GRAFTECH INTERNATIONAL LTD
Form 10-Q
August 03, 2007
Table of Contents

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 June 30, 2007**

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: 1-13888

GRAFTECH INTERNATIONAL LTD.

(Exact name of registrant as specified in its charter)

Delaware	**06-1385548**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
12900 Snow Road	
Parma, Ohio	**44130**
(Address of principal executive offices)	**(Zip code)**

Registrant s telephone number, including area code: (216) 676-2000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

As of July 31, 2007, 104,275,778 shares of common stock, par value $.01 per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

(Unaudited)

	At December 31, 2006	At June 30, 2007
Current Assets:		
Cash and cash equivalents	$ 149,517	$ 33,474
Accounts and notes receivable, net of allowance for doubtful accounts of $3,186 at December 31, 2006 and $2,817 at June 30, 2007	166,528	153,233
Inventories	239,129	251,758
Prepaid expenses and other current assets	14,071	6,892
Assets held for sale		2,677
Total current assets	569,245	448,034
Property, plant and equipment	889,389	846,256
Less: accumulated depreciation	599,636	548,718
Net property, plant and equipment	289,753	297,538
Deferred income taxes	6,326	6,392
Goodwill	9,822	9,817
Other assets	29,253	24,751
Assets held for sale	1,802	1,415
Total assets	$ 906,201	$ 787,947
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities**:**		
Accounts payable	$ 62,094	$ 61,538
Interest payable	18,872	11,748
Short-term debt	458	189
Accrued income and other taxes	41,099	38,693
Other accrued liabilities	98,068	75,824
Liabilities of assets held for sale		395
Total current liabilities	220,591	188,387
Long-term debt:		
Principal value	657,714	473,660
Fair value adjustments for hedge instruments	6,421	3,324
Unamortized bond premium	1,265	658
Total long-term debt	665,400	477,642

Other long-term obligations		103,408		99,269
Deferred income taxes		27,000		26,770
Minority stockholders equity in consolidated entities		3,722		3,874
(see Contingencies Note 13)				
Stockholders deficit:				
Preferred stock, par value $.01, 10,000,000 shares authorized, none issued				
Common stock, par value $.01, 150,000,000 shares authorized, 101,433,949 shares issued at December 31, 2006 and 103,733,981 shares issued at June 30, 2007		1,026		1,040
Additional paid-in capital		950,023		966,591
Accumulated other comprehensive loss		(312,763)		(303,774)
Accumulated deficit		(660,153)		(579,857)
Less: cost of common stock held in treasury, 2,501,201 shares at December 31, 2006 and at June 30, 2007		(85,197)		(85,197)
Less: common stock held in employee benefit and compensation trusts, 472,566 shares at December 31, 2006 and 469,045 shares at June 30, 2007.		(6,856)		(6,798)
Total stockholders deficit		(113,920)		(7,995)
Total liabilities and stockholders deficit	$	906,201	$	787,947

See accompanying Notes to Consolidated Financial Statements

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands, except per share data)

(Unaudited)

	For the Three Months Ended June 30, 2006	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2006	For the Six Months Ended June 30, 2007
Net sales	$ 223,314	$ 255,889	$ 397,506	$ 484,120
Cost of sales	163,402	161,943	288,145	313,892
Gross profit	59,912	93,946	109,361	170,228
Research and development	2,867	2,045	5,398	4,279
Selling and administrative	23,442	25,462	48,250	47,770
Restructuring charges (credits), net	2,877	(138)	5,823	746
Impairment loss on long-lived assets	637		8,788	
Antitrust investigations and related lawsuits and claims	2,513		2,513	
Other (income) expense, net	(1,607)	(23,059)	(1,987)	(11,955)
Interest expense	12,074	9,546	23,862	21,257
Interest income	(126)	(258)	(252)	(1,224)
	42,677	13,598	92,395	60,873
Income from continuing operations before provision for income taxes and minority stockholders share of subsidiaries income	17,235	80,348	16,966	109,355
Provision for income taxes	7,157	15,376	10,736	25,906
Income from continuing operations before minority interest	10,078	64,972	6,230	83,449
Minority stockholders share of subsidiaries income	39	2	42	35
Income from continuing operations	10,039	64,970	6,188	83,414
Loss from discontinued operations, net of tax	(1,128)	(2,528)	(1,923)	(3,117)
Net income	$ 8,911	$ 62,442	$ 4,265	$ 80,297
Basic income (loss) per common share:				
Income per share from continuing operations	0.10	0.66	0.06	0.84
Loss per share from discontinued operations	(0.01)	(0.03)	(0.02)	(0.03)
Net income per share	$ 0.09	$ 0.63	$ 0.04	$ 0.81
Weighted average common shares outstanding	97,981	99,759	97,841	99,202
Diluted earnings per common share:				
Income per share from continuing operations	0.10	0.57	0.06	0.75

Loss per share from discontinued operations		(0.01)		(0.02)		(0.02)		(0.03)
Net income per share	$	0.09	$	0.55	$	0.04	$	0.72
Weighted average common shares outstanding		112,177		116,549		98,416		114,508

See accompanying Notes to Consolidated Financial Statements

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

(Unaudited)

	For the Six Months Ended June 30, 2006	2007
Cash flow from operating activities:		
Net income	$ 4,265	$ 80,297
Adjustments to reconcile net income to net cash used in operating activities:		
Loss from discontinued operations, net of tax	1,923	3,117
Depreciation and amortization	20,492	16,202
Deferred income taxes	1,248	3,623
Restructuring charges	5,823	746
Impairment loss on long-lived assets	8,788	
Other (credits) charges, net	241	(64)
Increase in working capital*	(9,193)	(20,764)
(Loss)/Gain on sale of assets	960	(23,662)
Post retirement obligation changes	(6,682)	(1,659)
Long-term assets and liabilities	(7,733)	(4,044)
Net cash provided by operating activities	20,132	53,792
Cash flow from investing activities:		
Capital expenditures	(24,034)	(20,218)
Purchase of derivative instruments	(266)	
Proceeds from sale of assets	336	24,663
Payments for purchase price adjustments		(2,794)
Payments for patents costs	(427)	(472)
Net cash (used in) provided by investing activities	(24,391)	1,179
Cash flow from financing activities:		
Short-term debt borrowings		574
Revolving Facility borrowings	320,854	183,645
Revolving Facility reductions	(316,688)	(183,000)
Long-term debt reductions		(184,750)
Proceeds from exercise of stock options		12,331
Net cash provided by (used in) financing activities	4,166	(171,200)
Net decrease in cash and cash equivalents	(93)	(116,229)
Effect of exchange rate changes on cash and cash equivalents	558	186

Cash and cash equivalents at beginning of period	5,968	149,517
Cash and cash equivalents at end of period	$ 6,433	$ 33,474

* Net change in working capital due to the following components:

(Increase) decrease in current assets:		
Accounts and notes receivable	$ 24,448	$ (6,699)
Effect of factoring on accounts receivable	6,250	22,533
Inventories	(17,088)	(7,116)
Prepaid expenses and other current assets	(2,683)	918
Payments for antitrust investigations and related lawsuits and claims	(9,955)	(5,380)
Restructuring payments	(4,083)	(4,469)
Decrease in accounts payable and accruals	(6,105)	(13,427)
Increase (decrease) in interest payable	23	(7,124)
Increase in working capital	$ (9,193)	$ (20,764)

See accompanying Notes to Consolidated Financial Statements

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Interim Financial Presentation

These interim Consolidated Financial Statements are unaudited; however, in the opinion of management, they have been prepared in accordance with Rule 10-01 of Regulation S-X and reflect all adjustments (all of which are of a normal, recurring nature) which management considers necessary for a fair statement of financial position, results of operations and cash flows for the periods presented. These interim Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements, including the accompanying Notes, contained in our Annual Report on Form 10-K for the year ended December 31, 2006 (the **Annual Report**). The year-end Consolidated Balance Sheet was derived from audited Consolidated Financial Statements, but does not include all disclosures required annually by accounting principles generally accepted in the United States of America.

Certain amounts in the Consolidated Financial Statements for the three and six months ended June 30, 2006 have been reclassified to conform with current period presentation.

The results for the second quarter include expenses associated with our final purchase price adjustment related to the sale of our cathodes business in December of 2006. These expenses were for items identified in the second quarter that related to the final purchase price settlements recorded in the first quarter. This resulted in an 1) understatement of loss from discontinued operations in the first quarter of 2007 in the amount of $3.8 million, $2.5 million net of tax, and an 2) overstatement of loss from discontinued operations in the current quarter of the same amount. We have determined that the impact of this item was not material to the first or second quarter.

(2) New Accounting Standards

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, (SFAS 159). This standard permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions in SFAS 159 are elective; however, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option: (a) may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method; (b) is irrevocable (unless a new election date occurs); and (c) is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. We are currently in the process of assessing the impact of the adoption of SFAS 159 on our consolidated results of operations and financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

value, and expands disclosures about fair value measurements. SFAS No. 157 requires disclosure of information that enables users of the financial statements to assess the inputs used to develop fair value measurements and, for recurring fair value measurements using significant unobservable inputs, the effects of the measurements on earnings for the period. This statement is effective for fiscal years beginning after November 15, 2007. We are currently in the process of assessing the impact of the adoption of SFAS No. 157 on our consolidated results of operations and financial position.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140,* (SFAS 155). This Statement (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; and (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of our first fiscal year that begins after September 15, 2006. The fair value election of SFAS 155 may also be applied upon adoption of SFAS 155 for hybrid financial instruments that had been bifurcated under paragraph 12 of SFAS 133, prior to the adoption of this Statement. We have adopted SFAS 155 as of January 1, 2007. The adoption of SFAS 155 did not have an impact on our consolidated results of operations or financial position, as we do not have any hybrid financial instruments.

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.* FIN 48 clarifies the recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Under the guidelines of FIN 48, an entity should recognize a financial statement benefit for a tax position if it determines that it is more likely than not that the position will be sustained upon examination. We have adopted FIN 48 as of January 1, 2007. Additional information with respect to the adoption of this standard is set forth in Note 15 to the Consolidated Financial Statements.

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-03, How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation) (EITF 06-3). This EITF Issue clarifies that the presentation of taxes collected from customers and remitted to governmental authorities on a gross (included in revenues and costs) or net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22, Disclosure of Accounting Policies. We adopted EITF 06-3 as of January 1, 2007. Our accounting policy is to collect such taxes from customers and account for them on a net basis. The adoption of EITF 06 -3 did not have an impact on our consolidated results of operations or financial position.

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(3) Stock-Based Compensation

In the three months ended June 30, 2007 and 2006, we recognized $1.4 million and $0.7 million, respectively, in stock-based compensation expense. A majority of the expense, $1.2 million and $0.5 million respectively, was recorded as selling and administrative expenses in the Consolidated Statement of Operations, with the remaining expenses incurred as cost of sales and research and development.

In the six months ended June 30, 2007 and 2006, we recognized $2.8 million and $1.8 million, respectively, in stock-based compensation expense. A majority of the expense, $2.5 million and $1.5 million respectively, was recorded as selling and administrative expenses in the Consolidated Statement of Operations, with the remaining expenses incurred as cost of sales and research and development.

As of June 30, 2007, the total compensation cost related to non-vested restricted stock and stock options not yet recognized was $5.8 million and will be recognized over the weighted average life of 2.19 years.

Restricted stock activity under the plans for the six months ended June 30, 2007 was as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2007	1,630,725	$ 6.29
Granted	68,113	6.97
Vested	(502,607)	4.51
Forfeited	(48,227)	4.91
Outstanding at June 30, 2007	1,148,004	$ 6.18

Stock option activity under the plans for the six months ended June 30, 2007 was as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at January 1, 2007	9,424,864	$ 7.32
Granted	300,000	5.84
Vested		
Terminated	(1,779,644)	11.10
Exercised	(1,620,543)	4.88
Outstanding at June 30, 2007	6,324,677	$ 6.81

8

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(4) Earnings Per Share

Basic and diluted EPS are calculated based upon the provisions of SFAS No. 128, *Earnings Per Share*, and EITF No. 04-08, *Accounting Issues Related to Certain Features of Contingently Convertible Debt and the Effects on Diluted Earnings Per Share*, using the following data:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2007	2006	2007
	(Dollars in thousands, except share data)			
Net income as reported	$ 8,911	$ 62,442	$ 4,265	$ 80,297
Interest on Debentures, net of tax benefit	595	898		1,795
Amortization of Debentures issuance costs, net of tax benefit	174	422		845
Net income as adjusted	$ 9,680	$ 63,762	$ 4,265	$ 82,937
Weighted average common shares outstanding for basic calculation	97,980,835	99,759,078	97,841,775	99,202,210
Add: Effect of stock options and restricted stock	625,644	3,218,867	573,840	1,735,446
Add: Effect of Debentures	13,570,560	13,570,560		13,570,560
Weighted average common shares outstanding for diluted calculation	112,177,039	116,548,505	98,415,615	114,508,216

Basic earnings per common share are calculated by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing net income by the sum of the weighted average number of common shares outstanding plus the additional common shares that would have been outstanding if potentially dilutive securities, including those underlying the Debentures, had been issued.

The calculation of weighted average common shares outstanding for the diluted calculation excludes consideration of stock options covering 9,081,629 and 2,161,413 shares in the three months ended June 30, 2006 and 2007, respectively, and 9,451,763 and 3,873,521 shares in the six months ended June 30, 2006 and 2007, respectively, because the exercise of these options would not have been dilutive for those periods due to the fact that the exercise prices were greater than the weighted average market price of our common stock for each of those periods.

The calculation of weighted average common shares outstanding for the diluted calculation also excludes the 13,570,560 shares underlying the Debentures for the six months ended June 30, 2006, as the effect would have been anti-dilutive.

(5) Segment Reporting

Our businesses are reported in the following reportable segments:

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

***Graphite Electrode*.** Our graphite electrode segment manufactures and delivers high quality graphite electrodes and related services. Electrodes are key components of the conductive power systems used to produce steel and other non-ferrous metals.

Advanced Graphite Materials. Advanced graphite materials include primary and specialty products for transportation, semiconductor and other markets.

Other Businesses. Other businesses include natural graphite products, refractories and carbon electrodes.

We evaluate the performance of our segments based on segment operating income. Intersegment sales and transfers are not material. The accounting policies of the reportable segments are the same as those for our Consolidated Financial Statements as a whole. Corporate expenses are allocated to segments based on each segment s percentage of consolidated sales.

The following tables summarize financial information concerning our reportable segments.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2007	2006	2007
	(Dollars in thousands)			
Net sales to external customers:				
Graphite electrode	$ 173,326	$ 208,674	$ 302,116	$ 388,738
Advanced graphite materials	25,074	27,962	50,237	54,469
Other businesses	24,914	19,253	45,153	40,913
Total net sales	$ 223,314	$ 255,889	$ 397,506	$ 484,120
Segment operating income (loss):				
Graphite electrode	$ 34,274	$ 62,204	$ 47,369	$ 109,881
Advanced graphite materials	3,298	5,596	5,404	8,882
Other businesses	(7,483)	(1,223)	(11,671)	(1,330)
Total segment operating income	$ 30,089	$ 66,577	$ 41,102	$ 117,433
Reconciliation of segment operating income to income from continuing operations before provision for income taxes and minority stockholders share of subsidaries income (loss):				
Antitrust investigations and related lawsuits and claims	2,513		2,513	
Other income, net	(1,607)	(23,059)	(1,987)	(11,995)
Interest expense	12,074	9,546	23,862	21,257
Interest income	(126)	(258)	(252)	(1,224)
	$ 17,235	$ 80,348	$ 16,966	$ 109,355

Income from continuing operations before provision for income taxes and minority stockholders share of subsidiaries income

10

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(6) Restructuring Charges and Impairment Losses

At June 30, 2007, the outstanding balance of our restructuring reserve was $4.3 million. The components of this balance at June 30, 2007 consisted primarily of:

Graphite Electrode Segment

$1.2 million related to the rationalization of our graphite electrode facilities in France and the cessation of operations of our facility in Russia.

$1.7 million related to severance costs for the closure of our graphite electrode manufacturing operations in Caserta, Italy.

$0.7 million related to the closure of our graphite electrode machining and warehousing operations in Clarksville, Tennessee.

Other Businesses

$0.7 million related to the shutdown of our carbon electrode production operations at our Columbia, Tennessee facility.

For the three months ended June 30, 2007, we recorded a net restructuring credit of $0.1 million. For the six months ended June 30, 2007, we recorded a net restructuring charge of $0.7 million.

The net credit of $0.1 million for the three months ended June 30, 2007 was due primarily to favorable changes in estimates of $0.7 million at our Columbia, Tennessee and Etoy, Switzerland facilities related to the timing and amounts of severance and related payments, offset by $0.6 million of expense, comprised primarily of $0.4 million of severance and related payments at our Columbia, Tennessee and Etoy, Switzerland facilities, and $0.2 million related to the closure of our graphite electrode machining and warehousing operations in Clarksville, Tennessee.

The net charge of $0.7 million for the six months ended June 30, 2007 was due to $1.4 million of restructuring charges, offset by $0.7 million of restructuring credits due to changes in estimates. The $1.4 million of restructuring charges related primarily to $0.6 million for the closure of our graphite electrode machining and warehousing operations in Clarksville, Tennessee, $0.5 million and $0.2 million related to severance and related payments at our Etoy, Switzerland and Columbia, Tennessee facilities, respectively, and $0.1 million related to our graphite electrode facilities in Caserta, Italy and Vyazma, Russia. The changes in estimates of $0.7 million were related to the timing and amounts of severance and related payments at our Switzerland, Columbia, Tennessee and former corporate headquarters in Wilmington, Delaware.

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following table summarizes activity relating to the restructuring liability at June 30, 2007.

	Severance and Related Costs	Plant Shutdown and Related Costs	Total
		(Dollars in thousands)	
Balance at January 1, 2007	$ 7,185	$ 689	$ 7,874
Restructuring charges	881	534	1,415
Change in estimates	(461)	(208)	(669)
Payments and settlements	(3,870)	(558)	(4,428)
Currency adjustments	60	14	74
Balance at June 30, 2007	$ 3,795	$ 471	$ 4,266

In the first quarter of 2006, we abandoned long-lived fixed assets associated with costs capitalized for our enterprise resource planning system implementations due to an indefinite delay in the implementation of the remaining facilities. As a result, we recorded a $6.6 million loss, in accordance with SFAS No. 144, *Accounting For the Impairment and Disposal of Long-Lived Assets.*

Also, in the first quarter of 2006, we announced our intention to sell certain long-lived assets from our Etoy, Switzerland and Caserta, Italy facilities. We recorded a $1.4 million impairment loss in the 2006 first quarter to adjust the carrying value of the assets in Switzerland to the estimated fair value less estimated selling costs. In the third quarter of 2006, we sold the long-lived assets at our Etoy, Switzerland facility. In the second quarter of 2007, we sold the long-lived assets at our Caserta, Italy facility.

In the second quarter of 2006, we abandoned certain long-lived fixed assets associated with the accelerated closing of our carbon electrode facility in Columbia, Tennessee due to changes in our initial plan of restructuring the facility. As a result, we recorded a $0.6 million impairment loss in accordance with SFAS No. 144.

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(7) Other (Income) Expense, Net

The following table presents an analysis of other (income) expense, net:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2007	2006	2007
	(Dollars in thousands)			
Currency (gains) losses	$ (2,147)	$ (1,798)	$ (4,533)	$ (71)
Loss on extinguishment of debt		2,765		10,288
Brazil sales tax provision	(1,465)		(1,465)	
Legal, environmental and other related costs	1,828	291	2,802	1,092
Loss (gain) on sale of assets	(281)	(23,893)	124	(23,187)
Bank and other financing fees	420	493	778	1,159
Loss on the sale of accounts receivable	230	325	405	475
Other	(192)	(1,242)	(98)	(1,711)
Total other (income) expense, net	$ (1,607)	$ (23,059)	$ (1,987)	$ (11,955)

We have non-dollar-denominated intercompany loans between our GrafTech Finance, Inc. subsidiary (Finco) and some of our foreign subsidiaries. At December 31, 2006 and June 30, 2007, the aggregate principal amount of these loans was $450.7 million and $460.9 million, respectively (based on currency exchange rates in effect at such dates). These loans are subject to remeasurement gains and losses due to changes in currency exchange rates. A portion of these loans are deemed to be essentially permanent and, as a result, remeasurement gains and losses on these loans are recorded in accumulated other comprehensive loss in the stockholders deficit section of the Consolidated Balance Sheets. The balance of these loans is deemed to be temporary and, as a result, remeasurement gains and losses on these loans are recorded as currency (gains) losses in other (income) expense, net, on the Consolidated Statements of Operations. In the six months ended June 30, 2006, we had a net total of $4.5 million of currency gains, including $6.3 million of exchange gains due to the remeasurement of intercompany loans and translation of financial statements of foreign subsidiaries which use the dollar as their functional currency. In the six months ended June 30, 2007, we had a net total of $0.1 million of currency gains, including $1.5 million of exchange gains due to the remeasurement of intercompany loans and translation of financial statements of foreign subsidiaries which use the dollar as their functional currency.

In connection with the redemption of $50.0 million of the outstanding principal amount of the Senior Notes during the three months ended June 30, 2007, we incurred a $2.8 million loss on the extinguishment of debt, which includes $2.6 million related to the call premium and $0.2 million of charges for the accelerated amortization of the debt issuance fees, terminated interest rate swaps and the premium related to the Senior Notes. For the six months ended June 30, 2007, we redeemed a total of $185.0 million of the outstanding principal of the Senior Notes. We incurred a $10.3 million loss on the extinguishment of debt, $9.5 million of which related to the call premium and $0.8 million of charges for the accelerated amortization of the debt issuance fees, terminated interest rate swaps and the premium related to the Senior Notes.

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In the three months ended June 30, 2007, we sold land and certain assets related to our former graphite electrode manufacturing facility in Caserta, Italy. The gain recognized on this sale was $23.7 million.

(8) Benefit Plans

The components of our consolidated net pension and postretirement costs (benefits) are set forth in the following tables:

	Pension Benefits			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2007	2006	2007
	(Dollars in thousands)			
Service cost	$ 295	$ 245	$ 587	$ 488
Interest cost	2,876	2,857	5,733	5,684
Expected return on plan assets	(2,983)	(3,112)	(5,947)	(6,194)
Amortization of transition obligation	(23)	(22)	(47)	(43)
Amortization of prior service cost	23	30	47	60
Amortization of unrecognized loss	709	579	1,416	1,155
Settlements		102		102
Net Cost	$ 897	$ 679	$ 1,789	$ 1,252

	Post Retirement Benefits			
	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2007	2006	2007
	(Dollars in thousands)			
Service cost	$ 101	$ 125	$ 204	$ 247
Interest cost	503	210	1,004	418
Amortization of prior service benefit	(5,279)	(2,838)	(10,557)	(5,670)
Amortization of unrecognized loss	1,333	1,126	2,664	2,246
Net benefit	$ (3,342)	$ (1,377)	$ (6,685)	$ (2,759)

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(9) Long-Term Debt and Liquidity

The following table presents our long-term debt:

	At December 31, 2006	At June 30, 2007
	(Dollars in thousands)	
Revolving Facility	$	$
Senior Notes:		
Senior Notes due 2012	434,631	249,623
Fair value adjustments for terminated hedge instruments*	6,421	3,324
Unamortized bond premium	1,265	658
Total Senior Notes	442,317	253,605
Debentures	222,233	222,567
Other debt	850	1,470
Total	$ 665,400	$ 477,642

* Fair value adjustments for terminated hedge instruments, originally accounted for as fair value hedges, will be amortized as a credit to interest expense over the remaining term of the Senior Notes.

(10) Inventories

Inventories are comprised of the following:

	At December 31, 2006	At June 30, 2007
	(Dollars in thousands)	
Raw material and supplies	$ 79,277	$ 68,318
Work in process	123,162	128,797
Finished goods	41,039	57,437
	243,478	254,552
Reserves	(4,349)	(2,794)
Total Inventories	$ 239,129	$ 251,758

15

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(11) Interest Expense
Interest expense consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2007	2006	2007
	(Dollars in thousands)			
Interest incurred on debt	$ 11,045	$ 8,693	$ 21,860	$ 19,442
Amortization of fair value adjustments for terminated hedge instruments	(243)	(155)	(482)	(358)
Amortization of premium on Senior Notes	(53)	(31)	(104)	(69)
Amortization of discount on Debentures	162	168	323	334
Interest on DOJ antitrust fine	46		130	5
Amortization of debt issuance costs	916	809	1,828	1,684
Interest incurred on other items	201	62	307	219
Total interest expense	$ 12,074	$ 9,546	$ 23,862	$ 21,257

(12) Comprehensive Income (Loss)
Comprehensive income (loss), net of tax, consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2007	2006	2007
	(Dollars in thousands)			
Net income	$ 8,911	$ 62,442	$ 4,265	$ 80,297
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(1,720)	5,137	7,902	7,737
Amortization of prior service costs and unrecognized gains and losses		977		2,252
Total comprehensive income	$ 7,191	$ 68,556	$ 12,167	$ 90,286

(13) Contingencies

Antitrust Investigations

We were previously subject to certain antitrust investigations as described in the Annual Report. At December 31, 2006, $5.4 million remained in the reserve for liabilities and expenses in connection with these investigations representing the last scheduled installment of the fine imposed by the United States Department of Justice, which was paid in January 2007.

Other Matters and Proceedings Against Us

We are involved in various other investigations, lawsuits, claims, demands, environmental compliance programs and other legal proceedings arising out of or incidental to the conduct of our business. While it is not possible to determine the ultimate disposition of each

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

of these matters, we do not believe that their ultimate disposition will have a material adverse effect on our financial position, results of operations or cash flows.

Environmental Matters

During 2006, we increased our reserve for environmentally related activities to be performed in connection with the closure and sale of our Caserta, Italy facility by $1.7 million. The majority of this increase was incurred during the three months ended June 30, 2006. The increase in the reserve relates primarily to activities for closing the on-site solid waste landfill earlier than originally anticipated. At December 31, 2006, our accrual balance for these activities at our Caserta, Italy location was $3.1 million. In the second quarter of 2007, we sold our Caserta, Italy facility. At the time of the sale, the environmental accrual at Caserta was $2.4 million. In connection with this sale, we agreed to complete certain activities for the remediation of portions of the land and to complete the closure of the landfill. Approximately $1.5 million of the purchase price has been placed in escrow as security for the completion of these activities. The sale agreement provides that, upon completion of certain milestones in the remediation and landfill closure activities, portions of the escrowed amounts shall be paid to us.

Product Warranties

We generally sell products with a limited warranty. We accrue for known warranty claims if a loss is probable and can be reasonably estimated. We also accrue for estimated warranty claims incurred based on a historical claims charge analysis. Claims accrued but not yet paid amounted to $0.9 million at December 31, 2006 and at June 30, 2007. The following table presents the activity in this accrual for the six months ended June 30, 2007:

	(Dollars in Thousands)	
Balance at January 1, 2007	$	920
Product warranty charges		474
Payments and settlements		(544)
Balance at June 30, 2007	$	850

(14) Financial Information About the Issuers and Guarantors of Our Debt Securities and Subsidiaries Whose Securities Secure the Senior Notes and Related Guarantees

On February 15, 2002, GrafTech Finance (**Finco**), a direct subsidiary of GTI (the **Parent**), issued $400 million aggregate principal amount of Senior Notes and, on May 6, 2002, $150 million aggregate principal amount of additional Senior Notes. All of the Senior Notes have been issued under a single Indenture and constitute a single class of debt securities. The Senior Notes mature on February 15, 2012. The Senior Notes have been guaranteed on a senior basis by the Parent and the following wholly-owned direct and indirect subsidiaries of the Parent: GrafTech Global, UCAR Carbon, UCAR International Trading Inc., and UCAR Carbon

17

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Technology LLC. The Parent, Finco and these subsidiaries together hold a substantial majority of our U.S. assets.

On January 22, 2004, the Parent issued $225 million aggregate principal amount of Debentures. The guarantors of the Debentures are the same as the guarantors of the Senior Notes, except for Parent (which is the issuer of the Debentures but a guarantor of the Senior Notes) and Finco (which is a guarantor of the Debentures but the issuer of the Senior Notes). The Parent and Finco are both obligors on the Senior Notes and the Debentures, although in different capacities.

The guarantors of the Senior Notes and the Debentures, solely in their respective capacities as such, are collectively called the **U.S. Guarantors**. Our other subsidiaries, which are not guarantors of either the Senior Notes or the Debentures, are called the **Non-Guarantors**.

All of the guarantees are unsecured, except that the guarantee of the Senior Notes by UCAR Carbon has been secured by a junior pledge of all of the shares of capital stock (constituting 97.5% of the outstanding shares of capital stock) of AET held by UCAR Carbon (called the **AET Pledged Stock**), subject to the limitation that in no event will the value of the pledged portion of the AET Pledged Stock exceed 19.99% of the principal amount of the then outstanding Senior Notes. All of the guarantees are full, unconditional and joint and several. Finco and each of the other U.S. Guarantors (other than the Parent) are 100% owned, directly or indirectly, by the Parent. All of the guarantees of the Senior Notes continue until the Senior Notes have been paid in full, and payment under such guarantees could be required immediately upon the occurrence of an event of default under the Senior Notes. All of the guarantees of the Debentures continue until the Debentures have been paid in full, and payment under such guarantees could be required immediately upon the occurrence of an event of default under the Debentures. If a guarantor makes a payment under its guarantee of the Senior Notes or the Debentures, it would have the right under certain circumstances to seek contribution from the other guarantors of the Senior Notes or the Debentures, respectively.

Provisions in the Revolving Facility restrict the payment of dividends by our subsidiaries to the Parent. At June 30, 2007, retained earnings of our subsidiaries subject to such restrictions were approximately $1,028 million. Investments in subsidiaries are recorded on the equity basis.

The following tables set forth condensed consolidating balance sheets at December 31, 2006 and June 30, 2007, condensed consolidating statements of operations for the three and six months ended June 30, 2006 and three and six months ended June 30, 2007 as well as condensed consolidating statements of cash flows for the six months ended June 30, 2006 and 2007, respectively, of the Parent, Finco, all other U.S. Guarantors and the Non-Guarantors.

During the second quarter of 2007, the Company has revised the presentation of the guarantor financial statements to reflect the equity (deficit) in earnings of all subsidiaries in the Parent condensed consolidating statement of operations. In addition, the Company reclassified the investment in affiliates from the payable to equity of investees for consistency with the presentation in the condensed consolidating statement of operations.

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Balance Sheet

at December 31, 2006

	Parent (Issuer of Debentures and Guarantor of Senior Notes)	Finco (Issuer of Senior Notes and Guarantor of Debentures)	All Other U.S. Guarantors	Non-Guarantors	Consolidation/ Eliminations	Consolidated
			(Dollars in thousands)			
ASSETS						
Current assets:						
Cash and cash equivalents	$ 151	$ 125,161	$	$ 24,335	$ (130)	$ 149,517
Intercompany loans	67,402	190,976		328,602	(586,980)	
Intercompany accounts receivable		12,071	38,065	17,939	(68,075)	
Accounts receivable third party		130	23,376	143,022		166,528
Accounts and notes receivable, net	67,402	203,177	61,441	489,563	(655,055)	166,528
Inventories			51,220	187,948	(39)	239,129
Prepaid expenses and other current assets		16,430	1,444	18,417	(22,220)	14,071
Total current assets	67,553	344,768	114,105	720,263	(677,444)	569,245
Property, plant and equipment, net			43,567	250,834	(4,648)	289,753
Deferred income taxes			9,100	6,326	(9,100)	6,326
Intercompany loans		542,973			(542,973)	
Investments in affiliates	40,088		127,257		(167,345)	
Goodwill				9,822		9,822
Other assets	4,288	14,229	2,540	8,196		29,253
Assets held for sale				1,802		1,802
Total assets	$ 111,929	$ 901,970	$ 296,569	$ 997,243	$ (1,401,510)	$ 906,201
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Accounts payable	$	$	$ 7,791	$ 54,303	$	$ 62,094
Interest payable	1,676	17,195		1		18,872
Intercompany loans		330,540	242,132	82,487	(655,159)	

Third party loans				458		458
Short-term debt		330,540	242,132	82,945	(655,159)	458
Accrued income and other taxes	1,939		27,309	34,065	(22,214)	41,099
Other accrued liabilities		184	30,160	67,724		98,068
Total current liabilities	3,615	347,919	307,392	239,038	(677,373)	220,591
Long-term debt	222,234	442,317		849		665,400
Intercompany loans				542,972	(542,972)	
Other long-term obligations			56,101	47,307		103,408
Payable to equity of investees						
Deferred income taxes				36,098	(9,098)	27,000
Minority stockholders equity in consolidated entities				3,722		3,722
Stockholders equity (deficit)	(113,920)	111,734	(66,924)	127,257	(172,067)	(113,920)
Total liabilities and stockholders deficit	$ 111,929	$ 901,970	$ 296,569	$ 997,243	$ (1,401,510)	$ 906,201

19

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Balance Sheet

at June 30, 2007

	Parent (Issuer of Debentures and Guarantor of Senior Notes)	Finco (Issuer of Senior Notes and Guarantor of Debentures)	All Other U.S. Guarantors	Non-Guarantors	Consolidation/ Eliminations	Consolidated
			(Dollars in thousands)			
ASSETS						
Current assets:						
Cash and cash equivalents	$ 180	$ 8,804	$	$ 24,652	$ (162)	$ 33,474
Intercompany loans	83,426	178,221		407,122	(668,769)	
Intercompany accounts receivable		7,766	40,066	43,931	(91,763)	
Accounts receivable third party			27,025	126,208		153,233
Accounts and notes receivable, net	83,426	185,987	67,091	577,261	(760,532)	153,233
Inventories			42,113	209,663	(18)	251,758
Prepaid expenses and other current assets		22,738	1,477	5,337	(22,660)	6,892
Assets held for sale				2,677		2,677
Total current assets	83,606	217,529	110,681	819,590	(783,372)	448,034
Property, plant and equipment, net			45,299	256,746	(4,507)	297,538
Deferred income taxes			13,322	1,242	(8,172)	6,392
Intercompany loans		553,117			(553,117)	
Investments in affiliates	130,307		230,089		(360,396)	
Goodwill				9,817		9,817
Other assets	3,752	8,997	2,932	9,070		24,751
Assets held for sale				1,415		1,415
Total assets	$ 217,665	$ 779,643	$ 402,323	$ 1,097,880	$ (1,709,564)	$ 787,947
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)						
Current liabilities:						
Accounts payable	$	$	$ 5,034	$ 56,665	$ (161)	$ 61,538
Interest Payable	1,676	10,062		10		11,748
Intercompany loans		412,434	265,192	82,976	(760,602)	
Third party loans				189		189

Short-term debt		412,434	265,192	83,165	(760,602)	189
Accrued income and other taxes	1,417		31,500	28,426	(22,650)	38,693
Other accrued liabilities			19,590	56,234		75,824
Liabilities of assets held for sale				395		395
Total current liabilities	3,093	422,496	321,316	224,895	(783,413)	188,387
Long-term debt	222,567	253,605		1,470		477,642
Intercompany loans				553,118	(553,118)	
Other long-term obligations			49,779	49,490		99,269
Payable to equity of investees						
Deferred income taxes				34,944	(8,174)	26,770
Minority stockholders equity in consolidated entities				3,874		3,874
Stockholders equity (deficit)	(7,995)	103,542	31,228	230,089	(364,859)	(7,995)
Total liabilities and stockholders deficit	$ 217,665	$ 779,643	$ 402,323	$ 1,097,880	$ (1,709,564)	$ 787,947

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Statements of Operations

for the Three Months Ended June 30, 2006

	Parent (Issuer of Debentures and Guarantor of Senior Notes)	Finco (Issuer of Senior Notes and Guarantor of Debentures)	All Other U.S. Guarantors	Non-Guarantors	Consolidation/ Eliminations	Consolidated
			(Dollars in thousands)			
Net sales	$	$	$ 70,377	$ 200,176	$ (47,239)	$ 223,314
Cost of sales		(773)	59,984	145,797	(41,606)	163,402
Gross profit		773	10,393	54,379	(5,633)	59,912
Research and development			1,605	1,262		2,867
Selling and administrative		(30)	11,612	20,470	(8,610)	23,442
Restructuring charges			1,532	1,345		2,877
Impairment loss on long-lived assets				637		637
Antitrust investigations and related lawsuits and Claims			2,513			2,513
Other (income) expense, net	17	(11,910)	2,359	(2,254)	10,181	(1,607)
Interest expense	1,222	14,104	2,568	4,372	(10,192)	12,074
Interest Income		(3)		(123)		(126)
Income (loss) from continuing operations before provision for (benefit from) income taxes and minority stockholders share of income (loss)	(1,239)	(1,388)	(11,796)	28,670	2,988	17,235
Provision for (benefit from) income taxes	(9)	201	1,966	5,010	(11)	7,157
Minority stockholders share of income (loss)				39		39
Income from continuing operations	(1,230)	(1,589)	(13,762)	23,621	2,999	10,039
Loss from discontinued operations, net of tax				(1,128)		(1,128)
Deficit (equity) in earnings of subsidiaries	(10,141)		(22,493)		32,634	
Net income (loss)	$ 8,911	$ (1,589)	$ 8,731	$ 22,493	$ (29,635)	$ 8,911

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Statements of Operations

for the Three Months ended June 30, 2007

	Parent (Issuer of Debentures and Guarantor of Senior Notes)	Finco (Issuer of Senior Notes and Guarantor of Debentures)	All Other U.S. Guarantors	Non-Guarantors	Consolidation/ Eliminations	Consolidated
			(Dollars in thousands)			
Net sales	$	$	$ 67,811	$ 230,564	$ (42,486)	$ 255,889
Cost of sales			49,470	146,785	(34,312)	161,943
Gross profit			18,341	83,779	(8,174)	93,946
Research and development			1,549	496		2,045
Selling, administrative and other expenses			15,603	20,078	(10,219)	25,462
Restructuring charges			196	(334)		(138)
Impairment loss on long-lived and other assets						
Antitrust investigations and related lawsuits						
Other (income) expense, net		(9,737)	(4,267)	(25,918)	16,863	(23,059)
Interest expense	919	13,259	2,466	9,735	(16,833)	9,546
Interest income		(1)	(17)	(240)		(258)
Income (loss) from continuing operations before provision for (benefit from) income taxes and minority stockholders share of income (loss)	(919)	(3,521)	2,811	79,962	2,015	80,348
Provision for (benefit from) income taxes	1,753	(1,661)	4,108	11,249	(73)	15,376
Income (loss) from continuing operations	(2,672)	(1,860)	(1,297)	68,713	2,088	64,972
Minority stockholders share of income (loss)				2		2
Income (loss) from continuing operations	(2,672)	(1,860)	(1,297)	68,711	2,088	64,970
Loss from discontinued operations, net of tax				(2,528)		(2,528)
Equity (deficit) in earnings of subsidiaries	65,114		68,811		(133,925)	
Net income (loss)	$ 62,442	$ (1,860)	$ 67,514	$ 66,183	$ (131,837)	$ 62,442

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Statements of Operations

for the Six Months Ended June 30, 2006

	Parent (Issuer of Debentures and Guarantor of Senior Notes)	Finco (Issuer of Senior Notes and Guarantor of Debentures)	All Other U.S. Guarantors	Non-Guarantors	Consolidation/ Eliminations	Consolidated
			(Dollars in thousands)			
Net sales	$	$	$ 129,698	$ 360,689	$ (92,881)	$ 397,506
Cost of sales			107,453	263,041	(82,349)	288,145
Gross profit			22,245	97,648	(10,532)	109,361
Research and development			3,102	2,296		5,398
Selling and administrative		54	25,840	37,979	(15,623)	48,250
Restructuring charges	19		3,155	2,649		5,823
Impairment loss on long-lived assets			6,768	2,020		8,788
Antitrust investigations and related lawsuits and Claims			2,513			2,513
Other (income) expense, net	17	(22,959)	4,682	(2,426)	18,699	(1,987)
Interest expense	2,461	27,552	4,374	8,181	(18,706)	23,862
Interest income		(3)		(249)		(252)
Income (loss) from continuing operations before provision for (benefit from) income taxes and minority stockholders share of income (loss)	(2,497)	(4,644)	(28,189)	47,198	5,098	16,966
Provision for (benefit from) income taxes	(9)	394	2,002	8,484	(135)	10,736
Minority stockholders share of income (loss)				42		42
Income from continuing operations	2,488	(5,038)	(30,191)	38,672	5,233	6,188
Loss from discontinued operations, net of tax				(1,923)		(1,923)
Deficit (equity) in earnings of subsidiaries	(6,753)		(36,749)		43,502	
Net income (loss)	$ 4,265	$ (5,038)	$ 6,558	$ 36,749	$ (38,269)	$ 4,265

Table of Contents

PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Condensed Consolidating Statements of Operations

for the Six Months ended June 30, 2007