                      | 4,087          |
| Other accrued liabilities                   | 5,608                             | 5,845          | 7,823                      | 7,823          | 8,249                      | 8,208          |                            |                | 21,680                     | 21,876         |
| Total current liabilities                   | 11,094                            | 11,331         | 65,588                     | 65,588         | 104,601                    | 104,601        | (33,288)                   | (33,288)       | 147,995                    | 148,232        |
| Long-term debt                              | 191,699                           | 191,699        | 2,028                      | 2,028          |                            |                |                            |                | 193,727                    | 193,727        |
| Intercompany debt                           |                                   |                | 111,916                    | 111,916        | 100,929                    | 100,929        | (212,845)                  | (212,845)      |                            |                |
| Liability for post-retirement benefits      |                                   |                | 42,000                     | 42,000         |                            |                |                            |                | 42,000                     | 42,000         |
| Liability for pension benefits              | 6,133                             | 6,133          | 6,730                      | 6,730          | 539                        | 539            |                            |                | 13,402                     | 13,402         |
| Deferred income taxes                       | 31,393                            | 31,393         |                            |                | 3,836                      | 3,836          | (1,480)                    |                | 33,749                     | 35,229         |
| Unearned revenue                            |                                   |                |                            |                | 3,385                      | 3,385          |                            |                | 3,385                      | 3,385          |
| Other noncurrent liabilities                | 5,261                             | 5,261          | 3,491                      | 3,491          | 217                        | 217            |                            |                | 8,969                      | 8,969          |

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|                                            |            |            |            |            |            |            |                |              |              |              |
|--------------------------------------------|------------|------------|------------|------------|------------|------------|----------------|--------------|--------------|--------------|
| Total liabilities                          | 245,580    | 245,817    | 231,753    | 231,753    | 213,507    | 213,507    | (247,613)      | (246,133)    | 443,227      | 444,944      |
| Total shareholders' equity                 | 735,168    | 704,212    | 580,403    | 580,403    | 185,365    | 155,043    | (765,768)      | (735,446)    | 735,168      | 704,212      |
| Total liabilities and shareholders' equity | \$ 980,748 | \$ 950,029 | \$ 812,156 | \$ 812,156 | \$ 398,872 | \$ 368,550 | \$ (1,013,381) | \$ (981,579) | \$ 1,178,395 | \$ 1,149,156 |

- (1) The previously reported balances of current deferred income tax assets, non-current deferred income tax assets, intercompany investments, other accrued liabilities, non-current deferred income taxes, and shareholders' equity were adjusted by \$3,598, \$-, \$(9,842), \$(780), \$(5,464), and \$- for the Parent; by \$(2,290), \$(25,314), \$-, \$-, \$(20,104), and \$(7,500) for the Guarantor Subsidiaries; by \$(1,308), \$(31), \$-, \$780, \$223, and \$(2,342) for the Non-Guarantor Subsidiaries; and by \$-, \$25,345, \$9,842, \$-, \$25,345, and \$9,842 for the Eliminations, to correct the presentation of deferred income tax balances.
- (2) The previously Guarantor Subsidiary and Consolidated balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(1,835), \$1,857, and \$22 to correct the prior presentation.

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

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

## Condensed Consolidating Balance Sheet

September 30, 2012

(unaudited)

|                                             | RTI International<br>Metals, Inc. |                | Guarantors                 |                    | Non-Guarantors             |                | Eliminations               |                | Consolidated               |                |
|---------------------------------------------|-----------------------------------|----------------|----------------------------|--------------------|----------------------------|----------------|----------------------------|----------------|----------------------------|----------------|
|                                             | Previously<br>Reported (1)        | As<br>Restated | Previously<br>Reported (1) | As<br>(2) Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (1) | As<br>Restated | Previously<br>Reported (2) | As<br>Restated |
| <b>ASSETS</b>                               |                                   |                |                            |                    |                            |                |                            |                |                            |                |
| Current assets:                             |                                   |                |                            |                    |                            |                |                            |                |                            |                |
| Cash and cash equivalents                   | \$                                | \$             | \$ 69,907                  | \$ 69,907          | \$ 3,482                   | \$ 3,482       | \$                         | \$             | \$ 73,389                  | \$ 73,389      |
| Short term investments                      |                                   |                | 3,998                      | 3,998              |                            |                |                            |                | 3,998                      | 3,998          |
| Receivables, net                            | 126                               | 126            | 80,480                     | 80,480             | 63,115                     | 62,196         | (29,473)                   | (29,473)       | 114,248                    | 113,329        |
| Inventories, net                            |                                   |                | 188,662                    | 188,662            | 162,992                    | 154,020        |                            |                | 351,654                    | 342,682        |
| Costs in excess of billings                 |                                   |                | 1,344                      | 1,344              | 2,151                      | 2,151          |                            |                | 3,495                      | 3,495          |
| Deferred income taxes                       | 22,059                            | 22,059         |                            |                    |                            |                |                            |                | 22,059                     | 22,059         |
| Assets of discontinued operations           |                                   |                |                            |                    | 16,799                     | 27,158         |                            |                | 16,799                     | 27,158         |
| Other current assets                        | 4,021                             | 3,624          | 4,070                      | 4,070              | 4,449                      | 4,846          | (1,380)                    | (1,380)        | 11,160                     | 11,160         |
| Total current assets                        | 26,206                            | 25,809         | 348,461                    | 348,461            | 252,988                    | 253,853        | (30,853)                   | (30,853)       | 596,802                    | 597,270        |
| Property, plant, and equipment, net         | 1,336                             | 1,336          | 301,681                    | 301,681            | 64,751                     | 64,641         |                            |                | 367,768                    | 367,658        |
| Marketable securities                       |                                   |                |                            |                    |                            |                |                            |                |                            |                |
| Goodwill                                    |                                   |                | 94,494                     | 94,494             | 37,112                     | 36,754         |                            |                | 131,606                    | 131,248        |
| Other intangible assets, net                |                                   |                | 35,795                     | 35,795             | 21,869                     | 21,869         |                            |                | 57,664                     | 57,664         |
| Deferred income taxes                       |                                   |                |                            |                    | 32,786                     |                | (589)                      |                | 32,197                     |                |
| Other noncurrent assets                     | 4,442                             | 4,442          | 2,781                      | 2,781              | 3,710                      | 3,710          | (2,580)                    | (2,580)        | 8,353                      | 8,353          |
| Intercompany investments                    | 965,123                           | 932,734        | 26,492                     | 26,492             | 3,408                      | 3,408          | (995,023)                  | (962,634)      |                            |                |
| Total assets                                | \$ 997,107                        | \$ 964,321     | \$ 809,704                 | \$ 809,704         | \$ 416,624                 | \$ 384,235     | \$ (1,029,045)             | \$ (996,067)   | \$ 1,194,390               | \$ 1,162,193   |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                                   |                |                            |                    |                            |                |                            |                |                            |                |
| Current liabilities:                        |                                   |                |                            |                    |                            |                |                            |                |                            |                |
| Accounts payable                            | \$ 1,003                          | \$ 1,003       | \$ 46,543                  | \$ 46,543          | \$ 49,093                  | \$ 48,239      | \$ (29,473)                | \$ (29,473)    | \$ 67,166                  | \$ 66,312      |
| Accrued wages and other employee costs      | 5,177                             | 5,177          | 15,629                     | 15,629             | 8,639                      | 8,501          |                            |                | 29,445                     | 29,307         |
| Unearned revenue                            |                                   |                | 674                        | 674                | 34,018                     | 34,018         |                            |                | 34,692                     | 34,692         |
| Liabilities of discontinued operations      |                                   |                |                            |                    | 3,198                      | 4,190          |                            |                | 3,198                      | 4,190          |
| Other accrued liabilities                   | 10,348                            | 10,444         | 9,192                      | 9,192              | 9,298                      | 9,298          | (1,380)                    | (1,380)        | 27,458                     | 27,554         |
| Total current liabilities                   | 16,528                            | 16,624         | 72,038                     | 72,038             | 104,246                    | 104,246        | (30,853)                   | (30,853)       | 161,959                    | 162,055        |
| Long-term debt                              | 194,153                           | 194,153        | 1,926                      | 1,926              |                            |                |                            |                | 196,079                    | 196,079        |
| Intercompany debt                           |                                   |                | 112,535                    | 112,535            | 106,684                    | 106,684        | (219,219)                  | (219,219)      |                            |                |
| Liability for post-retirement benefits      |                                   |                | 42,220                     | 42,220             |                            |                |                            |                | 42,220                     | 42,220         |
| Liability for pension benefits              | 4,976                             | 4,976          |                            |                    | 159                        | 159            | (2,580)                    | (2,580)        | 2,555                      | 2,555          |
| Deferred income taxes                       | 30,416                            | 30,416         |                            |                    | 3,836                      | 3,836          | (589)                      |                | 33,663                     | 34,252         |

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|                                           |            |            |            |            |            |            |                |              |              |              |
|-------------------------------------------|------------|------------|------------|------------|------------|------------|----------------|--------------|--------------|--------------|
| Unearned revenue                          |            |            |            |            | 3,240      | 3,240      |                |              | 3,240        | 3,240        |
| Other noncurrent liabilities              | 5,268      | 5,268      | 3,430      | 3,430      | 210        | 210        |                |              | 8,908        | 8,908        |
| Total liabilities                         | 251,341    | 251,437    | 232,149    | 232,149    | 218,375    | 218,375    | (253,241)      | (252,652)    | 448,624      | 449,309      |
| Total shareholders equity                 | 745,766    | 712,884    | 577,555    | 577,555    | 198,249    | 165,860    | (775,804)      | (743,415)    | 745,766      | 712,884      |
| Total liabilities and shareholders equity | \$ 997,107 | \$ 964,321 | \$ 809,704 | \$ 809,704 | \$ 416,624 | \$ 384,235 | \$ (1,029,045) | \$ (996,067) | \$ 1,194,390 | \$ 1,162,193 |

- (1): The previously reported balances of current deferred income tax assets, non-current deferred income tax assets, intercompany investments, other accrued liabilities, non-current deferred income taxes, and shareholders equity were adjusted by \$4,883, \$-, \$(12,214), \$(780), \$(6,551), and \$- for the Parent; by \$(2,593), \$(26,313), \$-, \$-, \$(20,104), and \$(8,802) for the Guarantor Subsidiaries; by \$(2,290), \$(32), \$-, \$780, \$310, and \$(3,412) for the Non-Guarantor Subsidiaries; and by \$-, \$26,345, \$12,214, \$-, \$26,345, and \$12,214 for the Eliminations, to correct the presentation of deferred income tax balances.
- (2): The previously reported Guarantor Subsidiary and Consolidated balances of inventory, cost in excess of billings, and deferred revenue have been adjusted by \$(1,175), \$1,344, and \$169 to correct the prior presentation.

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

**Notes to Consolidated Financial Statements**

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

**Note 19 SUBSEQUENT EVENTS:**

On January 22, 2014, the Company announced the acquisition of Directed Manufacturing, Inc, a leader in additive manufacturing of metals and plastics for both commercial production and engineering development applications, for \$23 million in cash.

A purchase price allocation has not been presented due to the timing of the close of the acquisition. Fair values of the assets and liabilities of the acquired company have not been determined as of the filing of this Annual Report.

On February 21, 2014, the Company completed the sale of the assets of RTI Connecticut for \$3.3 million in cash. Refer to Note 3 for further information on the presentation of RTI Connecticut as a discontinued operation.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

**Disclosure controls and procedures**

The Company's management, under the supervision of and with the participation of the Company's Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2013. Based on that evaluation, the CEO and CFO concluded that, due to the material weaknesses in the Company's internal control over financial reporting discussed below, the Company's disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )), were not effective as of December 31, 2013.

**Management's report on internal control over financial reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to changes in conditions or the degree of compliance with policies or procedures may deteriorate. Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on the criteria established in Internal Control Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on that evaluation, the Company's management has concluded that, due to the material weaknesses discussed below, the Company's internal control over financial reporting was not effective as of December 31, 2013.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The identified material weaknesses in internal control over financial reporting are as follows:

The Company did not design effective internal controls over the valuation of its Canadian net deferred tax assets. Specifically, controls were not designed to properly evaluate the recoverability of the deferred tax asset, including the proper weighting of negative evidence associated with historical losses relative to expectations of future taxable income, which impacted the provision for income taxes and deferred tax assets and related disclosures. This material weakness resulted in the restatement of the Company's financial statements for the years ended December 31, 2011 and 2012, and for the three month periods ended March 31, June 30, and September 30, 2013 and 2012. This material weakness could result in a further misstatement of the aforementioned accounts and related disclosures that would result in a material misstatement to the Company's annual or interim Consolidated Financial Statements that would not be prevented or detected.

The Company did not design and maintain effective internal controls over the completeness, accuracy, and timing of revenue recognition and related costs at certain businesses within its EP&S segment. Specifically, the Company did not design controls to assess whether certain customer contracts should be accounted for using a percentage of completion model and did not design controls to properly apply percentage of completion accounting, which impacted the net sales, cost of goods sold, inventory and cost in excess of billings accounts and the related disclosures. This material weakness resulted in the restatement of the Company's Consolidated Financial Statements as filed with the SEC on September 24, 2013 and November 12, 2013, and it could result in a further misstatement of the aforementioned accounts and disclosures, that would result in a material misstatement to the Company's annual or interim Consolidated Financial Statements that would not be prevented or detected.

The Company did not design and maintain effective controls over the annual goodwill impairment analysis, including controls over the accuracy of inputs to the reporting unit enterprise valuation and the accuracy and completeness of qualitative impairment consideration. This material weakness resulted in an audit adjustment to goodwill and other intangible assets financial statement line item and goodwill impairment as of and for the year ended December 31, 2013, and it could result in a misstatement of goodwill, indefinite-lived intangible assets, related impairment charges, and the related disclosures, that would result in a material misstatement to the Company's annual or interim Consolidated Financial Statements that would not be prevented or detected.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Management excluded RTI Extrusions Europe Limited from its assessment of internal control over financial reporting as of December 31, 2013 because it was acquired by the Company on October 1, 2013. RTI Extrusions Europe Limited is a wholly-owned subsidiary whose excluded aggregate assets represent 1.0% of total consolidated assets, and whose excluded net sales represent 0.6% of consolidated net sales as of and for the year ended December 31, 2013.

#### **Changes in internal control over financial reporting**

There were a number of enhancements to the Company's internal control over financial reporting for the quarter ended December 31, 2013 in order to remediate the previously identified material weaknesses. These enhancements have materially affected or are expected to materially affect the Company's internal control over financial reporting and are described in further detail below in Management's Remediation Activities.

#### **Management's remediation initiatives**

The Company has taken actions that have resulted in the remediation of certain previously disclosed material weaknesses, and continues to implement measures in an effort to remediate its material weaknesses that have been described above. The additional details are provided below.

The Company enhanced existing controls and demonstrated an ability to identify risks that will affect the organization and address risks appropriately and in a timely manner. This was displayed through execution of the Company's annual and quarterly risk assessment process and through the identification of transactions that occurred during the year ended December 31, 2013 that resulted in the Company appropriately modifying the internal control environment through new and enhanced controls to address the risks associated with those transactions and changes in the business.

The Company implemented new controls and enhanced existing controls throughout the year to improve the Advanced Forming control environment. The Company implemented and effectively executed a number of controls and enhanced existing controls in order to appropriately mitigate the financial reporting risks associated with this business unit and to ensure a sound control environment.

The Company enhanced the design of the controls over the acquisition valuation process and demonstrated that the enhanced controls operated effectively over a recent acquisition. The enhanced design of these controls resulted in improved reviews of acquired assets and liabilities and purchase accounting adjustments to satisfy the relevant control objectives with regard to the valuation. Additional resources have been leveraged to ensure proper support for and review of acquisition activities.

The Company has started the evaluation process associated with the remediation of the deferred tax asset material weakness. The Company is assessing the relevant processes and controls to identify areas of enhancement. The Company will continue to take measures to address this material weakness.



The Company is working towards remediating the revenue recognition material weakness and has taken steps in 2013 to ensure completeness and accuracy of the financial statements through a number of additional controls and comprehensive reviews. The Company recognizes additional steps are necessary to remediate this material weakness and plans to continue to implement and enhance the internal controls with additional systematic and transactional-level controls. At this time, the control design and implementation is still in process. The Company will continue to work towards complete remediation of this material weakness and continue to perform the manual controls with a rigorous review process until a systematic approach is implemented to ensure accurate financial reporting.

The Company continues to improve the controls over the annual goodwill impairment analysis. New controls were implemented and steps were taken to remediate this material weakness. The new controls and enhanced design of previously existing controls resulted in improvements throughout the process, but they were not executed to a sufficient level to remediate the material weakness. The Company will continue to implement additional controls and improve its execution against those controls in order to complete the remediation of this material weakness.

In addition, as the Company continues to evaluate its disclosure controls and procedures and internal control over financial reporting, and take the steps detailed above, it may implement additional measures or may otherwise modify the remediation plans described above, if and as the Company deems necessary.

**Item 9B. Other Information**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

In addition to the information concerning the executive officers of the Company set forth under the caption Executive Officers of the Registrant in Part I, Item 1 of this Annual Report, information concerning the directors of the Company and the committees of the Board of Directors is set forth under the captions Corporate Governance and Election of Directors in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference.

Information concerning RTI's Code of Ethical Business Conduct is set forth under the caption Corporate Governance in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference. The Code of Ethical Business Conduct applies to all directors, officers, and all employees, including its principal executive officer, principal financial officer, or persons performing similar functions.

Information concerning any material changes to procedures for security holders to recommend nominees for the Company's Board of Directors is set forth under the caption Other Information in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference.

Information concerning the Audit Committee and its financial experts is set forth under the captions Audit Committee and Audit Committee Report in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference.

Information concerning compliance with the reporting requirements of Section 16(a) of the Exchange Act is set forth under the caption Section 16(a) Beneficial Ownership Reporting Compliance in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference.

**Item 11. Executive Compensation.**

Information required by this item is set forth under the captions **Executive Compensation** and, solely with respect to information pertaining to the Compensation Committee, **Corporate Governance**, and **Compensation Committee Report** in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

Information required by this item is set forth under the captions **Security Ownership of Certain Beneficial Owners** and **Security Ownership of Directors and Executive Officers** in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference.

**Equity Compensation Plan Information**

| Plan Category                                                                        | (a) Number of Securities<br>to be Issued Upon<br>Exercise of<br>Outstanding<br>Options | (b) Weighted-Average<br>Exercise Price of<br>Outstanding<br>Options | (c) Number of Securities<br>Remaining Available for<br>Future Issuance<br>Under<br>Equity Compensation Plans<br>(Excluding Securities<br>Reflected in Column<br>(a)) |
|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders (see Note (i) and Note (iii)) | 526,736                                                                                | \$ 34.56                                                            | 928,980                                                                                                                                                              |
|                                                                                      | 526,736                                                                                | \$ 34.56                                                            | 928,980                                                                                                                                                              |

Note (i): The numbers in columns (a) and (c) reflect all shares that could potentially be issued under the RTI International Metals, Inc., 2004 Stock Plan (the "2004 Plan") as of December 31, 2013. For more information, see Note 16 to the Consolidated Financial Statements included in this annual report. The Company's 2004 Stock Plan replaces the 1995 Stock Plan and the 2002 Non-Employee Director Stock Option Plan (the "2002 Plan") and provides for grants of up to 2,500,000 shares over its 10-year term as determined by the plan administrator. The 2004 Plan was approved by shareholder vote on April 30, 2004. In 2013, 2012, and 2011, 361,896, 288,492, and 259,668 shares, respectively, were awarded under the 2004 Plan.

Note (ii): Prior to December 31, 2004, RTI had one plan that had not been approved by its shareholders, the 2002 Plan. The 2002 plan was terminated and replaced by the 2004 Plan. See above Note (i).

Note (iii): The 2004 Plan permits grants of stock options, stock appreciation rights, restricted stock, performance share awards and other stock based awards that may include awards of restricted stock units. There are a total of 2,500,000 shares available for grant under the 2004 Plan, but only 1,250,000 shares may be issued in the form of restricted stock.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

Information required by this item is set forth under the captions **Corporate Governance** in the 2014 Proxy Statement and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services.**

Information required by this item is set forth under the caption **Proposal No. 2 Ratification of the Appointment of Independent Registered Public Accounting Firm for 2014** in the 2014 Proxy Statement, to be filed at a later date, and is incorporated herein by reference.

**PART IV****Item 15. Exhibits, Financial Statement Schedules.**

The following documents are filed as a part of this report:

1. The financial statements contained in Item 8 hereof;
2. The financial statement schedule following the signatures hereto; and
3. The following Exhibits:

**Exhibits**

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

**Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                       |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1        | Amended and Restated Reorganization Agreement, incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1, File No. 33-30667 Amendment No. 1.                                                                                                                                                                          |
| 2.2        | Stock Purchase Agreement by and among Aeromet International PLC, Aeromet Advanced Forming Limited and RTI Europe Limited, dated as of October 17, 2011, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on October 21, 2011.                                                             |
| 2.3        | Stock Purchase Agreement by and among RTI International Metals, Inc., REI Delaware Holding, Inc., and REI Delaware Holding, LLC, dated as of January 9, 2012, incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 11, 2012.                                                       |
| 2.4        | Amendment No. 1 to Stock Purchase Agreement, dated February 13, 2012, by and among RTI International Metals, Inc., REI Delaware Holding, LLC, and REI Delaware Holding, Inc., incorporated by reference to Exhibit 2.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, File No. 001-14437, filed on February 28, 2012. |
| 3.1        | Amended and Restated Articles of Incorporation of the Company, effective April 29, 1999, incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, File No. 001-14437, filed on May 14, 1999.                                                                                        |
| 3.2        | Code of Regulations of the Company, incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-4, File No. 333-61935, filed on August 20, 1998.                                                                                                                                                                          |
| 4.1        | First Amended and Restated Credit Agreement dated September 8, 2008, incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, File No. 001-14437, filed on August 10, 2009.                                                                                                          |
| 4.2        | First Amendment to the First Amended and Restated Credit Agreement, dated September 18, 2009, incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2009, File No. 001-14437, filed on November 5, 2009.                                                                                          |
| 4.3        | Second Amendment to the First Amended and Restated Credit Agreement, dated January 19, 2010, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2009, File No. 001-14437, filed on February 22, 2010.                                                                                                 |
| 4.4        | Third Amendment to First Amended and Restated Credit Agreement, dated December 7, 2010, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K for the event dated December 8, 2010, File No. 001-14437, filed on December 8, 2010.                                                                                       |



**Exhibit**

| No.   | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.5   | Assumption Agreement, dated March 1, 2010 by and between PNC Bank, NA and Wells Fargo Bank, NA, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K for the event dated March 5, 2010, File No. 001-14437, filed on March 5, 2010.                                                                                                                                                                                              |
| 4.6   | Form of Senior Debt Indenture by and among RTI International Metals, Inc. and The Bank of New York Mellon Trust Company, N.A., Trustee, incorporated by reference to Exhibit 4.8 to the Company's Form S-3ASR, File No. 333-171034, filed on December 8, 2010.                                                                                                                                                                                                    |
| 4.7   | Form of Subordinated Indenture by and among RTI International Metals, Inc. and The Bank of New York Mellon Trust Company, N.A., Trustee, incorporated by reference to Exhibit 4.9 to the Company's Form S-3ASR, File No. 333-171034, filed on December 8, 2010.                                                                                                                                                                                                   |
| 4.8   | Indenture, dated December 14, 2010 by and between RTI International Metals, Inc. and The Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on December 14, 2010.                                                                                                                                                                                       |
| 4.9   | First Supplemental Indenture, dated December 14, 2010 by and between RTI International Metals, Inc., the Subsidiary Guarantors party thereto and the Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on December 14, 2010.                                                                                                                           |
| 4.10  | Form of 3.000% Convertible Senior Notes due 2015, incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on December 14, 2010.                                                                                                                                                                                                                                                                           |
| 4.11  | Second Amended and Restated Credit Agreement dated May 23, 2012, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on May 30, 2012.                                                                                                                                                                                                                                                                |
| 4.12  | Second Supplemental Indenture, dated May 30, 2012 by and between RTI International Metals, Inc., REI Medical, Inc., Remmele Engineering, Inc. and the Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, File No. 001-14437, filed on August 6, 2012.                                                                                      |
| 4.13  | Third Supplemental Indenture, dated April 17, 2013, by and between RTI International Metals, Inc., RMI Titanium Company, Extrusion Technology Corporation of America, RTI Finance Corp., RTI Martinsville, Inc., RTI Remmele Medical, Inc., RTI Remmele Engineering, Inc. and the Bank of New York Mellon Trust Company, N.A., incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on April 17, 2013. |
| 4.14  | Form of 1.625% of Convertible Senior Notes due 2012, incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on April 17, 2013.                                                                                                                                                                                                                                                                           |
| 10.1* | RTI International Metals, Inc. Supplemental Pension Program effective August 1, 1987, as amended and restated October 26, 2007, incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-14437, filed on February 28, 2008.                                                                                                                                                       |
| 10.2* | RTI International Metals, Inc. Excess Benefits Plan effective July 18, 1991, and restated October 26, 2007, incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-14437, filed on February 28, 2008.                                                                                                                                                                           |
| 10.3* | RTI International Metals, Inc., 1995 Stock Plan incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1995, File No. 001-14437.                                                                                                                                                                                                                                                                  |
| 10.4* | RTI International Metals, Inc. 2002 Non-Employee Director Stock Option Plan, incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-8, File No. 333-83028 filed February 19, 2002.                                                                                                                                                                                                                                            |

**Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                    |
|------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.5*      | RTI International Metals, Inc. 2004 Stock Plan effective January 28, 2005, as amended January 26, 2007, incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-14437, filed on February 28, 2007.                  |
| 10.6*      | Form of Non-Qualified Stock Option Grant under the RTI International Metals, Inc. 2004 Stock Plan, incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-14437, filed on April 14, 2005.                          |
| 10.7*      | Form of Restricted Stock Grant under the RTI International Metals, Inc. 2004 Stock Plan, incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-14437, filed on April 14, 2005.                                    |
| 10.8*      | Form of Performance Share Award (2011 grants and prior) under the RTI International Metals, Inc. 2004 Stock Plan, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 31, 2008.                                               |
| 10.9*      | Form of Performance Share Award under the RTI International Metals, Inc. 2004 Stock Plan, as amended on January 26, 2012, incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, File No. 001-14437, filed on February 28, 2012. |
| 10.10*     | RTI International Metals, Inc., Employee Stock Purchase Plan, incorporated by reference to Annex A to the Company's Notice of Annual Meeting of Shareholders and Proxy Statement on Form DEF14A, File No. 001-14437, Filed on March 13, 2009.                                                         |
| 10.11*     | RTI International Metals, Inc. Board of Directors Compensation Program, as amended July 29, 2011, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, File No. 001-14437, filed on August 8, 2011.                 |
| 10.12*     | Pay philosophy and guiding principles covering executive compensation, incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011, File No. 001-14437, filed on February 28, 2012.                                                   |
| 10.13*     | Form of indemnification agreement, filed herewith.                                                                                                                                                                                                                                                    |
| 10.14*     | Amended and Restated Executive Non-Change in Control Severance Policy, as amended December 31, 2008, incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 7, 2009.                                                             |
| 10.15*     | Amended and Restated Executive Change in Control Severance Policy, as amended December 31, 2008, incorporated by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 7, 2009.                                                                 |
| 10.16*     | Amended and Restated Letter Agreement, dated December 31, 2008, between the Company and Dawne S. Hickton, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 7, 2009.                                                        |
| 10.17*     | Letter Agreement between RTI International Metals, Inc. and James L. McCarley, dated May 17, 2010, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A, File No. 001-14437, filed on May 21, 2010.                                                                |
| 10.18*     | Amended and Restated Letter Agreement, dated December 31, 2008, between the Company and Stephen R. Giangiordano, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 7, 2009.                                                 |
| 10.19*     | Amended and Restated Letter Agreement, dated December 31, 2008, between the Company and William T. Hull, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 7, 2009.                                                         |

**Exhibit**

| <b>No.</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                       |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.20*     | Amended and Restated Letter Agreement, dated December 31, 2008, between the Company and William F. Strome, incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 7, 2009.                                                                          |
| 10.21*     | Amended and Restated Letter Agreement, dated December 31, 2008, between the Company and Chad Whalen, incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 7, 2009.                                                                                |
| 10.22*     | Employment Agreement, dated February 21, 2013, between the Company and Patricia A. O'Connell, incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, File No. 001-14437, filed on February 22, 2013.                                               |
| 10.23      | Titanium Sponge Supply Agreement, dated January 1, 2007, between the Company and Sumitomo Titanium Corporation and its affiliates, incorporated by reference to Exhibit 10.9 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, File No. 001-14437, filed on May 4, 2007.     |
| 10.24      | Amendment to Long-Term Supply Agreement, dated May 30, 2007, between the Company and Lockheed Martin Corporation and its affiliates, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007, File No. 001-14437, filed on August 3, 2007. |
| 10.25      | Amended and Restated Procurement Frame Contract between EADS Deutschland GmbH and the Company dated July 20, 2010 incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on July 22, 2010.                                                                     |
| 10.26*     | Board of Directors Compensation Program, as amended April 26, 2012, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, File No. 001-14437, filed August 6, 2012.                                                                              |
| 10.25*     | RTI International Metals, Inc. Board of Directors Compensation Program, as amended April 25, 2013, incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, file No. 001-14437, filed on May 7, 2013.                                              |
| 10.26*     | Form of indemnification agreement, incorporated by reference to Exhibit 10.1 to the Company's quarterly Report on Form 10-Q for the quarter ended June 30, 2013, File No. 001-14437, filed on September 24, 2013.                                                                                                        |
| 10.27*     | Amendment to the RTI International Metals, Inc. Excess Benefits Plan, incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, File No. 001-14437, filed on September 24, 2013.                                                                     |
| 10.28*     | Amendment to the RTI International Metals, Inc. Supplemental Pension Program, incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, File No. 001-14437, filed on September 24, 2013.                                                             |
| 10.29*     | Form of Performance Share Award under the RTI International Metals, Inc. 2004 Stock Plan (for 2014 awards), incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, File No. 001-14437, filed on January 31, 2014.                                                                        |
| 21.1       | Subsidiaries of the Company, filed herewith.                                                                                                                                                                                                                                                                             |
| 23.1       | Consent of independent registered public accounting firm, filed herewith.                                                                                                                                                                                                                                                |
| 24.1       | Powers of Attorney, incorporated by reference to Exhibit 24.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2012, File No. 001-14437, filed on February 22, 2013, filed herewith.                                                                                                          |

**Exhibit**

| No.   | Description                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1  | Certification of Chief Executive Officer, dated March 18, 2014 and made pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended and pursuant to Section 302 of Sarbanes-Oxley Act of 2002, filed herewith.                                                                                                                                                                                                                         |
| 31.2  | Certification of Principal Financial Officer, dated March 18, 2014 and made pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended and pursuant to Section 302 of Sarbanes-Oxley Act of 2002, filed herewith.                                                                                                                                                                                                                     |
| 32.1  | Certification of Chief Executive Officer, dated March 18, 2014 and made pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.                                                                                                                                                                                                                  |
| 32.2  | Certification of Chief Financial Officer, dated March 18, 2014 and made pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.                                                                                                                                                                                                                  |
| 101** | The following financial statements from The Company's Annual Report on Form 10-K for the year ended December 31, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows, (iv) consolidated statements of stockholders' equity, and (v) the notes to the consolidated financial statements, tagged as blocks of text. |

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



# SIGNATURES

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

RTI INTERNATIONAL METALS, INC.

By /s/ WILLIAM T. HULL  
William T. Hull

*Senior Vice President and Chief Financial Officer*

*(principal accounting officer)*

Dated: March 18, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

## Signature and Title

## Date

DANIEL I. BOOKER, Director;

RONALD L. GALLATIN, Director;

ROBERT M. HERNANDEZ, Director;

EDITH E. HOLIDAY, Director;

JERRY HOWARD; Director

ROKUS L. VAN IPEREN, Director;

MARIO LONGHI, Director;

BRYAN T. MOSS, Director;

JAMES A. WILLIAMS, Director

ARTHUR B. WINKLEBLACK, Director

By: /s/ DAWNE S. HICKTON March 18, 2014

Dawne S. Hickton

As Attorney-in-Fact

/s/ DAWNE S. HICKTON March 18, 2014

Dawne S. Hickton

Vice Chair, President, Chief Executive Officer and Director

/s/ WILLIAM T. HULL

March 18, 2014

William T. Hull

Senior Vice President and Chief Financial Officer

*(principal accounting officer)*

## RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

## Schedule II Valuation and Qualifying Accounts

(In thousands)

| Description                                                 | Balance at<br>beginning<br>of year | (Charged)<br>credited to<br>costs and<br>expenses | (Charged)<br>credited to<br>other<br>accounts | Balance<br>at<br>end<br>of year |
|-------------------------------------------------------------|------------------------------------|---------------------------------------------------|-----------------------------------------------|---------------------------------|
| Year ended December 31, 2013:                               |                                    |                                                   |                                               |                                 |
| Allowance for doubtful accounts                             | \$ (721)                           | (99)                                              |                                               | \$ (820)                        |
| Valuation allowance for deferred income taxes (as restated) | (37,726)                           | (1,720)                                           | 2,274                                         | (37,172)                        |
| Year ended December 31, 2012:                               |                                    |                                                   |                                               |                                 |
| Allowance for doubtful accounts                             | \$ (847)                           | \$ 126                                            | \$                                            | \$ (721)                        |
| Valuation allowance for deferred income taxes (as restated) | (31,766)                           | (5,326)                                           | (634)                                         | (37,726)                        |
| Year ended December 31, 2011:                               |                                    |                                                   |                                               |                                 |
| Allowance for doubtful accounts                             | \$ (420)                           | \$ (427)                                          | \$                                            | \$ (847)                        |
| Valuation allowance for deferred income taxes (as restated) | (26,064)                           | (6,063)                                           | 361                                           | (31,766)                        |

The valuation allowance for deferred income taxes has been restated as disclosed in Note 2 to the Consolidated Financial Statements.