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)

þ 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)

Ohio	**52-2115953**
(State of Incorporation)	(I.R.S. Employer Identification No.)
Westpointe Corporate Center One, 5th Floor	**15108-2973**
1550 Coraopolis Heights Road	(Zip code)
Pittsburgh, Pennsylvania	
(Address of principal executive offices)	

Registrant s telephone number, including area code:

(412) 893-0026

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

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** þ

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** þ

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 þ **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 þ **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. þ

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 þ 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** þ

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 21st 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:

	2013		2012		2011	
(dollars in millions)	**$**	**%**	**$**	**%**	**$**	**%**
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%
Total consolidated net sales	$ 783.3	100.0%	$ 700.0	100.0%	$ 488.4	100.0%

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

	2013		2012		2011	
(dollars in millions)	**$**	**%**	**$**	**%**	**$**	**%**
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)%
Total consolidated operating income (loss)	$ 62.0	100.0%	$ 47.4	100.0%	$ 23.4	100.0%

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:

(dollars in millions)	2013	2012 (as restated)	2011 (as restated)
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
Total consolidated assets	$ 1,505.5	$ 1,220.1	$ 1,100.6

(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:

(dollars in millions)	2013	2012 (as restated)	2011 (as restated)
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
Total consolidated long-lived assets	$ 566.9	$ 571.5	$ 387.4

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:

	2013	2012	2011
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

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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 Verkhnaya 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
(dollars in millions)			
Research, technical and product development expenses			