UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2009

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 333-134875

RATHGIBSON, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-3683283 (I.R.S. Employer Identification No.)
475 Half Day Road, Suite 210, Lincolnshire, Illinois (Address of principal executive offices)	60069 (Zip Code)

(847) 276-2100
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) 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 reporting 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 ☒

At June 15, 2009, 100 shares of Common Stock were outstanding.

RATHGIBSON, INC.

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FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2009

PART I

Item 1. Financial Statements.

RATHGIBSON, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)
(Unaudited)

	April 30, 2009	January 31, 2009
Assets		
Current assets:		
Cash	$ 1,906	$ 1,425
Accounts receivable, net of reserves of $528 and $530 at April 30, 2009 and January 31, 2009, respectively	24,882	37,536
Inventories, net	57,992	66,247
Prepaid expenses and other	2,723	2,508
Refundable income taxes	211	527
Deferred income taxes	4,272	4,832
Total current assets	91,986	113,075
Property, plant and equipment, net	51,830	52,320
Goodwill	31,023	31,023
Other intangible assets, net	129,679	132,536
Deferred financing costs and other	616	637
Total assets	$ 305,134	$ 329,591
Liabilities and Stockholder's Deficiency		
Current liabilities:		
Current installments of long-term debt	$ 261	$ 257
Accounts payable	14,672	16,271
Accrued expenses	15,255	21,131
Income taxes payable	2,374	202
Total current liabilities	32,562	37,861
Long-term debt, less current installments	252,252	259,180
Deferred income taxes	34,377	39,223
Stockholder's deficiency:		
Common stock, $.01 par value; 260,000 shares authorized, 100 shares issued and outstanding	-	-
Additional paid-in capital	214,514	214,452
Accumulated deficit	(228,571)	(221,125)
Total stockholder's deficiency	(14,057)	(6,673)
Total liabilities and stockholder's deficiency	$ 305,134	$ 329,591

The accompanying notes are an integral part of these condensed consolidated financial statements.

RATHGIBSON, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)
(Unaudited)

	Three Months Ended April 30, 2009	Three Months Ended April 30, 2008
Net sales	$ 53,705	$ 86,423
Cost of goods sold	50,241	69,976
Gross profit	3,464	16,447
Operating expenses:		
Selling, general and administrative	6,601	6,566
Amortization	2,857	3,176
	9,458	9,742
Income (loss) from operations	(5,994)	6,705
Interest expense	5,722	6,189
Income (loss) before income taxes	(11,716)	516
Income tax expense (benefit)	(4,270)	194
Net income (loss)	$ (7,446)	$ 322

The accompanying notes are an integral part of these condensed consolidated financial statements.

RATHGIBSON, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended April 30,	
	2009	**2008**
Cash flows from operating activities:		
Net income (loss)	$ (7,446)	$ 322
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,687	4,670
Net amortization of deferred financing costs and bond premium	(307)	(282)
Expensing of write-up of inventories	-	666
Deferred income taxes	(4,286)	(219)
Incentive unit expense	62	61
Change in assets and liabilities, net of acquisition:		
Accounts receivable	12,654	2,157
Inventories	8,255	(4,036)
Other current and non-current assets	(140)	(775)
Accounts payable	(1,779)	(338)
Accrued expenses	(5,876)	(6,602)
Income taxes	2,488	1,811
Net cash provided by (used in) operating activities	8,312	(2,565)
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(1,160)	(2,789)
Cash paid for acquisition, net of cash acquired	-	(20,175)
Net cash used in investing activities	(1,160)	(22,964)
Cash flows from financing activities:		
Net proceeds from (payments on) Revolving Credit Facility	(6,508)	27,630
Payments on long-term debt	(63)	(60)
Payments of financing fees	(100)	(221)
Net cash provided by (used in) financing activities	(6,671)	27,349
Net increase in cash	481	1,820
Cash at beginning of period	1,425	680
Cash at end of period	$ 1,906	$ 2,500

The accompanying notes are an integral part of these condensed consolidated financial statements.

RATHGIBSON, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009
(Unaudited)
(Dollars in thousands, except share data)

(1) ORGANIZATION AND FINANCIAL STATEMENT PRESENTATION

RathGibson, Inc. ("RathGibson") and its subsidiaries, Greenville Tube Company ("Greenville") and RathGibson's foreign subsidiaries (together with RathGibson, the "Company"), is one of the world's leading specialty manufacturers of highly engineered premium stainless steel and alloy tubular products. The Company's products are designed to meet customer specifications and are used in environments that require high-performance characteristics, such as exceptional strength and the ability to withstand highly corrosive materials, extreme temperatures or high-pressure. The Company sells over 1,000 products globally to diverse end-markets, including (i) chemical/petrochemical processing and power generation; (ii) energy; (iii) food, beverage and pharmaceuticals; and (iv) general commercial. The Company sells these products to value-added tubing distributors, original equipment manufacturers, or OEMs, and engineering firms that often recommend the Company's products for projects on which they are engaged. The Company's primary trade brands, RathGibson and GTC®, are recognized as industry leaders and the Company's products have won numerous awards for quality and reliability from customers.

The Company is wholly-owned by RGCH Holdings Corp. ("RGCH Corp."), a wholly-owned subsidiary of RG Tube Holdings LLC ("RG Tube"), an affiliate of DLJ Merchant Banking Partners IV, L.P. and affiliated investment funds ("DLJ Funds").

The Company has prepared its condensed consolidated financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In addition, the Company's debt has been classified in the Company's condensed consolidated financial statements as long-term debt (except for the portion scheduled to come due in the short-term). The Company's ability to continue operating as a going concern is substantially dependent on the successful execution of many of the actions referred to below, on the timeline contemplated by the Company's plans. The Company's condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should it be unable to continue operating as a going concern.

The Company had a net loss of $7,446 in the first quarter of fiscal 2010. Additionally, the Company had a net loss of $216,196 in the fiscal year ended January 31, 2009, including net losses in the third and fourth quarters of $122,939 and $94,760, respectively. The net losses in the third and fourth quarters of fiscal 2009 included charges for the impairments of goodwill and tradenames of $124,511 and $103,891, respectively. Net sales declined sharply from $82,954 in the third quarter of fiscal 2009 to $66,534 in the fourth quarter of fiscal 2009 and $53,705 in the first quarter of fiscal 2010. As a result of these reported net losses, the Company has an accumulated deficit and a stockholder's deficiency of $228,571 and $14,057, respectively, at April 30, 2009. The Company manufactures stainless steel and specialty alloy tubular products that are used by a variety of specialty industrial and commercial end-users. Demand for the Company's products is driven by demand for products manufactured or sold by these specialty end-users. The demand for the Company's end-users' products fluctuates based on economic conditions or other matters beyond its control, including macroeconomic policies, geopolitical developments and the strength of the U.S. dollar. It is difficult to predict new general economic conditions that could impact demand for the Company's products or the Company's ability to manage normal commercial relationships with its customers, suppliers and creditors. The recent emergence of a number of negative economic factors, including the collapse of world financial markets, heightened investor concerns about the credit quality of mortgages, constraints on the supply of credit to households, continuing increases in energy prices, lower equity prices, softening home values, uncertainty and perceived weakness in the labor market and general consumer fears of a deep and prolonged recession or depression have negatively impacted the Company's business. The timing and nature of any recovery in world financial markets, as well as the global economic environment, continues to remain uncertain, and there is no assurance that market conditions will improve in the near future or that the Company's results will not continue to be materially adversely affected. Additionally, further impairments of goodwill, tradenames or other assets may occur in the future.

During each of the fourth quarter of fiscal 2009 and the first quarter of fiscal 2010, the Company experienced significant net losses and a significant decrease in net sales, which it believes resulted primarily from the reduced demand for its products caused by the unprecedented world-wide economic downturn during these periods. This trend in declining net sales has continued into the second quarter of fiscal 2010. The Company is unable to predict when global economic conditions will improve, but it does not expect the pressures on its net sales and profitability to alleviate in the near term.

During the second quarter of fiscal 2010, following prior disclosures by the Company about its financial condition and compliance with its covenants under the five-year, $90,000 senior secured revolving credit facility, as amended ("Revolving Credit Facility"), certain suppliers imposed more strict payment terms on the Company, which has had a material adverse effect on the Company's liquidity during the second quarter of fiscal 2010.

In February 2009, Moody's Investors Service ("Moody's") downgraded the Company's credit ratings from B3 to Caa2 with a revision to the Company's outlook from stable to negative. The negative ratings outlook reflected Moody's concern about the Company's liquidity position and the sustainability of its capital structure due to the adverse impacts of deteriorating macroeconomic conditions. In May 2009, Standard & Poor's downgraded the Company's credit ratings from B to CCC+ with a revision to the Company's outlook from negative to watch negative. The Company's corporate credit ratings and downgrades to such ratings may increase interest rates offered to the Company for additional financing and impact the credit terms that the Company is offered from its suppliers.

At April 30, 2009, the Company had cash of $1,906 and $11,904 available under the Revolving Credit Facility after giving effect to its borrowing base requirements. The Company anticipates further constraints to the availability under its Revolving Credit Facility once the results of appraisals of inventories and property, plant and equipment by the lender are fully known. Availability is also expected to be affected by the near term declining trend of accounts receivable and inventories. The Company's limited liquidity will impact its on-going operations and its ability to satisfy its obligations under the Revolving Credit Facility and the $200,000 aggregate principal amount of senior notes ("Senior Notes").

As a result of the Company's reduced liquidity, its ability to comply with a financial covenant contained in its Revolving Credit Facility, as amended on May 15, 2009 (Note 16), has been materially adversely affected. This financial covenant requires the Company to maintain minimum amounts available under its Revolving Credit Facility, including an average amount available during the ten business days ended July 17, 2009 of $16,000 (not less than $14,000 on any day during such period) and an average amount available during the ten business days ended July 31, 2009 of $18,000 (not less than $15,000 on any day during such period). In addition, the Company is required to make an interest payment of $11,250 under the Senior Notes on August 15, 2009.

In response to the pressures on liquidity described above, the Company is taking actions within its control in the fiscal year ended January 31, 2010 to align its expenses with its reduced sales volumes, including improving cash management, controlling and/or reducing costs by reducing headcount, reducing the number of workdays, initiating temporary plant shutdowns and implementing other cost reduction measures, and evaluating capital expenditure requirements.

The Company's limited liquidity will impact its ability to satisfy its operating obligations, as well as obligations under the Revolving Credit Facility and the Senior Notes. Accordingly, the Company is actively pursuing strategic alternatives and financing alternatives and has retained legal and financial advisors to assist in this regard. Any such restructuring may affect the terms of the Revolving Credit Facility, the Senior Notes and the other debt and equity interests in the Company and may be affected through negotiated modifications to the related agreements or through other forms of restructuring, including under court supervision pursuant to a voluntary bankruptcy filing under the U.S. Bankruptcy Code. There can be no assurance that an agreement regarding any such restructuring will be obtained on acceptable terms with the necessary parties or at all. If an acceptable agreement is not obtained in the very near term, the Company expects that it will be required to seek protection under the U.S. Bankruptcy Code. This uncertainty raises substantial doubt about the Company's ability to continue operating as a going concern.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the condensed consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented have been made. Interim results are not necessarily indicative of results that may be expected for any other interim period or for the fiscal year ending January 31, 2010. For further information, refer to the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

The condensed consolidated balance sheet at January 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and notes required by GAAP for complete financial statements.

(2) PRINCIPLES OF CONSOLIDATION

All significant intercompany balances and transactions have been eliminated in consolidation.

(3) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 165, "Subsequent Events" ("SFAS 165"). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009. The Company does not expect the adoption of SFAS 165 will have a material impact on the Company's consolidated financial position and results of operations for fiscal 2010.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). SFAS 161 establishes the disclosure requirements for derivative instruments and for hedging activities with the intent to provide financial statement users with an enhanced understanding of the entity's use of derivative instruments, the accounting of derivative instruments and related hedged items under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related interpretations, and the effects of these instruments on the entity's financial position, results of operations and cash flows. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of SFAS 161 did not have a material impact on the Company's consolidated financial position and results of operations for the three months ended April 30, 2009.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations," ("SFAS 141R") to create greater consistency in the accounting and financial reporting of business combinations. SFAS 141R requires a company to recognize the assets acquired, the liabilities assumed and any noncontrolling interest in the acquired entity to be measured at their fair values as of the acquisition date. SFAS 141R also requires companies to recognize the fair value of assets acquired, the liabilities assumed and any noncontrolling interest in acquisitions of less than a one hundred percent interest when the acquisition constitutes a change in control of the acquired entity. In addition, SFAS 141R requires that acquisition-related costs and restructuring costs be recognized separately from the business combination and expensed as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will apply the provisions of SFAS 141R to business combinations completed after January 31, 2009.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurement" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures related to the use of fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Statement of Financial Position No. 157-2 ("FSP 157-2") which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). FSP 157-2 defers the effective date of FAS 157 pertaining to nonfinancial assets and nonfinancial liabilities until fiscal years beginning after November 15, 2008. The adoption of SFAS 157 pertaining to nonfinancial assets and nonfinancial liabilities did not have a material impact on the Company's consolidated financial position and results of operations for the three months ended April 30, 2009.

(4) BUSINESS COMBINATIONS

On February 27, 2008, RathGibson entered into an asset purchase agreement with Mid-South Control Line, Inc. ("Mid-South") and the stockholders of Mid-South providing for the acquisition by RathGibson of substantially all of the assets and the assumption of certain liabilities of Mid-South, in exchange for an aggregate purchase price of approximately $26,136 (net of cash acquired of $1,098). The foregoing transaction is referred to as the "Mid-South Acquisition." Certain stockholders of Mid-South received equity interests in RG Tube valued at $6,000 in lieu of cash purchase consideration and RG Tube and RathGibson agreed to reduce its cash payment to the stockholders of Mid-South by $6,000, which was recorded by RathGibson as an equity contribution from RG Tube. Mid-South is a distributor of stainless steel and nickel alloy tubing and accessories to the United States and international oil and gas industry, a significant portion of which is purchased from the Company's New Jersey segment**.** This transaction was financed with the funds available from RathGibson's Revolving Credit Facility. The results of Mid-South's operations have been included in the consolidated financial statements since the date of such acquisition.

(Dollars in thousands, except share data)

The following table summarizes the purchase price allocation in the Mid-South Acquisition:

Current assets	$	14,918
Machinery and equipment		292
Goodwill		14,662
Other intangible assets		8,640
Other assets		23
Total assets acquired		38,535
Current liabilities		(8,532)
Deferred income tax liability		(3,867)
Total liabilities assumed		(12,399)
Purchase price paid, net of cash acquired	$	26,136

Approximately $20,700 of the goodwill recorded as part of the Mid-South Acquisition will be deductible for income tax purposes. Other intangibles assets consist of customer lists and tradenames amounting to $7,300 and $1,340, respectively. Amortizable intangible assets consisting of customer lists will be amortized principally by an accelerated method over their estimated useful lives of 15 years.

(5) INVENTORIES, NET

Inventories, net consist of the following:

		April 30, 2009		January 31, 2009
Raw materials	$	38,033	$	41,809
Work in process		4,021		4,730
Finished goods		15,938		19,708
Total inventories, net	$	57,992	$	66,247

(6) PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consist of the following:

		April 30, 2009		January 31, 2009
Leasehold improvements	$	2,345	$	2,117
Machinery and equipment		57,187		52,536
Office equipment, furniture and other		1,478		1,439
Construction in progress		2,858		6,436
		63,868		62,528
Less accumulated depreciation		(12,038)		(10,208)
Total property, plant and equipment, net	$	51,830	$	52,320

(Dollars in thousands, except share data)

Depreciation expense for the three months ended April 30, 2009 and 2008 was $1,830 and $1,494, respectively.

(7) GOODWILL AND OTHER INTANGIBLE ASSETS

There were no changes to goodwill during the three months ended April 30, 2009. In connection with the Mid-South Acquisition, the Company recorded the excess purchase price over their respective fair values of the identifiable assets and liabilities to goodwill (Note 4).

The gross carrying amount and accumulated amortization of the Company's intangible assets, other than goodwill, are as follows:

	April 30, 2009			January 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer lists	$ 131,300	$ 18,841	$ 112,459	$ 131,300	$ 15,984	$ 115,316
Tradenames	17,220	-	17,220	17,220	-	17,220
Total intangible assets	$ 148,520	$ 18,841	$ 129,679	$ 148,520	$ 15,984	$ 132,536

The Company recorded intangible assets, other than goodwill, in connection with the Mid-South Acquisition (Note 4).

Customer lists are amortized principally by an accelerated method over their estimated useful lives of 15 years.

Amortization expense consists of the following:

	Three Months Ended April 30,	
	2009	2008
Intangibles	$ 2,857	$ 2,791
Backlog	-	385
Total amortization expense	$ 2,857	$ 3,176

The Company recorded backlog of $620 in connection with the Mid-South Acquisition which was fully amortized in the fiscal year ended January 31, 2009.

(Dollars in thousands, except share data)

At April 30, 2009, the estimated future amortization expense of intangible assets for each of the next five years is as follows:

Fiscal years ending January 31,		
2010 (remaining nine months)	$	8,571
2011		10,885
2012		10,375
2013		9,859
2014		9,400

(8) ACCRUED EXPENSES

Accrued expenses consist of the following:

		April 30, 2009		**January 31, 2009**
Accrued compensation	$	3,722	$	4,236
Interest payable		4,769		10,483
Customer advances		3,744		3,579
Other		3,020		2,833
Total accrued expenses	$	15,255	$	21,131

(9) LONG-TERM DEBT

A summary of the Company's long-term debt is as follows:

		April 30, 2009		**January 31, 2009**
Revolving Credit Facility	$	42,030	$	48,538
Senior Notes		208,805		209,158
IRB		1,678		1,741
Total long-term debt		252,513		259,437
Less current installments		(261)		(257)
Total long-term debt, less current installments	$	252,252	$	259,180

On February 7, 2006, RathGibson entered into a five-year, $90,000 senior secured Revolving Credit Facility, as amended, with General Electric Capital Corporation ("GECC"). RGCH Corp. and Greenville are guarantors of the obligation. Under the Revolving Credit Facility, if the average amount available, after giving effect to the Company's borrowing base requirements, during any thirty day period is less than $9,000, the assets of Greenville will be excluded from the Company's availability after a subsequent thirty day period and until to the following: (i) RathGibson enters into an amendment to the Revolving Credit Facility for which RathGibson and Greenville become separate borrowers with separate borrowing bases; (ii) the allocation of any amounts outstanding under the Revolving Credit Facility to each of RathGibson and Greenville relative to their separate borrowing bases; and (iii) the Company delivers to the lenders any documents reasonably requested. Additionally, the borrowing base may be further reduced by $5,000 in the event that the Company does not maintain a fixed charge coverage ratio (as defined in the agreement) of at least 1:1 for the most recent four fiscal quarters. Borrowings under the Revolving Credit Facility bear interest payable at various dates with floating rates of either (i) prime plus 1.25% (4.50% at April 30, 2009) or (ii) LIBOR plus 2.25% (2.73% at April 30, 2009). The Company also pays a quarterly commitment fee equal to either .375% or .50%, depending on the amount outstanding, of the unused capacity. At April 30, 2009, the Company had $11,904 available under the Revolving Credit Facility after giving effect to its borrowing base requirements and the reduction of $5,000 due to the Company's inability to maintain a fixed charge coverage ratio of 1:1 for the most recent four fiscal quarters. Borrowings under the Revolving Credit Facility are collateralized by substantially all assets of the Company. The Revolving Credit Facility contains various covenants that, among other things, restrict the Company's ability to incur or guarantee debt, pay dividends, make certain investments, repurchase stock, incur liens, enter into certain transactions with affiliates, enter into certain sales and leaseback transactions and transfer or sell assets. The Revolving Credit Facility also defines various events of default, including cross-default provisions with other debt agreements of the Company and RGCH Corp. and solvency requirements of the Company and RGCH Corp.

At April 30, 2009, the Company was not in compliance with the solvency requirement (as defined in the Revolving Credit Facility) with respect to RGCH Corp. and the covenant requirements to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries within 90 days of fiscal year end and monthly consolidated financial statements of RGCH Corp. and its subsidiaries and compliance certificates for certain months within 30 days of month end as required under the Revolving Credit Facility. In May 2009, RathGibson received waivers from GECC under the Revolving Credit Facility of the solvency requirements pertaining to RGCH Corp. and the failure to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries at and for the fiscal year ended January 31, 2009 within 90 days of fiscal year end and monthly consolidated financial statements of RGCH Corp. and its subsidiaries and compliance certificates within 30 days of month end, and specified defaults in connection therewith, which is more fully discussed in Note 16.

On February 7, 2006, RathGibson issued $200,000 aggregate principal amount of Senior Notes due February 15, 2014. These notes bear interest at 11.25% per annum payable in semi-annual installments on February 15 and August 15 each year commencing August 15, 2006. Greenville is a guarantor of the obligation. The indenture governing the Senior Notes contains covenants that, among other things, restrict the Company's ability to incur or guarantee additional debt, pay dividends and make distributions, make certain investments, repurchase stock, incur liens, enter into certain transactions with affiliates, enter into certain sale and leaseback transactions, merge or consolidate, and transfer or sell assets. The indenture governing the Senior Notes also defines various events of default, including cross-default provisions with other debt agreements of the Company. The Company was in compliance with all such covenants at April 30, 2009.

On June 15, 2007, the Company adjusted the fair value of its Senior Notes to $211,250 in connection with the purchase accounting for the acquisition of the Company by the DLJ Funds and certain members of RathGibson's management. The bond premium associated with this adjustment is amortized into interest expense over the remaining term of the Senior Notes using the interest method. Amortization of this bond premium amounted to $353 and $319 for the three months ended April 30, 2009 and 2008, respectively. The unamortized bond premium included in the Senior Notes was $8,805 and $9,158 at April 30, 2009 and January 31, 2009, respectively.

On December 14, 2007, Greenville closed on a $2,000 industrial development revenue bond ("IRB") with the City of Clarksville, Arkansas, due December 30, 2014. The proceeds were used to finance the acquisition and installation of machinery and equipment for a degreasing system and a bench automation project ("IRB Equipment"). RathGibson is a guarantor of the obligation. In connection with the IRB, RathGibson entered into a third amendment to its Revolving Credit Facility for which the IRB Equipment was released from collateral under the Revolving Credit Facility and permitted Greenville and RathGibson, as guarantor, to enter into the IRB. The loan agreement governing the IRB contains various covenants that, among other things, restrict Greenville's ability to merge or consolidate and sell, lease, assign, transfer or otherwise dispose of the IRB Equipment. The loan agreement governing the IRB also defines various events of default, including cross-default provisions with other debt agreements of the Company.

At April 30, 2009, the Company was not in compliance with the loan agreement governing the IRB due to the aforementioned events of default at April 30, 2009 under RathGibson's Revolving Credit Facility. As of June 15, 2009, the Company has not received a notice of default, demand for payment or exercise of other remedies on default, as defined in the loan agreement, from its lender with regard to the events of default under RathGibson's Revolving Credit Facility.

(10) INCOME TAXES

The effective tax rate and resulting income tax benefit used in this interim period is based on the Company's projections for the remainder of fiscal 2010. To the extent that actual results differ from the projections for the remainder of fiscal 2010, the effective tax rate and resulting income tax benefit may change.

(11) EQUITY BASED COMPENSATION

RG Tube has allocated certain of its Class B units for incentive based grants primarily to executive officers, key employees and members of the board of directors. The incentive units primarily vest based on the following: (i) 33% vest ratably over certain specified periods of continuing employment; and (ii) 67% vest on the achievement of certain performance-based targets. Vesting of certain units may be accelerated upon a change of control.

(Dollars in thousands, except share data)

A summary of incentive unit activity during the three months ended April 30, 2009 is presented below:

	Number of Incentive Units	Weighted Average Fair Value	Weighted Average Remaining Period (Years)
Outstanding at February 1, 2009	159,000	$ 15.00	
Granted	26,821	-	
Forfeited	(14,135)	12.43	
Outstanding at April 30, 2009	171,686	12.86	3.5
Vested at April 30, 2009	40,996	16.20	

Although the incentive units are issued by RG Tube, the incentive units relate to the employment of executive officers, key employees and members of the board of directors; accordingly, the expense is recognized in the Company's condensed consolidated financial statements. Incentive unit expense recognized within the condensed consolidated statements of operations amounted to $62 and $61 for the three months ended April 30, 2009 and 2008, respectively. At April 30, 2009, total unrecognized incentive unit cost was approximately $535.

(12) ADVISORY AND MANAGEMENT FEES

RathGibson, together with RGCH Corp. and RG Tube, entered into an advisory services agreement, as amended, with DLJ Merchant Banking, Inc. ("DLJMB"), an affiliate of DLJ Funds, under which DLJMB acts as a financial advisor with respect to the following services: (i) assisting in analyzing operations and historical performance; (ii) analyzing future prospects; (iii) assisting with respect to future proposals for tender offers, acquisitions, sales, mergers, financings, exchange offers, recapitalizations, restructurings or other similar transactions; and (iv) assisting in strategic planning. The advisory services agreement is for an initial term expiring June 15, 2012 and is subject to renewal for consecutive one-year terms unless terminated by DLJMB or RathGibson, RGCH Corp. or RG Tube with 30 days notice prior to the expiration of the initial term or any annual renewal. For services rendered, annual advisory fees of $900 and $100 are payable to DLJMB and certain consultants for DLJMB who also serve as directors of RG Tube, respectively, in equal quarterly installments on the first business day of each calendar quarter. During each of the three months ended April 30, 2009 and 2008, the Company recorded an expense of $250 to selling, general and administrative expenses within the condensed consolidated statements of operations.

(Dollars in thousands, except share data)

(13) SUPPLEMENTAL CASH FLOW INFORMATION

The following table presents supplemental cash flow information for the respective periods:

	Three Months Ended April 30, 2009	Three Months Ended April 30, 2008
Cash paid (received) during the period for:		
Interest	$ 11,768	$ 12,068
Income taxes	(2,472)	(1,398)
Non-cash operating activities:		
Outstanding checks in accounts payable at the end of the period	990	1,679
Non-cash investing activities:		
Additions to property, plant and equipment in accounts payable at the end of the period	781	1,269
Non-cash investing and financing activity:		
Equity contribution from RG Tube in lieu of cash payment to stockholders of Mid-South (Note 4)	-	6,000

(14) SEGMENT REPORTING

The Company is primarily a manufacturer of highly engineered premium stainless steel and alloy tubular products. The Company has determined it has four reportable segments, Wisconsin, New Jersey, Louisiana and Arkansas, due to the historical economic characteristics of each business. The accounting practices for each reportable segment is the same as those described in the Critical Accounting Policies. Straight tubing products are manufactured primarily in the Wisconsin (welded) and Arkansas (seamless) segments and coiled tubing products are manufactured primarily in the New Jersey segment. The Company's Louisiana segment is primarily a distribution facility where a significant portion of its products are purchased generally at market-based prices from the New Jersey segment. Additionally, the Company's reportable segments may from time to time record sales transactions with other reportable segments except the Louisiana segment, however, these products are generally sold at burdened cost. The Wisconsin segment includes corporate expenses and assets such as certain general and administrative expenses, international selling expenses, depreciation and interest expense.

RATHGIBSON, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009
(Unaudited)
(Dollars in thousands, except share data)

Information about each reportable segment is summarized as follows:

	Wisconsin	New Jersey	Louisiana	Arkansas	Total
Three months ended April 30, 2009:					
Net sales from external customers					
Chemical/petrochemical processing and power generation products	$ 14,429	$ 3,257	$ -	$ 3,053	$ 20,739
Energy products	83	1,294	10,945	-	12,322
Food, beverage and pharmaceutical products	7,001	1,022	-	-	8,023
General commercial products	3,820	5,020	-	3,781	12,621
	25,333	10,593	10,945	6,834	53,705
Intersegment net sales	138	5,464	-	222	5,824
Income (loss) from operations	(4,437)	(1,412)	387	(711)	(6,173)
Interest expense (income)	5,841	-	-	(119)	5,722
Income tax benefit	(4,095)	-	-	(240)	(4,335)
Depreciation and amortization	2,074	1,509	304	800	4,687
Capital expenditures	1,123	37	-	-	1,160

	Wisconsin	New Jersey	Louisiana	Arkansas	Total
Three months ended April 30, 2008:					
Net sales from external customers					
Chemical/petrochemical processing and power generation products	$ 25,921	$ 1,660	$ -	$ 4,290	$ 31,871
Energy products	-	6,797	7,753	518	15,068
Food, beverage and pharmaceutical products	11,912	1,363	-	-	13,275
General commercial products	12,856	5,149	-	8,204	26,209
	50,689	14,969	7,753	13,012	86,423
Intersegment net sales	1,817	5,163	-	72	7,052
Income (loss) from operations	2,448	1,944	(533)	3,305	7,164
Interest expense	6,186	-	-	3	6,189
Income tax expense (benefit)	(814)	-	-	1,176	362
Depreciation and amortization	2,003	1,433	532	702	4,670
Capital expenditures	1,772	616	3	398	2,789

RATHGIBSON, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009
(Unaudited)
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The following tables present a reconciliation of income (loss) from operations from the reportable segment totals to the Company's consolidated totals:

	Three Months Ended April 30, 2009	Three Months Ended April 30, 2008
Total income (loss) from operations for reportable segments	$ (6,173)	$ 7,164
Recognition (elimination) of intersegment profits	179	(459)
Consolidated income (loss) from operations	$ (5,994)	$ 6,705

The following tables present a reconciliation of income tax expense (benefit) from the reportable segment totals to the Company's consolidated totals:

	Three Months Ended April 30, 2009	Three Months Ended April 30, 2008
Total income tax expense (benefit) for reportable segments	$ (4,335)	$ 362
Income tax expense (benefit) from recognition (elimination) of intersegment profits	65	(168)
Consolidated income tax expense (benefit)	$ (4,270)	$ 194

The following table presents identifiable asset information by reportable segment:

	April 30, 2009	January 31, 2009
Total assets:		
Wisconsin	$ 340,129	$ 359,425
New Jersey	77,176	83,013
Louisiana	20,412	26,064
Intercompany eliminations	(132,109)	(145,342)
	305,608	323,160
Arkansas	83,119	85,399
Intercompany eliminations	(83,593)	(78,968)
Total assets	$ 305,134	$ 329,591

(Dollars in thousands, except share data)

The following table presents goodwill information by reportable segment:

	April 30, 2009	January 31, 2009
Goodwill:		
Wisconsin	$ 14,111	$ 14,111
Arkansas	16,912	16,912
Total goodwill	$ 31,023	$ 31,023

(15) SUPPLEMENTAL GUARANTOR FINANCIAL INFORMATION

On February 7, 2006, RathGibson issued its Senior Notes. Greenville has fully and unconditionally guaranteed on a joint and several basis RathGibson's obligations to pay principal, premium and interest relative to the Senior Notes.

The following supplemental guarantor financial information presents: (i) condensed consolidating balance sheets at April 30, 2009 and January 31, 2009; (ii) condensed consolidating statements of operations for the three months ended April 30, 2009 and 2008; and (iii) condensed consolidating statements of cash flows for the three months ended April 30, 2009 and 2008. RathGibson has non-guarantor foreign subsidiaries providing sales functions to the Company, the results of which are combined with RathGibson for presentation purposes due to immateriality.

RATHGIBSON, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009
(Unaudited)
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Condensed Consolidating Balance Sheet
At April 30, 2009

	RathGibson	Greenville	Eliminations	Consolidated
Assets				
Current assets:				
Cash	$ 1,702	$ 204	$ -	$ 1,906
Accounts receivable, net	21,521	3,361	-	24,882
Intercompany account and note receivable	-	13,572	(13,572)	-
Inventories, net	46,827	11,188	(23)	57,992
Prepaid expenses and other	2,488	235	-	2,723
Refundable income taxes	311	1,454	(1,554)	211
Deferred income taxes	3,431	841	-	4,272
Total current assets	76,280	30,855	(15,149)	91,986
Property, plant and equipment, net	45,137	6,693	-	51,830
Goodwill	14,111	16,912	-	31,023
Other intangible assets, net	101,056	28,623	-	129,679
Deferred financing costs and other	580	36	-	616
Investment in subsidiary	68,444	-	(68,444)	-
Total assets	$ 305,608	$ 83,119	$ (83,593)	$ 305,134
Liabilities and Stockholder’s Equity (Deficiency)				
Current liabilities:				
Current installments of long-term debt	$ -	$ 261	$ -	$ 261
Accounts payable	13,797	875	-	14,672
Intercompany account and note payable	13,572	-	(13,572)	-
Accrued expenses	14,287	968	-	15,255
Income taxes payable	3,731	205	(1,562)	2,374
Total current liabilities	45,387	2,309	(15,134)	32,562
Long-term debt, less current installments	250,835	1,417	-	252,252
Deferred income taxes	23,428	10,949	-	34,377
Mandatorily redeemable preferred stock	-	2,100	(2,100)	-
Stockholder’s equity (deficiency):				
Common stock	-	1	(1)	-
Additional paid-in capital	214,514	87,041	(87,041)	214,514
Accumulated deficit	(228,556)	(20,698)	20,683	(228,571)
Total stockholder’s equity (deficiency)	(14,042)	66,344	(66,359)	(14,057)
Total liabilities and stockholder’s equity (deficiency)	$ 305,608	$ 83,119	(83,593)	$ 305,134

(Dollars in thousands, except share data)

Condensed Consolidating Balance Sheet
At January 31, 2009

	RathGibson	Greenville	Eliminations	Consolidated
Assets				
Current assets:				
Cash	$ 970	$ 455	$ -	$ 1,425
Accounts receivable, net	30,970	6,566	-	37,536
Intercompany account and note receivable	-	9,661	(9,661)	-
Inventories, net	52,228	14,051	(32)	66,247
Prepaid expenses and other	2,216	292	-	2,508
Refundable income taxes	635	371	(479)	527
Deferred income taxes	3,852	980	-	4,832
Total current assets	90,871	32,376	(10,172)	113,075
Property, plant and equipment, net	45,447	6,873	-	52,320
Goodwill	14,111	16,912	-	31,023
Other intangible assets, net	103,336	29,200	-	132,536
Deferred financing costs and other	599	38	-	637
Investment in subsidiary	68,796	-	(68,796)	-
Total assets	$ 323,160	$ 85,399	$ (78,968)	$ 329,591
Liabilities and Stockholder's Equity (Deficiency)				
Current liabilities:				
Current installments of long-term debt	$ -	$ 257	$ -	$ 257
Accounts payable	14,828	1,443	-	16,271
Intercompany account and note payable	9,661	-	(9,661)	-
Accrued expenses	19,410	1,721	-	21,131
Income taxes payable	584	108	(490)	202
Total current liabilities	44,483	3,529	(10,151)	37,861
Long-term debt, less current installments	257,696	1,484	-	259,180
Deferred income taxes	27,633	11,590	-	39,223
Mandatorily redeemable preferred stock	-	2,100	(2,100)	-
Stockholder's equity (deficiency):				
Common stock	-	1	(1)	-
Additional paid-in capital	214,452	87,041	(87,041)	214,452
Accumulated deficit	(221,104)	(20,346)	20,325	(221,125)
Total stockholder's equity (deficiency)	(6,652)	66,696	(66,717)	(6,673)
Total liabilities and stockholder's equity (deficiency)	$ 323,160	$ 85,399	$ (78,968)	$ 329,591

RATHGIBSON, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009
(Unaudited)
(Dollars in thousands, except share data)

Condensed Consolidating Statement of Operations
For the Three Months Ended April 30, 2009

	RathGibson	Greenville	Eliminations	Consolidated
Net sales	$ 46,986	$ 7,056	$ (337)	$ 53,705
Cost of goods sold	43,940	6,647	(346)	50,241
Gross profit	3,046	409	9	3,464
Operating expenses:				
Selling, general and administrative	6,058	543	-	6,601
Amortization	2,280	577	-	2,857
	8,338	1,120	-	9,458
Loss from operations	(5,292)	(711)	9	(5,994)
Interest expense (income)	5,841	(119)	-	5,722
Loss before equity in loss of subsidiary and income taxes	(11,133)	(592)	9	(11,716)
Equity in loss of subsidiary	352	-	(352)	-
Loss before income taxes	(11,485)	(592)	361	(11,716)
Income tax benefit	(4,033)	(240)	3	(4,270)
Net loss	$ (7,452)	$ (352)	$ 358	$ (7,446)

RATHGIBSON, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009
(Unaudited)
(Dollars in thousands, except share data)

Condensed Consolidating Statement of Operations
For the Three Months Ended April 30, 2008

	RathGibson	Greenville	Eliminations	Consolidated
Net sales	$ 74,927	$ 13,084	$ (1,588)	$ 86,423
Cost of goods sold	63,082	8,453	(1,559)	69,976
Gross profit	11,845	4,631	(29)	16,447
Operating expenses:				
Selling, general and administrative	5,825	741	-	6,566
Amortization	2,591	585	-	3,176
	8,416	1,326	-	9,742
Income from operations	3,429	3,305	(29)	6,705
Interest expense	6,186	3	-	6,189
Income (loss) before equity in earnings of subsidiary and income taxes	(2,757)	3,302	(29)	516
Equity in earnings of subsidiary	(2,126)	-	2,126	-
Income (loss) before income taxes	(631)	3,302	(2,155)	516
Income tax expense (benefit)	(972)	1,176	(10)	194
Net income	$ 341	$ 2,126	$ (2,145)	$ 322

RATHGIBSON, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 30, 2009
(Unaudited)
(Dollars in thousands, except share data)

Condensed Consolidating Statement of Cash Flows
For the Three Months Ended April 30, 2009

	RathGibson	Greenville	Eliminations	Consolidated
Cash flows from operating activities:				
Net loss	$ (7,452)	$ (352)	$ 358	$ (7,446)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Depreciation and amortization	3,887	800	-	4,687
Net amortization of deferred financing costs and bond premium	(309)	2	-	(307)
Deferred income taxes	(3,784)	(502)	-	(4,286)
Incentive unit expense	62	-	-	62
Equity in loss of subsidiary	352	-	(352)	-
Change in assets and liabilities:				
Accounts receivable	9,449	3,205	-	12,654
Intercompany account receivable and payable	44	(44)	-	-
Inventories	5,401	2,863	(9)	8,255
Other current and non-current assets	(197)	57	-	(140)
Accounts payable	(1,168)	(611)	-	(1,779)
Accrued expenses	(5,123)	(753)	-	(5,876)
Income taxes	3,471	(986)	3	2,488
Net cash provided by operating activities	4,633	3,679	-	8,312
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(1,160)	-	-	(1,160)
Intercompany note receivable	-	(3,867)	3,867	-
Net cash used in investing activities	(1,160)	(3,867)	3,867	(1,160)
Cash flows from financing activities:				
Net payments on Revolving Credit Facility	(6,508)	-	-	(6,508)
Payments on long-term debt	-	(63)	-	(63)
Intercompany note payable	3,867	-	(3,867)	-
Payments of financing fees	(100)	-	-	(100)
Net cash used in financing activities	(2,741)	(63)	(3,867)	(6,671)
Net increase (decrease) in cash	732	(251)	-	481
Cash at beginning of period	970	455	-	1,425
Cash at end of period	$ 1,702	$ 204	$ -	$ 1,906

(Dollars in thousands, except share data)

Condensed Consolidating Statement of Cash Flows
For the Three Months Ended April 30, 2008

	RathGibson	Greenville	Eliminations	Consolidated
Cash flows from operating activities:				
Net income	$ 341	$ 2,126	$ (2,145)	$ 322
Adjustments to reconcile net income to net cash				
used in operating activities:				
Depreciation and amortization	3,968	702	-	4,670
Net amortization of deferred financing				
costs and bond premium	(282)	-	-	(282)
Expensing of write-up of inventories	666	-	-	666
Deferred income taxes	21	(240)	-	(219)
Incentive unit expense	61	-	-	61
Equity in earnings of subsidiary	(2,126)	-	2,126	-
Change in assets and liabilities, net of acquisition:				
Accounts receivable	3,124	(967)	-	2,157
Intercompany account receivable and payable	(847)	847	-	-
Inventories	(3,128)	(937)	29	(4,036)
Other current and non-current assets	(633)	(142)	-	(775)
Accounts payable	90	(428)	-	(338)
Accrued expenses	(6,321)	(281)	-	(6,602)
Income taxes	3,607	(1,786)	(10)	1,811
Net cash used in operating activities	(1,459)	(1,106)	-	(2,565)
Cash flows from investing activities:				
Acquisition of property, plant and equipment	(2,391)	(398)	-	(2,789)
Intercompany note receivable	-	1,278	(1,278)	-
Cash paid for acquisition, net of cash acquired	(20,175)	-	-	(20,175)
Net cash provided by				
(used in) investing activities	(22,566)	880	(1,278)	(22,964)
Cash flows from financing activities:				
Net proceeds from Revolving Credit Facility	27,630	-	-	27,630
Payments on long-term debt	-	(60)	-	(60)
Intercompany note payable	(1,278)	-	1,278	-
Payments (refunds) of financing fees	(243)	22	-	(221)
Net cash provided by				
(used in) financing activities	26,109	(38)	1,278	27,349
Net increase (decrease) in cash	2,084	(264)	-	1,820
Cash at beginning of period	237	443	-	680
Cash at end of period	$ 2,321	$ 179	$ -	$ 2,500

(16) SUBSEQUENT EVENTS

On May 15, 2009, RathGibson entered into a waiver and seventh amendment to its Revolving Credit Facility with GECC. The waiver and seventh amendment was entered into due to the failure to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries at and for the fiscal year ended January 31, 2009 within 90 days of fiscal year end and monthly consolidated financial statements of RGCH Corp. and its subsidiaries and compliance certificates for certain months within 30 days of month end, and to change certain terms of the Revolving Credit Facility. Pursuant to the waiver and seventh amendment, the requirements to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries at and for the fiscal year ended January 31, 2009 within 90 days of fiscal year end and monthly consolidated financial statements of RGCH Corp. and its subsidiaries and compliance certificates for certain months within 30 days of month end have been waived, and specified defaults in connection therewith, and the Revolving Credit Facility has been amended to (i) extend the requirement to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries at and for the fiscal year ended January 31, 2009 to May 18, 2009; (ii) increase the interest rate charged on the borrowings under the Revolving Credit Facility to prime plus 3.00% or LIBOR plus 4.00%; (iii) increase the quarterly commitment fee to .75% of the unused capacity; (iv) modify the borrowing base requirements to eliminate the exclusion of the assets of Greenville if the average amount available under the Revolving Credit Facility, after giving effect to the Company's borrowing base requirements, during any thirty day period is less than $9,000; (v) require the Company to maintain minimum amounts available under its Revolving Credit Facility, including an average amount available during the ten business days ended July 17, 2009 of $16,000 (not less than $14,000 on any day during such period) and an average amount available during the ten business days ended July 31, 2009 of $18,000 (not less than $15,000 on any day during such period); and (vi) establish various covenants that, among other things, further restrict the Company's ability to make restricted payments (as defined in the Revolving Credit Facility) and set forth conditions under which the Company would accelerate periodic reporting to GECC.

On May 4, 2009, RathGibson entered into a waiver and sixth amendment to its Revolving Credit Facility with GECC. The waiver and sixth amendment was entered into due to the breach of a solvency requirement (as defined in the Revolving Credit Facility) with respect to RGCH Corp., at January 31, 2009. Pursuant to the waiver and sixth amendment, the solvency requirements pertaining to RGCH Corp. contained in the Revolving Credit Facility have been waived, and specified defaults in connection therewith, for all periods prior to May 4, 2009 and the Revolving Credit Facility has been amended to exclude RGCH Corp. from all solvency requirements under the Revolving Credit Facility from and after May 4, 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of financial condition and results of operations has been derived from, and should be read in conjunction with, the unaudited condensed consolidated financial statements, including the notes thereto, contained herein. See the discussion under "Forward Looking Statements."

Forward-Looking Statements

The Company has based these forward-looking statements on current expectations, assumptions, estimates and projections. While the Company believes these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond the Company's control. These and other important factors may cause actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. Some of the key factors that could cause actual results, performance or achievements to differ from the Company's expectations include:

- the Company's substantial indebtedness and the significant operating and financial restrictions imposed on the Company by these debt agreements;
- liquidity and capital resources;
- ability to execute the Company's business strategies;
- general economic and business conditions, including the continuing effects of the current global economic downturn;
- competitive pressures and trends in the industry;
- fluctuations in the price and/or supply of steel and other raw materials;
- changes in the financial stability of major customers or in demand for the Company's products and services;
- loss of key suppliers or interruption of production at these suppliers;
- ability to continue to comply with government regulations;
- legal proceedings and regulatory matters, including the adoption of or changes in legislation or regulations adversely affecting the Company's businesses;
- technological changes;
- ability to identify acquisition opportunities and effectively and cost efficiently integrate acquisitions that the Company consummates; and
- those other risks and uncertainties discussed under Item 1A to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this Quarterly Report on Form 10-Q are made only as of the date hereof. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, changed circumstances or otherwise.

Executive Summary

The Company is one of the world's leading specialty manufacturers of highly engineered premium stainless steel and alloy tubular products. The Company's products are designed to meet customer specifications and are used in environments that require high-performance characteristics, such as exceptional strength and the ability to withstand highly corrosive materials, extreme temperatures or high-pressure. The Company sells over 1,000 products globally to diverse end-markets, including (i) chemical/petrochemical processing and power generation; (ii) energy; (iii) food, beverage and pharmaceuticals; and (iv) general commercial.

The Company's highlights for the first quarter of fiscal 2010 included the following:

- decrease in net sales of 37.9% to $53.7 million for the first quarter of fiscal 2010, as compared to $86.4 million in the same period in fiscal 2009;
- decrease in gross profit of 78.9% to $3.5 million for the first quarter of fiscal 2010, as compared to $16.5 million in same period in fiscal 2009;
- decrease in gross profit margin for the first quarter of fiscal 2010 to 6.5% from 19.0% in the same period in fiscal 2009; and
- Adjusted EBITDA(1) decrease to ($1.3) million for the first quarter of fiscal 2010, as compared to $12.0 million in the same period in fiscal 2009.

(1) As used herein, ''Adjusted EBITDA'' represents net income (loss) plus (i) income tax expense (benefit); (ii) interest expense; (iii) depreciation and amortization; and (iv) other expenses associated with the Mid-South Acquisition as shown below (in thousands):

	Three Months Ended April 30, 2009	2008
Net income (loss)	$ (7,446)	$ 322
Income tax expense (benefit)	(4,270)	194
Interest expense	5,722	6,189
Depreciation and amortization	4,687	4,670
EBITDA	(1,307)	11,375
Expensing of write-up of inventories	-	666
Adjusted EBITDA	$ (1,307)	$ 12,041

The Company has included information concerning Adjusted EBITDA in this Quarterly Report on Form 10-Q because the Company believes that such information is used by certain investors, securities analysts and others as one measure of performance and historical ability to service debt. In addition, the Company uses Adjusted EBITDA when interpreting operating trends and results of operations of the business. Executive compensation is based, in part, on the Company's Adjusted EBITDA performance measured against targets. Adjusted EBITDA is also used by the Company and others in the industry to evaluate proposed capital expenditures and to evaluate and to price potential acquisition candidates. Adjusted EBITDA is a non-GAAP financial measure and should not be considered as an alternative to, or more meaningful than, net income (loss), income (loss) from operations, cash flows from operations or other traditional indications of a company's operating performance or liquidity.

The use of Adjusted EBITDA has limitations as an analytical tool, and you should not consider this measure in isolation, or as a substitute for analysis of the Company's results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect the Company's current cash expenditure requirements, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments on the Company's debt; and
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized often will have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacement.

Because of these limitations, Adjusted EBITDA should not be considered as discretionary cash available to the Company to reinvest in the growth of its business or as a measure of cash that will be available to the Company to meet its obligations. You should compensate for these limitations by relying primarily on the Company's GAAP results and using Adjusted EBITDA only supplementally.

The following tables set forth selected financial data (i) as a percentage of net sales; and (ii) the percentage change in dollars in those reported items from the comparable period:

	Three Months Ended April 30,		
	2009	2008	% Change
Net sales	100.0 %	100.0 %	(37.9) %
Cost of good sold	93.5	81.0	(28.2)
Gross profit	6.5	19.0	(78.9)
Operating expenses:			
Selling, general and administrative	12.3	7.6	.5
Amortization	5.3	3.7	(10.0)
	17.6	11.3	(2.9)
Income (loss) from operations	(11.1)	7.7	(189.4)
Interest expense	10.7	7.2	(7.5)
Income (loss) before income taxes	(21.8)	.5	*
Income tax expense (benefit)	(8.0)	.2	*
Net income (loss)	(13.8) %	.3 %	*

* Not meaningful

Selected Factors that Affect Operating Results

The Company's business, financial condition and results of operations are significantly influenced by (i) overall demand for the Company's products; (ii) costs of stainless steel and other raw materials; and (iii) oil and gas production and exploration.

The following table presents the Company's sales volumes and raw material cost indices:

	Three Months Ended April 30,	
	2009	2008
Feet shipped (millions)	28.0	32.7
Stainless steel price index*	103.4	194.4

* Source CRU International

Stainless steel prices have historically been dependent on supply and demand and costs of raw materials such as chrome, nickel, molybdenum and titanium. While the Company is able to pass through changes in the cost of raw materials to customers, significant changes can lead customers to temporarily delay purchases, substitute materials and/or cancel capital projects. The specialty steel industry has experienced significant changes in the cost of raw materials such as nickel, molybdenum and titanium over the last several years.

During fiscal 2010, demand for the Company's products has continued to experience a declining trend as major U.S. storms disrupted offshore oil production in late summer of fiscal 2009 and general economic conditions took an unprecedented downturn following the collapse of world financial markets during the second half of fiscal 2009. Commodity prices have declined sharply and uncertainty regarding the breath and depth of the economic downturn has resulted in significant curtailment and/or deferral of capital investment plans.

Fluctuations in Quarterly Results of Operations

Quarterly results may be materially affected by the timing of acquisitions, the timing and magnitude of costs related to such acquisitions, variations in costs of products sold, the mix of products sold and general economic conditions. Results for any quarter may not be indicative of the results for any subsequent fiscal quarter or for a full fiscal year. There is generally no significant seasonality in demand for the Company's products or operations as a whole.

Results of Operations – Three Months Ended April 30, 2009 as Compared to the Three Months Ended April 30, 2008

<u>Net Sales</u>

Overall - For the first quarter of fiscal 2010, net sales decreased $32.7 million, or 37.9%, to $53.7 million, as compared to $86.4 million in the same period in fiscal 2009. This decrease in overall sales was primarily due to (i) decreases in the sales volume of heat exchanger, nickel, high purity/electropolished and general commercial products ($12.2 million), offset by increases in the sales volume of titanium and pressure coil products ($7.1 million); and (ii) decreases in the average selling price of heat exchanger, nickel, pressure coil, subsea umbilical, high purity/electropolished and general commercial products ($26.3 million).

Total feet shipped during the first quarter of fiscal 2010 amounted to 28.0 million feet, as compared to 32.7 million feet in the same period in fiscal 2009. This decrease in total feet shipped was primarily due to decreases in the sales volume of heat exchanger, nickel, encapsulated wire, subsea umbilical, high purity/electropolished and general commercial products, offset by increases in the sales volume of titanium and pressure coil products.

Chemical/Petrochemical Processing and Power Generation Products - For the first quarter of fiscal 2010, net sales of chemical/petrochemical processing and power generation products decreased $11.1 million, or 34.9%, to $20.8 million, as compared to $31.9 million in the same period in fiscal 2009. This decrease in sales was primarily due to (i) decreases in the sales volume of heat exchanger and nickel products in the Wisconsin segment ($4.7 million), offset by an increase in the sales volume of titanium products in the New Jersey segment ($2.1 million); and (ii) decreases in the average selling price of heat exchanger and nickel products in the Wisconsin and Arkansas segments ($6.7 million and $1.3 million, respectively). The Company believes the decreases in the sales volume and average selling price of heat exchanger and nickel products was due to the destocking of distribution channel inventories, the global recession and lower market value of raw materials as compared to fiscal 2009.

Feet shipped of chemical/petrochemical processing and power generation products decreased by 14.0% to 6.8 million feet in fiscal 2010, as compared to 7.9 million feet in the same period in fiscal 2009. This decrease was primarily due to decreases in the sales volume of heat exchanger and nickel products in the Wisconsin segment, offset by an increase in the sales volume of titanium products in the New Jersey segment.

Energy Products - For the first quarter of fiscal 2010, net sales of energy products decreased $2.7 million, or 18.2%, to $12.3 million, as compared to $15.0 million in the same period in fiscal 2009. This decrease in sales was primarily due to (i) a decrease in the sales volume of pressure coil products in the New Jersey segment ($.4 million), offset by an increase in the sales volume of pressure coil products in the Louisiana segment ($5.4 million) primarily due to the Mid-South Acquisition on February 27, 2008; and (ii) decreases in the average selling price of pressure coil products in the New Jersey and Louisiana segments ($.4 million and $2.0 million, respectively) and subsea umbilical products in the New Jersey segment ($4.3 million). The Company believes its sales of energy products have been negatively impacted by the global recession, and more specifically, the precipitous decline in oil prices.

Feet shipped of energy products during the first quarter of fiscal 2010 increased by 5.0% to 7.0 million feet, as compared to 6.7 million feet in the same period in fiscal 2009. This increase was primarily due to an increase in the sales volume of pressure coil products in the Louisiana segment primarily due to the Mid-South Acquisition, offset by decreases in the sale volume of encapsulated wire and subsea umbilical products in the New Jersey segment.

Food, Beverage and Pharmaceutical Products - For the first quarter of fiscal 2010, net sales of food, beverage and pharmaceutical products decreased $5.3 million, or 39.6%, to $8.0 million, as compared to $13.3 million in the same period in fiscal 2009. This decrease in sales was primarily due to a decrease in the sales volume of high purity/electropolished products in the Wisconsin segment and a decrease in the average selling price of these products due mostly to lower market value of raw materials.

Feet shipped of food, beverage and pharmaceuticals products during the first quarter of fiscal 2010 decreased by 3.0% to 5.6 million feet, as compared to 5.8 million feet in the same period in fiscal 2009. This decrease in feet shipped was primarily due to a decrease in the sales volume of high purity/electropolished products in the Wisconsin segment, offset by an increase in the sales volume of beverage coil products in the New Jersey segment, a relatively less expensive product line due to its smaller size and weight per foot.

General Commercial Products - For the first quarter of fiscal 2010, net sales of general commercial products decreased $13.6 million, or 51.8%, to $12.6 million, as compared to $26.2 million in the same period in fiscal 2009. This decrease in sales was primarily due to (i) a decrease in the sales volume of general commercial products in the Wisconsin and Arkansas segments ($4.0 million and $2.0 million, respectively), offset by an increase in the sales volume of general commercial products in the New Jersey segment ($1.1 million); and (ii) a decrease in the average selling price of general commercial products in the Wisconsin, New Jersey and Arkansas segments ($5.0 million, $1.2 million and $2.5 million, respectively). The Company believes the decreases in the sales volume and average selling price of heat exchanger products was due to the destocking of distribution channel inventories, the global recession and lower market value of raw materials as compared to fiscal 2009.

Feet shipped of general commercial products during the first quarter of fiscal 2010 decreased by 30.3% to 8.6 million feet, as compared to 12.3 million feet in the same period in fiscal 2009. This decrease in feet shipped was primarily due to decreases in the sales volume of substantially all of the general commercial products in the Wisconsin, New Jersey and Arkansas segments.

Gross Profit

Cost of goods sold consists of manufacturing costs (primarily material, labor, consumables, utilities, maintenance, occupancy and depreciation), inbound freight charges, shipping and handling costs, certain purchasing costs, receiving costs and warehousing costs (which include internal transfer costs). The Company's gross profit margins may not be comparable to the gross profit margins of other entities due to the classification of certain costs.

Gross profit for the first quarter of fiscal 2010 was $3.5 million, a decrease of $13.0 million, or 78.9%, as compared to $16.5 million in the same period in fiscal 2009. The decrease in gross profit was primarily due to reductions in net sales of the Wisconsin, New Jersey and Arkansas segments, offset by an increase in net sales of the Louisiana segment primarily due to the Mid-South Acquisition and a non-recurring, non-cash purchase accounting adjustment of $.7 million recorded in the first quarter of fiscal 2009 in the Louisiana segment. In accordance with the purchase method of accounting under GAAP, certain inventories were valued at fair value in connection with the Mid-South Acquisition, which were $.6 million greater than their historical cost. $.7 million of the purchase accounting adjustment was expensed in cost of goods sold within the consolidated statements of operations during the first quarter of fiscal 2009 as the associated inventories were sold.

Gross profit margin for the first quarter of fiscal 2010 decreased to 6.5% from 19.0% in the same period in fiscal 2009. The decrease in gross profit margin was primarily due to a reduction in selling prices due to the declining trend of nickel prices and the global recession and the lagging effect of replacement inventory cost during the first quarter of fiscal 2010. This decrease in gross profit margin was offset by a non-recurring, non-cash purchase accounting adjustment of $.7 million recorded in the first quarter of fiscal 2009 in the Louisiana segment.

Gross profit per foot shipped for the first quarter of fiscal 2010 amounted to $.12/foot, as compared to $.50/foot ($.52/foot excluding a non-recurring, non-cash purchase accounting adjustment amounting to $.02/foot) in the same period in fiscal 2009.

Operating Expenses

Selling, general and administrative expenses consist primarily of management, administrative and sales compensation, benefits, travel, communications, occupancy and insurance expenses, legal and professional fees.

Selling, general and administrative expenses amounted to $6.6 million in each of the first quarters of fiscal 2010 and fiscal 2009. Selling, general and administrative expenses for the first quarter of fiscal 2010 were impacted by (i) a decrease in the accruals for employee annual performance-based cash incentives in all reportable segments of $.5 million, as compared to the same period in fiscal 2009; (ii) severance expense of $.1 million in the Wisconsin segment; and (iii) an increase in professional fees of $.6 million in the Wisconsin segment, as compared to the same period in the fiscal 2009.

Amortization expense amounted to $2.9 million in the first quarter of fiscal 2010, as compared to $3.2 million in the same period in fiscal 2009.

Interest Expense

Interest expense for the first quarter of fiscal 2010 decreased $.5 million, or 7.5%, to $5.7 million, as compared to $6.2 million in the same period in fiscal 2009. The decrease in interest expense was primarily due to a decrease in the weighted average interest rate on RathGibson's Revolving Credit Facility and decreased principal amount of indebtedness for the period.

The Company's debt agreements assessed interest at a weighted average rate of 9.8% and 9.6% at April 30, 2009 and January 31, 2009, respectively.

Income Tax Expense (Benefit)

Income tax benefit amounted to $4.3 million in the first quarter of fiscal 2010, as compared to income tax expense of $.2 million in the same period in fiscal 2009. These tax provisions reflect effective tax rates of 36.4% and 37.6% for the first quarters of fiscal 2010 and fiscal 2009, respectively. The difference between the actual effective tax rates and the U.S. federal statutory rate is principally due to (i) state income tax provisions; (ii) a deduction for domestic production activity; and (iii) non-deductible incentive unit expense.

Sales Order Backlog

The Company's sales order backlog was $30.7 million at April 30, 2009 compared to $46.5 million at January 31, 2009. The decrease in the Company's sales order backlog at April 30, 2009, as compared to January 31, 2009, was primarily due to the decrease in sales order bookings related to subsea umbilical products in the New Jersey segment. Management believes that substantially all of the sales order backlog will be fulfilled during fiscal 2010. There is no seasonality with respect to the Company's sales order backlog.

Liquidity and Capital Resources

Overview

The Company's principal liquidity requirements are to service debt and meet working capital and capital expenditure needs.

The Company expects that cash generated from operating activities and availability under its Revolving Credit Facility will be the principal sources of liquidity. The Company's ability to make payments on and to refinance its indebtedness, including the Revolving Credit Facility and Senior Notes, and to fund working capital needs, planned capital expenditures and future acquisitions, will depend on the Company's ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive and other factors that are beyond the Company's control. Additionally, the Company does not expect to pay dividends to RGCH Corp. for the foreseeable future to service the interest requirements on RGCH Corp.'s pay-in-kind notes.

Recent Developments

During each of the fourth quarter of fiscal 2009 and the first quarter of fiscal 2010, the Company experienced significant net losses and a significant decrease in net sales, which it believes resulted primarily from the reduced demand for its products caused by the unprecedented world-wide economic downturn during these periods. This trend in declining net sales has continued into the second quarter of fiscal 2010. The Company is unable to predict when global economic conditions will improve, but it does not expect the pressures on its net sales and profitability to alleviate in the near term.

During the second quarter of fiscal 2010, following prior disclosures by the Company about its financial condition and compliance with its covenants under the Revolving Credit Facility, certain suppliers imposed more strict payment terms on the Company, which has had a material adverse effect on the Company's liquidity during the second quarter of fiscal 2010.

In February 2009, Moody's downgraded the Company's credit ratings from B3 to Caa2 with a revision to the Company's outlook from stable to negative. The negative ratings outlook reflected Moody's concern about the Company's liquidity position and the sustainability of its capital structure due to the adverse impacts of deteriorating macroeconomic conditions. In May 2009, Standard & Poor's downgraded the Company's credit ratings from B to CCC+ with a revision to the Company's outlook from negative to watch negative. The Company's corporate credit ratings and downgrades to such ratings may increase interest rates offered to the Company for additional financing and impact the credit terms that the Company is offered from its suppliers.

At April 30, 2009, the Company had cash of $1.9 million and $11.9 million available under the Revolving Credit Facility after giving effect to its borrowing base requirements. The Company anticipates further constraints to the availability under its Revolving Credit Facility once the results of appraisals of inventories and property, plant and equipment by GECC are fully known. Availability is also expected to be affected by the near term declining trend of accounts receivable and inventories. The Company's limited liquidity will impact its on-going operations and its ability to satisfy its obligations under the Revolving Credit Facility and the Senior Notes.

As a result of the Company's reduced liquidity, its ability to comply with a financial covenant contained in its Revolving Credit Facility, as amended on May 15, 2009, has been materially adversely affected. This financial covenant requires the Company to maintain minimum amounts available under its Revolving Credit Facility, including an average amount available during the ten business days ended July 17, 2009 of $16.0 million (not less than $14.0 million on any day during such period) and an average amount available during the ten business days ended July 31, 2009 of $18.0 million (not less than $15.0 million on any day during such period). In addition, the Company is required to make an interest payment of $11.3 million under the Senior Notes on August 15, 2009.

In response to the pressures on liquidity described above, the Company is taking actions within its control in fiscal 2010 to align its expenses with its reduced sales volumes, including improving cash management, controlling and/or reducing costs by reducing headcount, reducing the number of workdays, initiating temporary plant shutdowns and implementing other cost reduction measures, and evaluating capital expenditure requirements.

The Company's limited liquidity will impact its ability to satisfy its operating obligations, as well as obligations under the Revolving Credit Facility and the Senior Notes. Accordingly, the Company is actively pursuing strategic and financing alternatives and has retained legal and financial advisors to assist in this regard. The Company has commenced discussions with its lenders under the Revolving Credit Facility and an ad hoc committee of holders of the Senior Notes regarding a restructuring of the Company's capital structure. Any such restructuring may affect the terms of the Revolving Credit Facility, the Senior Notes and the other debt and equity interests in the Company and may be affected through negotiated modifications to the related agreements or through other forms of restructuring, including under court supervision pursuant to a voluntary bankruptcy filing under the U.S. Bankruptcy Code. There can be no assurance that an agreement regarding any such restructuring will be obtained on acceptable terms with the necessary parties or at all. If an acceptable agreement is not obtained in the very near term, the Company expects that it will be required to seek protection under the U.S. Bankruptcy Code.

The uncertainty described above raises substantial doubt about the Company's ability to continue operating as a going concern. The Company has prepared its condensed consolidated financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In addition, the Revolving Credit Facility, the Senior Notes and the IRB have been classified in the Company's condensed consolidated financial statements as long-term debt (except for the portion scheduled to come due in the short-term). The Company's ability to continue operating as a going concern is substantially dependent on the successful execution of many of the actions referred to above, on the timeline contemplated by the Company's plans. The Company's interim condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should its be unable to continue operating as a going concern.

Debt and Other Obligations

On February 7, 2006, RathGibson entered into a $90.0 million Revolving Credit Facility, as amended, with GECC that matures on February 7, 2011. RGCH Corp. and Greenville are guarantors of the obligation. Under the Revolving Credit Facility, if the average amount available, after giving effect to the Company's borrowing base requirements, during any thirty day period is less than $9.0 million, the assets of Greenville will be excluded from the Company's availability after a subsequent thirty day period and until to the following: (i) RathGibson enters into an amendment to the Revolving Credit Facility for which RathGibson and Greenville become separate borrowers with separate borrowing bases; (ii) the allocation of any amounts outstanding under the Revolving Credit Facility to each of RathGibson and Greenville relative to their separate borrowing bases; and (iii) the Company delivers to the lenders any documents reasonably requested. Additionally, the borrowing base may be further reduced by $5.0 million in the event that the Company does not maintain a fixed charge coverage ratio (as defined in the agreement) of at least 1:1 for the most recent four fiscal quarters. Borrowings under the Revolving Credit Facility bear interest payable at various dates with floating rates of either (i) prime plus 1.25% (4.50% at April 30, 2009) or (ii) LIBOR plus 2.25% (2.73% at April 30, 2009). The Company also pays a quarterly commitment fee equal to either .375% or .50%, depending on the amount outstanding, of the unused capacity. At April 30, 2009, the Company had $42.0 million outstanding and $11.9 million available under the Revolving Credit Facility after giving effect to its borrowing base requirements and the reduction of $5.0 million due to the Company's inability to maintain a fixed charge coverage ratio of 1:1 for the most recent four fiscal quarters. Borrowings under the Revolving Credit Facility are collateralized by substantially all assets of the Company. The Revolving Credit Facility contains various covenants that, among other things, restrict the Company's ability to incur or guarantee debt, pay dividends, make certain investments, repurchase stock, incur liens, enter into certain transactions with affiliates, enter into certain sales and leaseback transactions and transfer or sell assets. The Revolving Credit Facility also defines various events of default, including cross-default provisions with other debt agreements of the Company and RGCH Corp. and solvency requirements of the Company and RGCH Corp.

At April 30, 2009, the Company was not in compliance with the solvency requirement (as defined in the Revolving Credit Facility) with respect to RGCH Corp. and the covenant requirements to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries within 90 days of fiscal year end and monthly consolidated financial statements of RGCH Corp. and its subsidiaries and compliance certificates for certain months within 30 days of month end as required under the Revolving Credit Facility. On May 4, 2009, RathGibson entered into a waiver and sixth amendment to its Revolving Credit Facility with GECC. Pursuant to the waiver and sixth amendment, the solvency requirements pertaining to RGCH Corp. contained in the Revolving Credit Facility have been waived, and specified defaults in connection therewith, for all periods prior to May 4, 2009 and the Revolving Credit Facility has been amended to exclude RGCH Corp. from all solvency requirements under the Revolving Credit Facility from and after May 4, 2009. On May 15, 2009, RathGibson entered into a waiver and seventh amendment to its Revolving Credit Facility with GECC. Pursuant to the waiver and seventh amendment, the requirements to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries at and for the fiscal year ended January 31, 2009 within 90 days of fiscal year end and monthly consolidated financial statements of RGCH Corp. and its subsidiaries and compliance certificates within 30 days of month end have been waived, and specified defaults in connection therewith. Additionally, the Revolving Credit Facility has been amended to (i) extend the requirement to provide audited consolidated financial statements of RGCH Corp. and its subsidiaries at and for the fiscal year ended January 31, 2009 to May 18, 2009; (ii) increase the interest rate charged on the borrowings under the Revolving Credit Facility to prime plus 3.00% or LIBOR plus 4.00%; (iii) increase the quarterly commitment fee to .75% of the unused capacity; (iv) modify the borrowing base requirements to eliminate the exclusion of the assets of Greenville if the average amount available under the Revolving Credit Facility, after giving effect to the Company's borrowing base requirements, during any thirty day period is less than $9.0 million; (v) require the Company to maintain minimum amounts available under its Revolving Credit Facility, including an average amount available during the ten business days ended July 17, 2009 of $16.0 million (not less than $14.0 million on any day during such period) and an average amount available during the ten business days ended July 31, 2009 of $18.0 million (not less than $15.0 million on any day during such period); and (vi) establish various covenants that, among other things, further restrict the Company's ability to make restricted payments (as defined in the Revolving Credit Facility) and set forth conditions under which the Company would accelerate periodic reporting to GECC.

On February 7, 2006, the Company issued $200.0 million aggregate principal amount of Senior Notes due February 15, 2014. These notes bear interest at 11.25% per annum payable in semi-annual installments on February 15 and August 15 each year commencing August 15, 2006. Greenville is a guarantor of the obligation. The indenture governing the Senior Notes contains covenants that, among other things, restrict the Company's ability to incur or guarantee additional debt, pay dividends and make distributions, make certain investments, repurchase stock, incur liens, enter into certain transactions with affiliates, enter into certain sale and leaseback transactions, merge or consolidate, and transfer or sell assets. The indenture governing the Senior Notes also defines various events of default, including cross-default provisions with other debt agreements of the Company. The Company was in compliance with all such covenants at April 30, 2009.

On December 14, 2007, Greenville closed on a $2.0 million IRB with the City of Clarksville, Arkansas, due December 30, 2014. The proceeds were used to finance the IRB Equipment. RathGibson is a guarantor of the obligation. The IRB requires monthly payments of $29 thousand with interest payable at 5.32%. In connection with the IRB, the Company entered into a third amendment to its Revolving Credit Facility for which the IRB Equipment was released from collateral under the Revolving Credit Facility and permitted Greenville and RathGibson, as guarantor, to enter into the IRB. The loan agreement governing the IRB contains various covenants that, among other things, restrict Greenville's ability to merge or consolidate and sell, lease, assign, transfer or otherwise dispose of the IRB Equipment. The loan agreement governing the IRB also defines various events of default, including cross-default provisions with other debt agreements of the Company.

At April 30, 2009, the Company was not in compliance with the loan agreement governing the IRB due to the aforementioned events of default at April 30, 2009 under RathGibson's Revolving Credit Facility. As of June 15, 2009, the Company has not received a notice of default, demand for payment or exercise of other remedies on default, as defined in the loan agreement, from its lender with regard to the events of default under RathGibson's Revolving Credit Facility.

On June 15, 2007, RathGibson, together with RGCH Corp. and RG Tube, entered into an advisory services agreement, as amended, with DLJMB, an affiliate of DLJ Funds, under which DLJMB acts as a financial advisor with respect to the following services: (i) assisting in analyzing operations and historical performance; (ii) analyzing future prospects; (iii) assisting with respect to future proposals for tender offers, acquisitions, sales, mergers, financings, exchange offers, recapitalizations, restructurings or other similar transactions; and (iv) assisting in strategic planning. The advisory services agreement is for an initial term expiring June 15, 2012 and is subject to renewal for consecutive one-year terms unless terminated by DLJMB or RathGibson, RGCH Corp. or RG Tube with 30 days notice prior to the expiration of the initial term or any annual renewal. For services rendered, annual advisory fees of $.9 million and $.1 million are payable to DLJMB and certain consultants for DLJMB who also serve as directors of RG Tube, respectively, in equal quarterly installments on the first business day of each calendar quarter. For any debt or equity financing or refinancing consummated during the term of this agreement, the Company has an obligation to pay an advisory fee not to exceed the greater of $.5 million or one percent of the aggregate transaction value. During each of the first quarters of fiscal 2010 and 2009, $.3 million of annual advisory fees was amortized to selling, general and administrative expenses within the condensed consolidated statements of operations.

Working Capital

At April 30, 2009, the Company had working capital of $59.4 million, a decrease of $15.8 million from $75.2 million at January 31, 2009. The decrease in working capital primarily resulted from reductions in accounts receivable and inventories, offset by decreases in accounts payable and accrued expenses due to lower levels of sales driven by the increased concern about the global recession and lower market value of raw materials. The Company's borrowings under its Revolving Credit Facility is limited to the amount available after giving effect to its borrowing base requirements, which includes eligible accounts receivable and inventories. Therefore, as the Company's accounts receivable and inventories decrease in total, the amount available to the Company under its Revolving Credit Facility will decrease. During the second quarter of fiscal 2010, in response to prior disclosures about the Company's financial condition and compliance with its covenants under the Revolving Credit Facility, certain vendors imposed more strict payment terms on the Company, which has had a material adverse effect on the Company's liquidity during the second quarter of fiscal 2010.

Cash Flows

Cash increased $.5 million in the first quarter of fiscal 2010, ending the period at $1.9 million. Cash increased $1.8 million in the first quarter of fiscal 2009, ending the period at $2.5 million. The decrease in the generation of cash in the first quarter of fiscal 2010, as compared to the same period in fiscal 2009, is primarily due to the following:

Operating Activities - The Company generated cash from operating activities of $8.3 million in the first quarter of fiscal 2010, as compared to cash used of $2.5 million in the same period in fiscal 2009. The increase in the generation of cash flows from operating activities was primarily due to a reduction in working capital needs in the first quarter of fiscal 2010 due to lower levels of sales and inventories driven by the increased concern about the global recession and lower market value of raw materials.

Investing Activities - The Company used cash for investing activities of $1.2 million in the first quarter of fiscal 2010, as compared to $23.0 million in the same period in fiscal 2009. Capital expenditures to replace and upgrade existing equipment and install new equipment to provide additional operating efficiencies amounted $1.2 million in the first quarter of fiscal 2010, as compared to $2.8 million in the same period in fiscal 2009. In the first quarter of fiscal 2009, the Company used cash of $20.2 million, net of cash acquired, to acquire Mid-South.

The Company expects capital expenditures for the remainder of fiscal 2010 to be approximately $4.0 million, primarily relating to the purchase of new equipment for the purpose of reducing manufacturing costs, increasing productive capacity and maintenance.

Financing Activities - Financing activities used cash of $6.6 million in the first quarter of fiscal 2010, as compared to cash provided of $27.3 million in the same period in fiscal 2009. Net principal payments on the Revolving Credit Facility of $6.5 million in the first quarter of fiscal 2010 primarily resulted from the increase in cash generated from operating activities due to the reduction in working capital. Net principal proceeds from the Revolving Credit Facility of $27.6 million in the first quarter of fiscal 2009 were used primarily to fund the acquisition of Mid-South and working capital requirements.

Off-balance Sheet Arrangements

At April 30, 2009, the Company did not have any off-balance sheet arrangements.

Critical Accounting Policies

The preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect: (i) the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements; (ii) the disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. The Company bases its estimates on historical experience and other assumptions that are believed to be reasonable under circumstances, the results of which form the basis for the Company's judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The Company's actual results may differ from these estimates under different circumstances or conditions. If actual amounts are ultimately different from these estimates, the revisions are included in the Company's results of operations for the period in which the actual amounts become known.

The Company believes the following critical accounting policies represent the more significant judgments and estimates used in preparing the condensed consolidated financial statements. There have been no material changes made to the Company's critical accounting policies and estimates during the periods presented in the condensed consolidated financial statements.

Accounts Receivable

Accounts receivable consist of amounts billed and currently due from customers. The Company extends credit to customers in the normal course of business and generally does not require collateral to support its accounts receivable balances. The Company maintains a reserve for estimated losses resulting from the inability or unwillingness of customers to make required payments. The reserve for estimated losses is based on the Company's historical experience, existing economic conditions and any specific customer collection issues the Company has identified.

Inventories

Inventories are accounted for using the first-in, first-out method and are valued at the lower of cost or market. The Company records a reserve for excess or slow moving inventories based on historical sales and order patterns and assumptions about future demand and market conditions. The Company also records a reserve to adjust inventories to the lower of cost or market.

Long-Lived Assets

The Company accounts for the impairment or disposal of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144") which requires long-lived assets, such as property, plant and equipment and amortizable intangible assets other than goodwill and indefinite-lived intangible assets, which are tested separately for impairment, to be evaluated for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. When evaluating long-lived and amortizable assets for potential impairment, the Company first compares the carrying value of the asset to the asset's estimated future cash flows (undiscounted and without interest charges). If the estimated future cash flows are less than the carrying value of the asset, the Company calculates an impairment loss. The impairment loss calculation compares the carrying value of the asset to the asset's estimated fair value, which may be based on estimated future cash flows (discounted and with interest charges). The Company recognizes an impairment loss if the amount of the asset's carrying value exceeds the asset's estimated fair value. If the Company recognizes an impairment loss, the adjusted carrying amount becomes its new cost basis. The Company has determined that there were no indicators of impairment at April 30, 2009. Events occurring subsequent to April 30, 2009, including those events further described in Note 1 to the condensed consolidated financial statements, could cause the Company to conclude that impairment indicators exist and that long-lived assets are impaired.

Goodwill and Other Intangible Assets

Goodwill represents the excess of purchase price over tangible and intangible assets acquired less liabilities assumed arising from business combinations. Goodwill is not amortized.

The Company evaluates goodwill for impairment at least annually (at January 31), or more frequently if events or circumstances indicate that the assets may be impaired, by applying a fair value based test and, if impairment occurs, the amount of impaired goodwill is written off immediately. The provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," ("SFAS 142") require that a two-step impairment test be performed annually or whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The first step of the test for impairment compares the book value of each of the Company's reporting units to its estimated fair value. The Company has determined that its reporting units are the same as its reportable segments. Under the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company has four reportable segments, Wisconsin, New Jersey, Louisiana and Arkansas. In determining the reporting units under SFAS 142, the Company starts with its reportable segments and evaluates whether the Company is required to identify reporting units one level below the reportable segment level. Management of the Company does not review discreet financial results for levels below the reportable segment and under SFAS 142, the components of each reportable segment are aggregated and deemed a single reporting unit because they have similar economic characteristics. The second step of the goodwill impairment test, which is only required when the net book value of the reporting unit exceeds its estimated fair value, compares the implied fair value of goodwill to its book value to determine the amount of the impairment required. The Company has determined that there were no indicators of impairment at April 30, 2009. Events occurring subsequent to April 30, 2009, including those events further described in Note 1 to the condensed consolidated financial statements, could cause the Company to conclude that impairment indicators exist and that goodwill is impaired.

For purposes of the goodwill analysis, the Company performs its assessment of fair value of each reporting unit using a combination of an income and market approach. Under the income approach, the fair value of a reporting unit is calculated based on the present value of estimated discounted future cash flows. The Company's discounted cash flow model is based on a reporting unit's projection of operating results and related cash flows that are discounted using the weighted average cost of capital of the reporting unit or comparable companies adjusted for specific risks such as forecast risk. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise. The basis for the Company's cash flow assumptions includes historical and forecasted sales, operating costs and other relevant factors including projected capital expenditures. These assumptions are determined after giving consideration to historical and current economic trends, including the decline in demand for the Company's products as major U.S. storms disrupted offshore oil production in late summer of fiscal 2009 and general economic conditions took an unprecedented downturn following the collapse of world financial markets in the second half of fiscal 2009. Each reporting unit's sales growth rates are determined after considering current and future economic conditions, recent sales trends for the reporting units, discussions with its customers, planned timing of new product launches and many other variables. Under the market approach, the fair value of reporting unit is estimated based on market multiples of cash flow for comparable companies and similar transactions. Additionally, the Company's goodwill analysis includes an allocation of certain corporate and international selling expenses to each reporting unit.

Tradenames are not amortized. Under the provisions of SFAS 142, the Company evaluates tradenames for impairment at least annually (at January 31), or more frequently if events or circumstances indicate that the assets may be impaired, by applying a fair value based test and, if impairment occurs, the amount of impaired tradenames is written off immediately. The Company has determined that there were no indicators of impairment at April 30, 2009. Events occurring subsequent to April 30, 2009, including those events further described in Note 1 to the condensed consolidated financial statements, could cause the Company to conclude that impairment indicators exist and that tradenames are impaired.

For purposes of the tradename analysis, the Company performs its assessment of fair value based on an income approach using the relief-from-royalty method. This methodology assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to exploit the related benefits of these types of assets. The Company determines the fair value of each tradename by applying a royalty rate to a projection of net sales discounted using a risk adjusted cost of capital. The Company believes the relief-from-royalty method to be an acceptable methodology due to its common use by valuation specialists in determining the fair value of intangible assets. Sales growth rates are determined after considering current and future economic conditions, recent sales trends, discussions with customers, planned timing of new product launches and many other variables. Each royalty rate is based on profitability of the business to which it relates and observed market royalty rates.

The methods of assessing fair value for goodwill and tradename impairment purposes require significant judgments to be made by management. Changes in such estimates or the application of alternative assumptions could produce significantly different results. Assuming no other change in assumptions, a decrease of 1.0% in the Company’s sales growth rate would increase the goodwill and tradename impairment charges by approximately $6.0 million; a decrease of 1.0% in the Company’s gross profit margin would increase the goodwill impairment charges by approximately $9.0 million; and an increase of 1.0% in the Company’s discount rate would increase the goodwill and tradename impairment charges by approximately $7.0 million.

Amortizable intangible assets consist primarily of customer lists. The Company amortizes customer lists principally by an accelerated method over their estimated useful lives of 15 years. The accelerated method reflects the pattern in which the economic benefits of the customer lists are expected to be realized using assumptions of sales growth and customer attrition rates in relative proportion to the declining cash flows in the original asset valuation. Under the provisions of SFAS 144, the Company may evaluate customer lists for impairment if events or circumstances indicate that the assets may be impaired and, if impairment occurs, the amount of impaired customer lists is written off immediately. The Company has determined that there were no indicators of impairment at April 30, 2009. Events occurring subsequent to April 30, 2009, including those events further described in Note 1 to the condensed consolidated financial statements, could cause the Company to conclude that impairment indicators exist and that customer lists are impaired.

Deferred Income Taxes

Deferred income taxes are provided using the asset and liability method, whereby deferred income taxes are recognized for temporary differences between the reported amounts of assets and liabilities herein and their income tax basis and for net operating loss and tax credit carryforwards. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred income tax assets and liabilities are computed using the income tax rates in effect in the years in which the temporary differences are expected to reverse.

Revenue Recognition

Revenues are recognized when persuasive evidence of a selling arrangement exists, delivery has occurred, the Company’s price to the customer is fixed or determinable and collectibility is reasonably assured. These criteria are generally satisfied upon shipment of product.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Credit Risk

The Company provides credit in the normal course of business to its customers, which are primarily value-added tubing distributors, OEMs, and engineering firms. The Company performs ongoing credit evaluations of its customers, maintains reserves for potential credit losses and generally does not require collateral to support its accounts receivable balances. The Company's largest customer accounted for approximately 12% of the Company's nets sales in fiscal 2009 and 15% of the Company's accounts receivable at January 31, 2009. Accordingly, a bankruptcy or a significant deterioration in the financial condition of this customer or any of the Company's other significant customers could have a material adverse effect on the Company's financial condition and results of operations due to a reduction in purchases, a longer collection cycle or an inability to collect accounts receivable.

Commodity Price Risk

The Company purchases certain raw materials such as stainless steel, nickel alloys, titanium, argon and hydrogen that are subject to price volatility caused by unpredictable factors. Stainless steel, principally 304L grade and 316L grade, is the primary raw material the Company uses to manufacture products. Stainless steel prices have historically been dependent on supply and demand and costs of raw materials such as chrome, nickel, molybdenum and titanium. Where possible, the Company employs fixed price raw material purchase contracts. Historically, the Company has been able to pass along increases in raw material costs to its customers, and the Company expects to continue to pass along such costs to customers. While the Company is able to pass through changes in the cost of raw materials to its customers, significant and sudden changes can lead customers to reduce or delay purchases, substitute materials and/or cancel capital projects, which may have an adverse effect on the Company's results of operations and financial condition due to changes in sales volume and the lagging effect of replacement inventory cost. The Company has not, in the past, used derivatives to manage commodity price risk.

Interest Rate Risk

Changes in interest rates can potentially impact the Company's profitability and its ability to realize assets and satisfy liabilities. Interest rate risk is resident primarily in the Company's Revolving Credit Facility, which typically has variable interest rates based on Prime or LIBOR rates. Assuming no other change in financial structure, an increase of 100 basis points in the Company's variable interest rate would decrease pre-tax earnings for fiscal 2010 by approximately $.5 million. This amount is determined by considering the impact of a 1% increase in interest rates on the average debt estimated to be outstanding in fiscal 2010.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the Company's principal executive officer and principal financial officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report, and based on their evaluation, the principal executive officer and principal financial officer have concluded that these controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the first quarter of fiscal 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 4T. Controls and Procedures.

Not applicable.

PART II

Item 1. Legal Proceedings.

During the first quarter of fiscal 2010, there were no material changes to the Company's previously disclosed legal proceedings. In addition, the Company is involved in various claims and legal actions that arise in the ordinary course of business. The Company does not believe that the ultimate resolution of any of these actions will have a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources.

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed under Item 1A to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

None

Item 5. Other Information.

None

Item 6. Exhibits.

Exhibit Number	Description
10.1	Employment Agreement, dated as of February 3, 2009, by and among RathGibson, Inc. and Jon Smith. Incorporated herein by reference to Exhibit 10.1 of RathGibson, Inc.’s Current Report on Form 8-K dated January 30, 2009.
10.2	Amended and Restated Employment Agreement, dated as of January 26, 2009, by and among RathGibson, Inc. and Michael G. Schwartz. Incorporated herein by reference to Exhibit 10.1 of RathGibson, Inc.’s Current Report on Form 8-K dated April 13, 2009.
31.1*	Rule 13a-14(a)/15d-14(a) Certifications.
31.2*	Rule 13a-14(a)/15d-14(a) Certifications.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: June 15, 2009

/s/ Jon M. Smith

Jon M. Smith
Chief Financial Officer
(Authorized Signatory and
Principal Financial and Accounting Officer)