

RTI INTERNATIONAL METALS INC
Form 10-Q
May 07, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

or

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

For the transition period from to

Commission File Number: 001-14437

RTI INTERNATIONAL METALS, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of

incorporation or organization)

Westpointe Corporate Center One, 5th Floor

1550 Coraopolis Heights Road

Pittsburgh, Pennsylvania
(Address of principal executive offices)

(412) 893-0026

52-2115953
(I.R.S. Employer

Identification No.)

15108-2973
(Zip Code)

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 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 (Do not check if a smaller company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of the Corporation's common stock (Common Stock) outstanding as of May 2, 2014 was 30,695,631.

Table of Contents**RTI INTERNATIONAL METALS, INC. AND CONSOLIDATED SUBSIDIARIES**

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

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

	Three Months Ended March 31,	
	2014	2013 (As Restated)
Net sales	\$ 174,545	\$ 189,202
Cost and expenses:		
Cost of sales	146,076	149,949
Selling, general, and administrative expenses	25,868	24,605
Research, technical, and product development expenses	984	1,001
Operating income	1,617	13,647
Other income (expense), net	535	559
Interest income	50	31
Interest expense	(7,607)	(4,796)
Income (loss) before income taxes	(5,405)	9,441
Provision for (benefit from) income taxes	(1,589)	4,473
Net income (loss) attributable to continuing operations	\$ (3,816)	\$ 4,968
Net loss attributable to discontinued operations, net of tax	(365)	(83)
Net income (loss)	\$ (4,181)	\$ 4,885
Earnings (loss) per share attributable to continuing operations:		
Basic	\$ (0.13)	\$ 0.16
Diluted	\$ (0.13)	\$ 0.16
Loss per share attributable to discontinued operations:		
Basic	\$ (0.01)	\$
Diluted	\$ (0.01)	\$

Weighted-average shares outstanding:		
Basic	30,445,681	30,230,641
Diluted	30,445,681	30,504,177

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

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

	Three Months Ended March 31, 2013	
	2014	(As Restated)
Net income (loss)	\$ (4,181)	\$ 4,885
Other comprehensive income (loss):		
Foreign currency translation	(4,093)	(2,209)
Unrealized loss on investments, net of tax of \$(14) and \$0	(26)	
Benefit plan amortization, net of tax of \$678 and \$4,175	1,105	6,824
Other comprehensive income (loss), net of tax	(3,014)	4,615
Comprehensive income (loss)	\$ (7,195)	\$ 9,500

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

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

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 167,908	\$ 343,637
Short-term investments	128,197	
Receivables, less allowance for doubtful accounts of \$980 and \$820	107,699	105,271
Inventories, net	452,173	430,088
Costs in excess of billings	7,538	5,377
Deferred income taxes	32,040	32,032
Assets of discontinued operations	1,460	5,274
Other current assets	20,424	16,947
Total current assets	917,439	938,626
Property, plant, and equipment, net	371,450	372,340
Goodwill	130,254	117,578
Other intangible assets, net	57,516	53,754
Other noncurrent assets	23,684	23,247
Total assets	\$ 1,500,343	\$ 1,505,545
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 81,181	\$ 79,039
Accrued wages and other employee costs	23,090	29,787
Unearned revenues	16,632	15,625
Liabilities of discontinued operations		458
Other accrued liabilities	24,347	22,574
Total current liabilities	145,250	147,483
Long-term debt	434,209	430,300
Liability for post-retirement benefits	43,640	43,447
Liability for pension benefits	13,454	13,787
Deferred income taxes	74,666	74,078
Unearned revenues	10,204	10,470
Other noncurrent liabilities	11,318	12,006
Total liabilities	732,741	731,571

Commitments and contingencies (Note 16)

Shareholders' equity:

Common stock, \$0.01 par value; 50,000,000 shares authorized; 31,510,945 and 31,399,661 shares issued; 30,672,172 and 30,593,251 shares outstanding	315	314
Additional paid-in capital	533,921	532,249
Treasury stock, at cost; 838,773 and 806,410 shares	(19,648)	(18,798)
Accumulated other comprehensive loss	(43,411)	(40,397)
Retained earnings	296,425	300,606
Total shareholders' equity	767,602	773,974
Total liabilities and shareholders' equity	\$ 1,500,343	\$ 1,505,545

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

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

	Three Months Ended March 31, 2013	
	2014	(As Restated)
<u>OPERATING ACTIVITIES:</u>		
Net income (loss)	\$ (4,181)	\$ 4,885
Adjustment for non-cash items included in net income (loss):		
Depreciation and amortization	10,986	11,000
Goodwill impairment		484
Deferred income taxes	(31)	4,797
Stock-based compensation	1,295	1,708
Excess tax benefits from stock-based compensation activity	(195)	(236)
Gain on sale of property, plant and equipment	(122)	
Amortization of discount on long-term debt	4,403	2,562
Amortization of debt issuance costs	456	325
Other	(181)	(41)
Changes in assets and liabilities:		
Receivables	(2,278)	(9,994)
Inventories	(21,757)	(25,980)
Accounts payable	1,093	(6,583)
Income taxes payable	(5,236)	416
Unearned revenue	1,036	(4,662)
Cost in excess of billings	(2,160)	(19)
Other current assets and liabilities	(3,542)	(10,416)
Other assets and liabilities	(301)	1,031
Cash used in operating activities	(20,715)	(30,723)
<u>INVESTING ACTIVITIES:</u>		
Purchase of investments	(128,216)	
Acquisitions, net of cash acquired	(21,797)	
Capital expenditures	(6,850)	(9,160)
Divestitures	3,281	
Cash used in investing activities	(153,582)	(9,160)

FINANCING ACTIVITIES:

Proceeds from exercise of employee stock options	539	1,239
Excess tax benefits from stock-based compensation activity	195	236
Repayments on long-term debt	(484)	(220)
Purchase of common stock held in treasury	(850)	(399)
Cash provided by (used in) financing activities	(600)	856
Effect of exchange rate changes on cash and cash equivalents	(832)	(148)
Decrease in cash and cash equivalents	(175,729)	(39,175)
Cash and cash equivalents at beginning of period	343,637	97,190
Cash and cash equivalents at end of period	\$ 167,908	\$ 58,015

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

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Note 1 BASIS OF PRESENTATION:

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

The Condensed Consolidated Balance Sheet at December 31, 2013 has been derived from the audited Consolidated Financial Statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these Condensed Consolidated Financial Statements be read in conjunction with accounting policies and Notes to the Consolidated Financial Statements included in the Company's 2013 Annual Report on Form 10-K (the Annual Report) filed with the Securities and Exchange Commission (the SEC) on March 18, 2014.

Note 2 ORGANIZATION:

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 January 22, 2014, the Company acquired all of the issued and outstanding common stock of Directed Manufacturing, Inc. (RTI Directed Manufacturing), a leader in additively manufacturing metals and plastics, using 3-D printing technology, for commercial production and engineering development applications. Details of the acquisition of RTI Directed Manufacturing as well as the acquisition of RTI Extrusions Europe in October 2013 are presented in Note 4 to these Condensed Consolidated Financial Statements.

The Company completed the sale of the specialty metals business of Bow Steel Corporation (RTI Connecticut) on February 21, 2014, for approximately \$3.3 million in cash. The results of RTI Connecticut have been presented as discontinued operations for the three months ended March 31, 2014. The results of Pierce-Spafford Metals Company, Inc. (RTI Pierce Spafford), which was sold in 2013, are reported with results of RTI Connecticut as discontinued

operations for the three months ended March 31, 2013. Refer to Note 5 to these Condensed Consolidated Financial Statements for further details surrounding the discontinued operations of the Company.

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 aligns its resources to support the Company's long-term growth strategy.

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RTI INTERNATIONAL METALS, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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; 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 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 3 RESTATEMENTS AND REVISIONS:

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, the Company revised its Condensed Consolidated Financial Statements for the three months ended March 31, 2013 for computational errors in the calculation of revenues and cost of sales on contracts requiring the application of the percentage-of-completion revenue recognition methodology under ASC 605-35 and opening balance sheet corrections related to deferred taxes and goodwill associated with its acquisition of RTI Remmele Engineering. In the Annual Report, the Company subsequently restated its Condensed Consolidated Financial Statements for the three months ended March 31, 2013 to establish a full valuation allowance against its Canadian net deferred tax asset, and correct the related provision for income taxes. The following tables set forth the impact of the revision and restatement, as well as adjustments for the presentation of RTI Connecticut as a discontinued operation, on the Condensed Consolidated Statement of Operations and the Condensed Consolidated Statement of Cash Flows as filed in the Company's Amended Quarterly Report on Form 10-Q/A for the period ended March 31, 2013 as filed with the SEC on September 24, 2013.

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

	Three Months Ended March 31, 2013						
	Previously Reported	Revision Adjustment (2)	As Revised	Restatement Adjustment	As Corrected	Discontinued Operations	Currently 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)					