

GRAFTECH INTERNATIONAL LTD

Form 10-Q

October 28, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended September 30, 2010

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
(State or other jurisdiction of
incorporation or organization)

06-1385548
(I.R.S. Employer
Identification Number)

12900 Snow Road

Parma, OH
(Address of principal executive offices)

44130
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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

Smaller Reporting Company

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

As of October 18, 2010, 121,067,217 shares of common stock, par value \$.01 per share, were outstanding.

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	At December 31, 2009	At September 30, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 50,181	\$ 66,503
Accounts and notes receivable, net of allowance for doubtful accounts of \$4,545 at December 31, 2009 and \$3,986 at September 30, 2010	117,620	158,687
Inventories	245,511	283,337
Loan to non-consolidated affiliate	6,000	0
Prepaid expenses and other current assets	9,586	13,371
Total current assets	428,898	521,898
Property, plant and equipment	982,173	1,028,208
Less: accumulated depreciation	610,182	635,309
Net property, plant and equipment	371,991	392,899
Deferred income taxes	11,437	11,125
Goodwill	9,037	9,524
Other assets	7,298	11,998
Investment in non-consolidated affiliate	63,315	65,641
Restricted cash	632	1,161
Total assets	\$ 892,608	\$ 1,014,246
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 33,928	\$ 41,941
Short-term debt	1,113	9
Accrued income and other taxes	38,977	34,484
Supply chain financing liability	14,404	25,460
Other accrued liabilities	91,907	92,965
Total current liabilities	180,329	194,859
Long-term debt	1,467	1,383
Other long-term obligations	108,267	104,492
Deferred income taxes	25,486	29,097

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Contingencies Note 14		
Stockholders' equity:		
Preferred stock, par value \$.01, 10,000,000 shares authorized, none issued	0	0
Common stock, par value \$.01, 225,000,000 shares authorized, 124,027,399 shares issued at December 31, 2009 and 124,664,565 shares issued at September 30, 2010	1,240	1,247
Additional paid-in capital	1,300,051	1,309,170
Accumulated other comprehensive loss	(305,644)	(303,597)
Accumulated deficit	(305,202)	(207,740)
Less: cost of common stock held in treasury, 3,974,345 shares at December 31, 2009 and 4,068,412 at September 30, 2010	(112,511)	(113,693)
Less: common stock held in employee benefit and compensation trusts, 71,493 shares at December 31, 2009 and 75,721 shares at September 30, 2010	(875)	(972)
Total stockholders' equity	577,059	684,415
Total liabilities and stockholders' equity	\$ 892,608	\$ 1,014,246

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 amounts)**(Unaudited)*

	For the		For the	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2010	2009	2010
Net sales	\$ 164,879	\$ 255,236	\$ 456,679	\$ 725,754
Cost of sales	118,346	180,204	332,332	507,892
Gross profit	46,533	75,032	124,347	217,862
Research and development	2,871	3,535	8,048	9,261
Selling and administrative expenses	18,589	30,593	63,319	85,412
Operating income	25,073	40,904	52,980	123,189
Equity in losses (earnings) and write-down of investment in non-consolidated affiliate	953	(1,416)	54,343	(2,326)
Other expense (income), net	10,710	10,111	8,446	(1,744)
Interest expense	1,168	861	4,236	3,063
Interest income	(251)	(160)	(552)	(1,228)
Income (loss) before provision for income taxes	12,493	31,508	(13,493)	125,424
Provision for income taxes	5,629	6,896	8,265	27,962
Net income (loss)	\$ 6,864	\$ 24,612	\$ (21,758)	\$ 97,462
Basic income (loss) per common share:				
Net income (loss) per share	\$ 0.06	\$ 0.20	\$ (0.18)	\$ 0.81
Weighted average common shares outstanding	119,928	120,559	119,596	120,484
Diluted income (loss) per common share:				
Net income (loss) per share	\$ 0.06	\$ 0.20	\$ (0.18)	\$ 0.80
Weighted average common shares outstanding	120,716	121,355	119,596	121,242

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 Nine Months Ended September 30,	
	2009	2010
Cash flow from operating activities:		
Net (loss) income	\$ (21,758)	\$ 97,462
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	23,905	29,175
Deferred income tax (benefit) provision	(10,829)	2,526
Equity in losses (earnings) and write-down of investment in non-consolidated affiliate	54,343	(2,326)
Post-retirement and pension plan changes	6,688	7,640
Currency losses (gains)	5,135	(4,286)
Stock-based compensation, including incentive compensation paid in company stock	5,957	4,953
Interest expense	1,040	1,420
Other charges, net	14,666	1,065
Dividends from non-consolidated affiliate	122	0
Decrease (increase) in working capital*	47,693	(79,167)
(Increase) in long-term assets and liabilities	(5,259)	(4,435)
Net cash provided by operating activities	121,703	54,027
Cash flow from investing activities:		
Capital expenditures	(40,544)	(51,455)
Loan to non-consolidated affiliate	(6,000)	6,000
Proceeds from derivative instruments	433	978
Net change in restricted cash	(999)	(529)
Other	112	275
Net cash used in investing activities	(46,998)	(44,731)
Cash flow from financing activities:		
Short-term debt borrowings (reductions), net	773	(868)
Revolving Facility borrowings	124,715	0
Revolving Facility reductions	(155,231)	0
Proceeds from long-term debt	1,837	0
Principal payments on long-term debt	(20,035)	(56)
Supply chain financing	(30,115)	11,056
Proceeds from exercise of stock options	89	1,134
Purchase of treasury shares	0	(1,182)
Excess tax benefit from stock-based compensation	10	959
Long-term financing obligations	(815)	(857)

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Revolver facility refinancing cost	0	(4,510)
Net cash (used in) provided by financing activities	(78,772)	5,676
Net (decrease) increase in cash and cash equivalents	(4,067)	14,972
Effect of exchange rate changes on cash and cash equivalents	1,068	1,350
Cash and cash equivalents at beginning of period	11,664	50,181
Cash and cash equivalents at end of period	\$ 8,665	\$ 66,503

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

Decrease (increase) in current assets:		
Accounts and notes receivable, net	\$ 64,187	\$ (42,309)
Effect of factoring of accounts receivable	(15,993)	(1,115)
Inventories	62,819	(38,974)
Prepaid expenses and other current assets	(596)	(2,854)
Restructuring payments	(12)	(624)
(Decrease) increase in accounts payables and accruals	(61,766)	6,737
(Decrease) in interest payable	(946)	(28)
Decrease (increase) in working capital	\$ 47,693	\$ (79,167)

See accompanying Notes to Consolidated Financial Statements

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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 in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted or condensed. 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, 2009 (the Annual Report).

The unaudited consolidated financial statements 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 interim periods presented. The results for interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

Certain amounts previously reported have been reclassified to conform to the current year presentation.

(2) New Accounting Standards

Recently Adopted Accounting Standards

Consolidation

In June 2009, the FASB amended the consolidation accounting guidance. We are required to qualitatively assess the determination of our being the primary beneficiary (consolidator) of a variable interest entity (VIE) on whether we (1) have the power to direct matters that most significantly impact the activities of the VIE, and (2) have the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. It also requires an ongoing reconsideration of the primary beneficiary and amends events that trigger a reassessment of whether an entity is a VIE. The new model is applicable to all new and existing VIE s. The adoption of this new guidance on January 1, 2010 had no impact on our consolidated financial position or results of operation.

Transfers of Financial Assets

In June 2009, the FASB amended the accounting guidance for determining whether a transfer of a financial asset qualifies for sale accounting. The adoption of this guidance to our accounts receivable factoring arrangement beginning January 1, 2010 had no impact on our consolidated financial position or results of operations.

(3) Stock-Based Compensation

In the three months ended September 30, 2009 and 2010, we recognized \$1.0 million and \$1.5 million, respectively, in stock-based compensation expense. A majority of the expense, \$0.9 million and \$1.4 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.

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In the nine months ended September 30, 2009 and 2010, we recognized \$2.3 million and \$4.9 million, respectively, in stock-based compensation expense. A majority of the expense, \$2.2 million and \$4.5 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 September 30, 2010, the total compensation cost related to non-vested restricted stock and stock options not yet recognized was \$9.5 million, which will be recognized over the weighted average life of 1.44 years.

Restricted Stock and Performance Shares

Restricted stock activity under the plans for the nine months ended September 30, 2010 was as follows:

	Number of Shares	Weighted- Average Grant Date Fair Value
Outstanding unvested at January 1, 2010	1,146,256	\$ 12.07
Granted	134,263	13.83
Vested	(362,566)	7.44
Forfeited	(32,668)	10.53
Outstanding at September 30, 2010	885,285	\$ 14.29

Stock Options

Stock option activity under the plans for the nine months ended September 30, 2010 was as follows:

	Number of Shares	Weighted- Average Exercise Price
Outstanding at January 1, 2010	1,512,538	\$ 9.80
Granted	24,500	14.73
Exercised	(125,520)	9.03
Forfeited	(29,151)	15.85
Outstanding at September 30, 2010	1,382,367	\$ 9.83

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The following table shows the information used in the calculation of our share counts for basic and diluted earnings per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2010	2009	2010
Weighted average common shares outstanding for basic calculation	119,928,599	120,559,244	119,595,663	120,483,832
Add: Effect of stock options and restricted stock	787,656	795,570	0	758,241
Weighted average common shares outstanding for diluted calculation	120,716,255	121,354,814	119,595,663	121,242,073

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 had been issued.

The weighted average common shares outstanding for the diluted calculation excludes consideration of stock options covering 227,000 in the three months ended September 30, 2010 and 232,000 shares in the nine months ended September 30, 2010 because the exercise prices were greater than the weighted average market price of our common stock for each of those periods.

The weighted average common shares outstanding for the diluted calculation excludes consideration of stock options covering 64,451 in the three months ended September 30, 2009 because the exercise prices were greater than the weighted average market price of our common stock for each of those periods. There is no dilution for the nine months ended September 30, 2009 as we were in a net loss position for that period.

(5) Segment Reporting

Our businesses are reported in the following reportable segments:

Industrial Materials. Our Industrial Materials segment manufactures and delivers high quality graphite electrodes and refractory products. Electrodes are key components of the conductive power systems used to produce steel and other non-ferrous metals. Refractory products are used in blast furnaces and submerged arc furnaces due to their high thermal conductivity and the ease with which they can be machined to large or complex shapes.

Engineered Solutions. Engineered Solutions include advanced graphite materials products for the transportation, solar, and oil and gas exploration industries, as well as natural graphite products for electronic thermal management applications.

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

We continue to evaluate the performance of our segments based on segment operating income. Intersegment sales and transfers are not material and 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 net sales.

The following tables summarize financial information concerning our reportable segments:

	For the Three Months Ended September 30, 2009 2010		For the Nine Months Ended September 30, 2009 2010	
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Net sales to external customers:				
Industrial Materials	\$ 136,721	\$ 208,248	\$ 371,076	\$ 599,394
Engineered Solutions	28,158	46,988	85,603	126,360
Total net sales	\$ 164,879	\$ 255,236	\$ 456,679	\$ 725,754
Segment operating income:				
Industrial Materials	\$ 23,828	\$ 34,666	\$ 46,986	\$ 110,835
Engineered Solutions	1,245	6,238	5,994	12,354
Total segment operating income	25,073	40,904	52,980	123,189
Reconciliation of segment operating income to income (loss) before provision for income taxes				
Equity in losses (earnings) and write-down of investment in non-consolidated affiliate	953	(1,416)	54,343	(2,326)
Other expense (income), net	10,710	10,111	8,446	(1,744)
Interest expense	1,168	861	4,236	3,063
Interest income	(251)	(160)	(552)	(1,228)
Income (loss) before provision for income taxes	\$ 12,493	\$ 31,508	\$ (13,493)	\$ 125,424

(6) Investment in and Loan to Non-Consolidated Affiliate
Acquisition

On June 30, 2008, we acquired 100% of the common stock of Falcon-Seadrift Holding Corp., now named GrafTech Seadrift Holding Corp. (GTSD). The principal asset of GTSD is limited partnership units constituting approximately 18.9% of the equity interests of Seadrift Coke L.P.

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(Seadrift), a privately-held producer of needle coke, the primary raw material used in the manufacture of graphite electrodes. Needle coke is a critical raw material required to produce a graphite electrode and represents approximately 45% of our total cost to produce graphite electrodes. At the time of the acquisition, industry sales of graphite electrodes were at an all-time high and needle coke production was at or near full capacity. The risk availability and rising cost of needle coke was creating a potentially compelling threat to the profitability and growth of our business model. In order to partially hedge the impact of rising needle coke cost and, more importantly, to potentially position ourselves to gain a controlling interest, we purchased our 18.9% ownership interest in Seadrift.

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The substance of the transaction was the acquisition of an asset, the limited partnership units. The cost of our acquisition was \$136.5 million (net of \$0.4 million cash received) of which \$135.0 million cash was paid to the prior sole shareholder of GTSD.

In addition to the limited partnership units of Seadrift, we obtained certain rights associated with these interests. These include: the right to one of five seats on Seadrift's board of directors (or, at our election, board observation rights in lieu thereof); the right of approval with respect to certain mergers and other transactions; and the right to veto Seadrift's repurchase of its own equity (other than from former employees). There are also customary rights permitting or requiring us to sell our interests on the same terms and conditions if the majority owners sell their interests. Beginning May 1, 2011, we have the right to require Seadrift to purchase our interests (a put to Seadrift) at the then fair market value (determined by a third-party assuming a sale of Seadrift as a going concern and without applying a discount for lack of liquidity, marketability, or lack of control).

We accounted for the acquisition of GTSD as the acquisition of an asset limited partnership units in Seadrift rather than as a business combination. Because the amount we paid for the limited partnerships units exceeded their tax basis we were required to recognize a deferred tax liability for this difference. We increased the carrying value of our investment by \$41.8 million to recognize the deferred tax liability applicable to the difference between the amount we paid and the tax basis of the Seadrift limited partnership units. At the time of the acquisition we had a deferred tax asset valuation allowance. The accounting for the acquisition of Seadrift resulted in a taxable temporary difference that is expected to reverse during the same period that our deferred tax assets are expected to reverse. Accounting guidance required us to reduce our preexisting valuation allowance and decrease the carrying value of our investment in Seadrift by \$22.4 million. The net result was an increase in the initial carrying amount for the investment in Seadrift of \$19.4 million.

Equity in Losses (Earnings) and Summarized Financial Information

Seadrift is a pass-through entity. We account for our investment in Seadrift using the equity method of accounting. Our equity in losses (earnings) is based on Seadrift's results of operations with a one-month lag because its accounting close and financial statement preparation cycle occurs subsequent to our reporting deadline for our corresponding cycle. We include material intervening events and an estimate for the effect of Seadrift's LIFO inventory accounting on interim periods.

Our statement of operations included our equity in the losses of Seadrift, on a one-month lag, of \$0.5 million during the three months ended September 30, 2009 and our equity in the earnings of Seadrift, on a one-month lag, of \$1.9 million during the three months ended September 30, 2010, as well as the amortization of the difference between our cost of the investment and the net assets of Seadrift assigned to the long-lived assets of \$0.5 million for each of the three month periods ended September 30, 2009 and 2010. Our statement of operations for the nine months ended September 30, 2009 and September 30, 2010 includes our equity in the earnings of Seadrift, on a one-month lag, of \$1.6 million and of \$3.8 million, respectively, as well as the amortization of the difference between our cost of the investment and the net assets of Seadrift assigned to the long-lived assets of \$3.2 million and \$1.5 million for the nine months ended September 30, 2009 and 2010, respectively.

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)**

The following table shows summarized financial information for Seadrift on a one-month lag, including adjustments for material intervening events, for the three and nine months ended September 30, 2009 and 2010:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2010	2009	2010
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Net sales	\$ 12,803	\$ 54,087	\$ 65,454	\$ 116,787
Gross profit	691	14,292	19,873	31,229
Net (loss) income	(2,453)	10,084	8,666	20,121

Write-down of Investment to Its Fair Value

We perform an assessment of our investment in Seadrift for impairment whenever changes in the facts and circumstances indicate that a loss in value has occurred, which is other than temporary. Because Seadrift is privately-held, we determine the fair value using an income approach (based upon the present value of expected future cash flows, using discount rates commensurate with the risks of the investment), a Level 3 value in accordance with the definition in ASC 820, *Fair Value Measurements and Disclosures*. Our valuation method uses a discounted cash flow model in which cash flows anticipated over several periods, plus a terminal value at the end of that time horizon are discounted to their present value using an appropriate rate of return. We used the constant growth method to determine the terminal value.

At June 30, 2009, we determined that Seadrift's reported and projected operating losses were triggering events requiring us to assess if there was a loss in value that is other than temporary. The fair value of Seadrift reflected reductions in the estimated future cash flows based on a lower expectation of volume and reduced growth and profitability resulting primarily from the continued downturn in the economy. At June 30, 2009, we determined that the fair value of the investment was less than our carrying value and that the loss in value was other than temporary. We recorded a \$52.8 million noncash impairment to recognize this other than temporary loss in value. Because the impairment reduced the difference between the carrying amount of our investment and its tax basis, we recorded a net tax benefit of \$7.4 million representing the net change of the deferred tax liability and the restoration of the valuation allowance recognized at the acquisition. We also determined that for each one percentage point change in the discount rate the fair value of our investment would be changed by approximately \$2.8 million and that for each 0.25% percentage point decrease in the long-term growth rate the fair value of our investment would be changed by approximately \$1.6 million.

The key drivers of the forecasts are metric tons shipped and price per ton. Using these forecasts we applied our assumptions of current and longer term growth for the industry and electric arc furnace utilization rates to forecast future cash flows; applying the half-year convention to the year 2009 forecast. We discounted the projected cash flows using a weighted average cost of capital of 14.5% and a long-term growth rate of 2.5%. Principal factors that could negatively affect the significant assumptions are a longer than forecast or deeper recession or other business interruption, an increase in the price of raw materials, and new market entrants which would increase current capacity; any of which could result in fewer metric tons being shipped than forecast and/or price degradation.

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Given the current economic environment and the uncertainties regarding the impact on steel producers and their suppliers, including Seadrift, there can be no assurances that our estimates and assumptions regarding the fair value of Seadrift will prove to be accurate. If the assumptions regarding forecasted revenue, growth rates, and expected profitability are not achieved, we may be required to record additional impairment charges in future periods.

Loan to Seadrift

In late June and early July 2009, Seadrift entered into agreements to borrow up to \$17.0 million from certain of its shareholders, which includes GrafTech. We agreed to loan up to \$8.5 million and on July 2, 2009, we loaned Seadrift \$6.0 million. We recorded the loan at its face amount, which reasonably approximated the present value of the note.

On March 31, 2010 Seadrift fully repaid the \$6.0 million loan to us and the obligation to make any further loans or advances ceased and terminated.

On April 28, 2010, we, and certain of our subsidiaries, entered into an agreement and plan of merger with Seadrift, and certain of its partners, to acquire all of the equity interests of Seadrift that we do not already own. For further discussion see Footnote 17, Acquisitions on page 21.

(7) Other Expense (Income), Net

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2010	2009	2010
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Currency losses (gains)	\$ 9,887	\$ 9,656	\$ 6,509	\$ (3,027)
Loss on extinguishment of debt	390	0	390	0
Bank and other financing fees	445	562	1,381	1,558
Discount on sale of accounts receivable	62	0	209	2
Other	(74)	(107)	(43)	(277)
Total other expense (income), net	\$ 10,710	\$ 10,111	\$ 8,446	\$ (1,744)

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The components of our consolidated net pension cost are set forth in the following table:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2010	2009	2010
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Service cost	\$ 157	\$ 172	\$ 470	\$ 473
Interest cost	2,619	2,291	7,858	7,264
Expected return on plan assets	(2,909)	(2,196)	(8,728)	(7,443)
Amortization of transition obligation	2	0	5	0
Amortization of prior service cost	11	14	32	43
Amortization of unrecognized loss	319	1,621	957	4,163
Settlements/curtailments	0	(15)	0	(44)
Net Cost	\$ 199	\$ 1,887	\$ 594	\$ 4,456

The components of our consolidated net postretirement cost are set forth in the following table:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2010	2009	2010
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Service cost	\$ 86	\$ 47	\$ 272	\$ 142
Interest cost	537	504	1,644	1,511
Amortization of prior service (benefit)	(47)	(48)	(686)	(143)
Amortization of unrecognized loss	602	562	2,538	1,685
Curtailement gain	(644)	0	(644)	0
Net Cost	\$ 534	\$ 1,065	\$ 3,124	\$ 3,195

(9) Long-Term Debt and Liquidity

The following table presents our long-term debt:

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	At December 31, 2009	At September 30, 2010
	<i>(Dollars in thousands)</i>	
Other European debt	\$ 1,467	\$ 1,383

On April 28, 2010, we successfully completed the refinancing of our principal revolving credit facility (Revolving Facility) that was due to expire on July 15, 2010. Borrowers under the Revolving Facility are GrafTech Finance Inc. (GrafTech Finance) and GrafTech Switzerland S.A. (Swissco), both wholly-owned subsidiaries.

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GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

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As amended and restated, the credit agreement provides for, among other things, an extension until April 29, 2013 of the maturity of our Revolving Facility in the initial amount of \$260 million, additional flexibility for investments and acquisitions and, subject to certain conditions, an accordion feature that permits GrafTech Finance and Swissco to establish additional credit facilities thereunder in an aggregate amount, together with our Revolving Facility, of up to \$390 million.

The interest rate applicable to the Revolving Facility is, at GrafTech's option, either LIBOR plus a margin ranging from 2.50% to 3.50% (depending on our total net leverage ratio and/or senior unsecured rating) or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 1.50% to 2.50% (depending upon such ratio or rating). The alternate base rate is the highest of (i) the prime rate announced by JP Morgan Chase Bank, N.A., (ii) the federal fund effective rate plus 0.50% and (iii) the London interbank offering rate (as adjusted) for a one-month interest period plus 1.00%. GrafTech Finance and Swissco pay a per annum fee ranging from 0.375% to 0.750% (depending on such ratio or rating) on the undrawn portion of the commitments under the Revolving Facility.

The financial covenants require us to maintain a minimum interest coverage ratio of 1.75 to 1.00 and a maximum net senior secured leverage ratio of 2.25 to 1.00, subject to adjustment for certain events. The Revolving Facility also contains a number of covenants that restrict certain corporate activities including annual capital expenditures and the payment of dividends and repurchases of our common stock.

On September 30, 2009, our Spanish subsidiary received a \$1.8 million economic stimulus loan from the Ministry of Industry, Government of Spain. The loan is non-interest bearing and matures in October 2024. Repayment in 10 annual installments commences in October 2015. The loan is to be used for costs associated with a capital project. Under the terms of the loan we were required to return a proportionate amount of the loan if we did not spend the amount budgeted for the capital project prior to June 10, 2010. We successfully spent the entire budgeted amount prior to June 10, 2010; therefore, no amounts are classified as restricted cash at September 30, 2010. Because the loan is non-interest bearing, we were required to record the loan at its present value (determined using an interest rate of 4.33%). The difference between the proceeds received and the present value of debt is recorded as debt discount and deferred expense. The discount is amortized to income using the interest method; the deferred charge is amortized to income using the same basis and over the same period as the capital projects are depreciated. The loan balance, net of unamortized discount, was \$1.2 million at September 30, 2010.

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Inventories are comprised of the following:

	At December 31, 2009	At September 30, 2010
	<i>(Dollars in thousands)</i>	
Inventories:		
Raw materials and supplies	\$ 89,855	\$ 104,699
Work in process	106,606	130,472
Finished goods	51,568	51,649
	248,029	286,820
Reserves	(2,518)	(3,483)
	\$ 245,511	\$ 283,337

We recognize abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) as current period charges. We are required to allocate fixed production overheads to the costs of conversion based on normal capacity of the production facilities. The unabsorbed costs were attributable to adjustments of fixed production overheads to the costs of conversion based on normal capacity versus actual levels, due to production levels at certain facilities being below normal capacity for the quarters ended September 30, 2009 and 2010. Costs in excess of normal absorption at September 30, 2009 and 2010 were \$7.1 million and \$1.2 million, respectively.

(11) Interest Expense

The following table presents an analysis of interest expense:

	For the Three Months Ended September 30, 2009 2010		For the Nine Months Ended September 30, 2009 2010	
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Interest incurred on debt	\$ 698	\$ 87	\$ 2,712	\$ 388
Amortization of debt issuance costs	347	375	1,037	1,377
Interest incurred on supply chain financing and other items	123	399	487	1,298
Total interest expense	\$ 1,168	\$ 861	\$ 4,236	\$ 3,063

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Other comprehensive (loss) income consisted of the following:

	For the		For the	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2010	2009	2010
	<i>(Dollars in thousands)</i>		<i>(Dollars in thousands)</i>	
Net Income	\$ 6,864	\$ 24,612	\$ (21,758)	\$ 97,462
Other comprehensive (loss) income:				
Foreign currency translation adjustments	26,921	45,159	52,008	(2,726)
Amortization of prior service costs and unrecognized gains and losses, net of tax of \$(616), \$(183), \$(1,598) and \$(754), respectively	1,305	2,797	3,105	7,010
Natural gas and foreign currency derivatives, net of tax of \$(535), \$123, \$(565) and \$303, respectively	(283)	(2,709)	1,290	(2,237)
Total comprehensive (loss) income	\$ 34,807	\$ 69,859	\$ 34,645	\$ 99,509

(13) Supply Chain Financing

During the third quarter of 2008, we entered into a supply chain financing arrangement with a financing party. Under this arrangement, we essentially assign our rights to purchase needle coke from our supplier to the financing party. The financing party purchases the product from our supplier under the standard payment terms and then immediately resells it to us under longer payment terms. The financing party pays the supplier the purchase price for the product and then we pay the financing party. Our payment to the financing party for this needle coke includes a mark up (the Mark-Up). The Mark-Up is a premium expressed as a percentage of the purchase price. For the first nine months of 2010 the Mark-Up was based on 3 month LIBOR plus a margin of 2.90%. The Mark-Up is subject to quarterly reviews. This arrangement helps us to maintain a balanced cash conversion cycle between inventory payments and the collection of receivables. Based on the terms of the arrangement, the total amount that we owe to the financing party may not exceed \$49.3 million at any point in time.

We record the inventory once title and risk of loss transfers from the supplier to the financing party. The amount recorded as a liability to the financing party was \$14.4 million and \$25.5 million at December 31, 2009 and September 30, 2010, respectively.

For the three months ended September 30, 2010, the financing party invoiced us \$47.1 million for purchases of inventory under this arrangement. There were no invoices from the financing party for purchases of inventory under this arrangement during the three months ended September 30, 2009. For the three months ended September 30, 2010, we recognized a Mark-Up of \$0.4 million as interest expense. There was no Mark-Up recognized for the three months ended September 30, 2009.

For the nine months ended September 30, 2009 and 2010, the financing party invoiced us \$25.4 million and \$153.8 million, respectively, for purchases of inventory under this arrangement. For the nine months ended September 30, 2009 and 2010, we recognized a Mark-Up of \$0.3 million and \$1.3, respectively, as interest expense.

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We are involved in various 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 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.

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 \$1.2 million at December 31, 2009 and \$2.5 million at September 30, 2010. The following table presents the activity in this accrual for the nine months ended September 30, 2010 (dollars in thousands):

Balance at January 1, 2010	\$ 1,239
Product warranty charges	1,556
Payments and settlements	(311)
 Balance at September 30, 2010	 \$ 2,484

(15) Income Taxes

We compute an estimated annual effective tax rate on a quarterly basis, considering ordinary income and related income tax expense. Ordinary income refers to income (loss) before income tax expense excluding significant, unusual, or infrequently occurring items. The tax effect of an unusual or infrequently occurring item is recorded in the interim period in which it occurs. These items may include the cumulative effect of changes in tax laws or rates, impairment charges, adjustments to prior period uncertain tax positions, or adjustments to our valuation allowance due to changes in judgment of the realizability of deferred tax assets.

The provision for income taxes for the three months ended September 30, 2009 and 2010 was a tax expense of \$5.6 million on pretax income of \$12.5 million, and a tax expense of \$6.9 million on pretax income of \$31.5 million, respectively. The effective tax rates were 44.8% and 21.9% for the three months ended September 30, 2009 and 2010, respectively. The decrease in the effective tax rate is primarily due to jurisdictional mix of income and changes in the utilization of attributes and related valuation allowances.

The provision for income taxes for the nine months ended September 30, 2009 and 2010 was a tax expense of \$8.3 million on pretax loss of \$13.5 million, and a tax expense of \$28.0 million on pretax income of \$125.4 million, respectively. The effective tax rates were 61.5% and 22.3% for the nine months ended September 30, 2009 and 2010, respectively. The effective tax rate for the nine months ended September 30, 2009 results from not fully realizing the benefit of the \$52.8 million Seadrift impairment charge in the prior year, due to the reestablishment of valuation allowances against tax attributes in the U.S. The current year effective tax rate differs from the U.S. statutory rate of 35% primarily due to jurisdictional mix of income and changes in the utilization of attributes and related valuation allowances.

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Our cumulative year-to-date unrecognized tax benefits have decreased by \$0.8 million, primarily as a result of tax positions taken in a prior period. This has a favorable impact on our effective tax rate. As of September 30, 2010, we had unrecognized tax benefits of \$19.9 million, which would have a favorable impact on our effective tax rate. It is reasonably possible that a reduction in a range of \$0.5 million to \$1.5 million of unrecognized tax benefits may occur within 12 months as a result of the expiration of statutes of limitation.

We file income tax returns in the U.S. federal and state jurisdictions and various non-U.S. jurisdictions. We are currently under federal audit by the Internal Revenue Service for the 2007 tax year. All U.S. tax years prior to 2006 are closed by statute or have been audited and settled with the U.S. tax authorities. We are also under audit in Italy for our 2006 tax year. All other jurisdictions are still open to examination beginning after 2004.

Our tax provision for the nine months ended September 30, 2009 and 2010 was primarily for taxes on our international income. We continue to adjust the tax provision rate through the establishment, or release, of non-cash valuation allowances attributable to the U.S. and certain non-U.S. taxing jurisdictions, including U.S. foreign tax credit utilization. We weigh both positive and negative evidence in determining whether a valuation allowance is required. Examples of positive evidence would include a strong earnings history, an event or events that would increase our taxable income through a continued reduction of expenses, and tax planning strategies that would indicate an ability to realize deferred tax assets. The balance of significant positive evidence does not yet outweigh the negative evidence in regards to whether or not a valuation allowance is required.

On April 28, 2010, we, and certain of our subsidiaries, entered into an agreement and plan of merger with Seadrift and certain of its partners, to acquire all of the equity interests of Seadrift that we do not already own. We currently own limited partnership units constituting approximately 18.9% of the equity interests in Seadrift. As part of accounting for the acquisition, we would record deferred income tax liabilities for the fair value adjustments made to certain assets acquired and liabilities assumed. Certain of these deferred tax liabilities are expected to reverse during the same period that certain of our deferred tax assets are expected to reverse. As a result, we would reduce our preexisting valuation allowance related to such deferred tax assets which would have a favorable impact on our effective tax rate. For further discussion see Footnote 17, Acquisitions on page 21.

(16) Derivative Instruments

We use derivative instruments as part of our overall foreign currency and commodity risk management strategies to manage the risk of exchange rate movements that would reduce the value of our foreign cash flows and to minimize commodity price volatility. Foreign currency exchange rate movements create a degree of risk by affecting the value of sales made and costs incurred in currencies other than the US Dollar.

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Foreign currency contracts

We enter into foreign currency contracts from time to time to attempt to manage exposure to changes in currency exchange rates. These foreign currency instruments, which include, but are not limited to, forward exchange contracts and purchased currency options, attempt to hedge global currency exposures such as foreign currency denominated debt, sales, receivables, payables, and purchases. Forward exchange contracts are agreements to exchange different currencies at a specified future date and at a specified rate. There was no ineffectiveness on these contracts during either the three or nine months ended September 30, 2010.

In 2009 and 2010, we entered into foreign forward currency contracts as hedges of anticipated cash flows denominated in the Mexican peso, Brazilian real, euro and Japanese yen. These contracts were entered into to protect the risk that the eventual cash flows resulting from such transactions will be adversely affected by changes in exchange rates between the US dollar and the Mexican peso, Brazilian real, euro and Japanese yen. As of September 30, 2010, we had outstanding Mexican peso, Brazilian real, euro, and Japanese yen currency contracts, with aggregate notional amounts of \$48.1 million. The currency contracts outstanding as of September 30, 2010 have several maturity dates ranging from December 2010 to December 2011.

Commodity forward contracts

We periodically enter into commodity forward contracts to purchase natural gas and short duration fixed rate purchase contracts to effectively fix some or all of our natural gas cost exposure. These contracts were entered into to protect against the risk that eventual cash flows related to purchases of natural gas will be adversely affected by future changes in prices. There was no ineffectiveness on these contracts during either the three or nine months ended September 30, 2010.

In 2009 and 2010, we entered into commodity forward contracts as economic hedges of exposure to variability of commodity prices for natural gas. These contracts were entered into to protect against the risk that the eventual cash flows related to purchases of natural gas will be adversely affected by future changes in prices. As of September 30, 2010, we had outstanding natural gas commodity forward contracts with an aggregate notional amount of \$3.1 million. The commodity forward contracts outstanding as of September 30, 2010 have several maturity dates ranging from October 2010 to December 2011.

Certain of our derivative contracts contain provisions that require us to provide collateral. Since the counterparties to these financial instruments are large commercial banks and similar financial institutions, we do not believe that we are exposed to material counterparty credit risk, despite the current worldwide economic situation. We do not anticipate nonperformance by any of the counter-parties to our instruments.

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The fair value of all derivatives is recorded as assets or liabilities on a gross basis in our Consolidated Balance Sheets. At December 31, 2009 and September 30, 2010, the fair values of our derivatives and their respective balance sheet locations are presented in the following table:

	Asset Derivatives		Liability Derivatives	
	Location	Fair Value	Location	Fair Value
	<i>(Dollars in Thousands)</i>			
As of December 31, 2009				
Derivatives designated as cash flow hedges:				
Foreign currency contracts	Other current assets	\$ 59	Other current liabilities	\$ 124
Commodity forward contracts	Other current assets	125		
Total fair value		\$ 184		\$ 124
As of September 30, 2010				
Derivatives designated as cash flow hedges:				
Foreign currency contracts		\$	Other current liabilities	1,946
Commodity forward contracts			Other current liabilities	\$ 536
Total fair value		\$		\$ 2,482

The location and amount of realized (gains) losses on derivatives are recognized in the Statement of Operations when the hedged item impacts earnings and are as follows for the three and nine months ended September 30, 2009 and 2010:

		Amount of (Gain)/ Loss Recognized (Effective Portion)	
	Location of (Gain)/Loss Reclassified from Other Comprehensive Income (Effective Portion)	2009	2010
		<i>(Dollars in Thousands)</i>	
Three Months ended September 30,			
Derivatives designated as cash flow hedges:			
Foreign currency contracts	Cost of goods sold/Other (income) expense	\$ (621)	\$ (630)
Commodity forward contracts	Cost of goods sold	405	110
Nine Months ended September 30,			
Derivatives designated as cash flow hedges:			
Foreign currency contracts	Cost of goods sold/Other (income) expense	\$ (2,951)	\$ (891)
Commodity forward contracts	Cost of goods sold	2,471	296

Our foreign currency and commodity contracts are treated as hedges under ASC 815, *Derivatives and Hedging* and are required to be measured at fair value on a recurring basis. With respect to the inputs used to determine the fair value, we use observable, quoted rates that are determined

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by active markets and, therefore, classify the contracts as Level 2 in accordance with the definition in ASC 820, *Fair Value Measurements and Disclosures*.

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(17) Acquisitions

Acquisitions and Reorganization

On April 28, 2010, we, and certain of our subsidiaries, entered into an agreement and plan of merger with Seadrift and certain of its partners, to acquire all of the equity interests of Seadrift that we do not already own. We currently own limited partnership units constituting approximately 18.9% of the equity interests in Seadrift. Seadrift is the world's second largest producer of petroleum-based needle coke, the primary raw material used to manufacture graphite electrodes. At the same time, we, and certain of our subsidiaries, entered into an agreement and plan of merger with C/G Electrodes, LLC, a Delaware limited liability company (C/G), and certain of its members. C/G is a U.S. manufacturer of large diameter UHP graphite electrodes used in the electric arc furnace steel making process.

The consideration to be paid for Seadrift will consist of \$78.5 million in cash less debt (subject to working capital adjustments), 12 million New GTI Shares, as defined below (subject to adjustments for stock splits, reverse stock splits or similar transactions) and non-interest bearing, senior subordinated promissory notes in an aggregate face amount of \$100 million due in 2015. The consideration to be paid for C/G will consist of \$152.5 million in cash less debt (subject to working capital adjustments), 12 million New GTI Shares (subject to adjustments for stock splits, reverse stock splits, or similar adjustments) and non-interest bearing, senior subordinated promissory notes in an aggregate face amount of \$100 million due in 2015. Approximately \$185 million of the cash consideration to be paid in connection with the transactions will be funded through borrowings under our Revolving Facility. The balance of the cash portion of the purchase price will be paid from cash on hand. The New GTI Shares delivered to the former owners of Seadrift and C/G will not be registered under the Securities Act. The New GTI Shares will be delivered on the respective dates that the acquisitions of Seadrift and C/G are completed.

In connection with the acquisitions, GrafTech will reorganize into a new holding company structure (the Reorganization) pursuant to agreements and plans of merger and Section 251(g) of the General Corporation Law of the State of Delaware. The new holding company will be identical to our existing holding company, GrafTech, in all material respects, including its Board of Directors, management and capital structure. At the closing of the mergers, all outstanding shares of our common stock will automatically be converted into identical common stock representing the same percentage ownership of and voting rights in the new holding company, which will also be a Delaware corporation.

To effect the Reorganizations GrafTech formed the new Delaware holding company as a wholly owned subsidiary, which in turn formed a wholly owned subsidiary, GrafTech Delaware I Inc., (Acquisition Sub), and two other wholly owned subsidiaries which will merge with and into C/G and Seadrift, respectively. Pursuant to the agreements and plans of merger, GrafTech will then merge with and into Acquisition Sub (the Merger), with GrafTech being the surviving entity. In the Merger, each share of the common stock of Acquisition Sub issued and outstanding immediately prior to the Merger and held by the new Delaware holding company will be converted into and exchanged for a share of GrafTech's common stock (each, an Old GTI Share), Acquisition Sub's corporate existence will cease and GrafTech will become a wholly-owned subsidiary of the new holding company. Each Old GTI Share issued and outstanding immediately prior to the Reorganization will convert into and be exchanged for one share, par value \$0.01 per share, of common stock of the new Delaware holding company (each, a New GTI Share), having the same rights, powers, preferences, qualifications, limitations and restrictions as the Old GTI Shares. Immediately after the Merger, the new Delaware holding company will be renamed GrafTech International Ltd. and the name of GrafTech will be changed to GrafTech Holdings Inc.

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The certificate of incorporation and bylaws of the new Delaware holding company will be identical to those of GrafTech, and the directors and officers of the new holding company will be identical to the directors and officers of GrafTech immediately prior to consummation of the Merger. GrafTech's stockholders will not recognize gain or loss for United States federal income tax purposes upon the Reorganization. Stockholder approval is not required to effect the Reorganization. Stockholders do not and will not have dissenters' rights or appraisal rights in connection with the Reorganization. The New GTI Shares to be issued to GrafTech's stockholders in connection with the Reorganization will be registered pursuant to a registration statement on Form S-4.

The agreements and plans of merger contain customary representations and warranties, most of which will not survive the effective time of the relevant mergers.

The acquisitions are subject to customary conditions, including expiration of the waiting period under the Hart-Scot-Rodino Antitrust Improvements Act of 1976 (HSR Act). The C/G acquisition is also subject to the consummation of the Seadrift acquisition. The owners of Seadrift and C/G receiving New GTI Shares will enter into a registration rights and stockholder agreement (the Stockholder Agreement) as a condition of the closing that will subject them to customary standstill provisions and certain restrictions on the sale of their New GTI Shares in addition to the limitations provided by applicable securities laws. Following the consummation of both the Seadrift and C/G acquisitions, the current controlling owners of Seadrift and C/G will have the right to nominate a director for the Board of Directors of the new Delaware holding company so long as such stockholders continue to own 12 million or more New GTI Shares.

Acquisition costs (i.e., advisory, legal, valuation, other professional fees, etc.) are accounted for as expenses in the periods in which the costs are incurred. Total acquisition costs incurred of \$5.7 million and \$12.3 million in the three and nine months ended September 30, 2010, respectively are included in Selling and administrative expenses on the Consolidated Statement of Operations.

On June 9, 2010 we announced that we had received a request for additional information and documentary material from the Antitrust Division of the U.S. Department of Justice (DOJ) regarding our proposed acquisitions of Seadrift and C/G. The request for additional information and material, commonly referred to as a Second Request , is part of a customary antitrust regulatory review process, and extends the waiting period under the HSR Act (during which a merger may not be consummated) until the merging firms have substantially complied with the request. Completion of the acquisitions is subject to expiration of applicable waiting periods under the HSR Act as well as other customary closing conditions. We have responded and continue to expect the two acquisitions to close in 2010.

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Introduction to Part I, Item 2, and Part II, Item 1 and Item 1A

Important Terms. We define various terms to simplify the presentation of information in this Report. These terms, which definitions are incorporated herein by reference, are defined in Part I Preliminary Notes Important Terms of the Annual Report.

Presentation of Financial, Market and Legal Data. We present our financial information on a consolidated basis.

Unless otherwise noted, when we refer to dollars, we mean U.S. dollars.

Unless otherwise specifically noted, market and market share data in this Report are our own estimates or derived from sources described in Part I Preliminary Notes Presentation of Financial, Market and Legal Data in the Annual Report, which description is incorporated herein by reference. Our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under Forward Looking Statements and Risks in this Report and Forward Looking Statements and Risk Factors in this Report and in the Annual Report. We cannot guarantee the accuracy or completeness of this market and market share data and have not independently verified it. None of the sources has consented to the disclosure or use of data in this Report.

Reference is made to the Annual Report for background information on various risks and contingencies and other matters related to circumstances affecting us and our industry.

Neither any statement made in this Report nor any charge taken by us relating to any legal proceedings constitutes an admission as to any wrongdoing.

Forward Looking Statements and Risks. This Report contains forward looking statements. In addition, we or our representatives have made or may make forward looking statements on telephone or conference calls, by webcasts or emails, in person, in presentations or written materials, or otherwise. These include statements about such matters as: expected future or targeted operational and financial performance; growth rates and future production and sales of products that incorporate or that are produced using our products; changes in production capacity in our operations and our competitors or customers operations and the utilization rates of that capacity; growth rates for, future prices and sales of, and demand for our products and our customers products; costs of materials and production, including anticipated increases or decreases therein, our ability to pass on any such increases in our product prices or surcharges thereon, or customer or market demand to reduce our prices due to such decreases; changes in customer order patterns due to changes in economic conditions; productivity, business process and operational initiatives, and their impact on us; our position in markets we serve; financing and refinancing activities; investments and acquisitions that we have made or may make in the future and the performance of the businesses underlying such acquisitions and investments; employment and contributions of key personnel; employee relations and collective bargaining agreements covering many of our operations; tax rates; capital expenditures and their impact on us; nature and timing of restructuring charges and payments; strategic plans and business projects; regional and global economic and industry market conditions, the timing and magnitude of changes in such conditions and the impact thereof; interest rate management activities; currency rate management activities; deleveraging activities; rationalization, restructuring, realignment, strategic alliance, raw material and supply chain, technology development and collaboration, investment, acquisition, venture, operational, tax, financial and capital projects; legal proceedings, contingencies, and environmental compliance including any regulatory initiatives with respect to greenhouse gas emissions which may be proposed; consulting projects; potential offerings, sales and other actions regarding debt or equity securities of us or our subsidiaries; and costs, working capital, revenues, business opportunities, debt levels, cash flows, cost savings and reductions, margins, earnings and growth. The words **will, may, plan, estimate, project, believe, anticipate, expect, intend, should, would, could, to, positioned to** and similar expressions, or the negatives thereof, identify some of these statements.

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Our expectations and targets are not predictors of actual performance and historically our performance has deviated, often significantly, from our expectations and targets. Actual future events and circumstances (including future results and trends) could differ materially, positively or negatively, from those set forth in these statements due to various factors. These factors include:

the possibility that the challenging global economic conditions which continue to prevail may continue to depress or further depress demand for electric arc furnace (EAF) steel which may, in turn, result in a slower than expected increase, or even a decrease, in the demand for our graphite electrodes;

the possibility that additions to capacity for producing EAF steel, increases in overall EAF steel production capacity, and increases or other changes in steel production may not occur or may not occur at the rates that we anticipate or may not be as geographically disbursed as we anticipate;

the possibility that increases or decreases in graphite electrode manufacturing capacity (including growth by producers in developing countries), competitive pressures (including changes in and the mix, distribution, and pricing of their products), reduction in specific consumption rates, increases or decreases in customer inventory levels, or other changes in the graphite electrode markets may occur, which may impact demand for, prices or unit and dollar volume sales of graphite electrodes and growth or profitability of our graphite electrodes business;

the possible failure of changes in EAF steel production or graphite electrode production to result in stable or increased, or offset decreases in, graphite electrode demand, prices, or sales volume;

the possibility that a determination by the U.S. government that we failed to comply with one or more export controls or trade sanctions to which they are subject with respect to products exported from the U.S. or otherwise subject to U.S. jurisdiction could result in civil or criminal penalties, including imposition of significant fines, denial of export privileges and loss of revenues from certain customers;

the possibility for all of our product lines, capital improvement and expansion in our customers' operations and increases in demand for our customers' products may not occur or may not occur at the rates we anticipate, or the demand for our customers' products may decline, which may affect their demand for the products we sell or supply to them;

the possibility that continued global consolidation of the world's largest steel producers could impact our business or industry;

the possibility that average graphite electrode revenue per metric ton in the future may be different than current spot or market prices due to changes in product mix, changes in currency exchange rates, changes in competitive market conditions or other factors;

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the possibility that price increases, adjustments or surcharges may not be realized or that price decreases may occur;

the possibility that current challenging economic conditions and economic demand reduction may continue to impact our revenues and costs;

the possibility that decreases in prices, or availability, for energy and raw materials may lead to downward pressure on prices for our products and delays in customer orders for our products as customers anticipate possible future lower prices;

the possibility that increases in prices, or availability, for our raw materials and the magnitude of such increases or shortages, global events that influence energy pricing and availability, increases in our energy needs, or other developments may adversely impact or offset our productivity and cost containment initiatives;

the possibility that current economic disruptions may result in idling or permanent closing of blast furnace capacity or delay of blast furnace capacity additions or replacements which may affect demand and prices for our refractory products;

the possibility that economic, political and other risks associated with operating globally, including national and international conflicts, terrorists acts, political and economic instability, civil unrest, and natural calamities can interfere with our supply chain, our customers, and our activities in a particular location;

the possibility that reductions in customers' production, increases in competitors' capacity, competitive pressures, or other changes in other markets we serve may occur, which may impact demand for, prices of or unit and dollar volume sales of, our other products, or growth or profitability of our other product lines, or change our position in such markets;

the possibility that we will not be able to hire and retain key personnel or to renew or extend our collective bargaining or similar agreements on reasonable terms as they expire or to do so without a work stoppage or strike, including at our Clarksburg, West Virginia facility where its primary collective bargaining agreement with the United Steelworkers (USW) has expired by its terms in June 2010. Our Clarksburg facility manufactures specialty graphite products. Our bargaining unit team members have continued to work without a contract. We continue to meet and negotiate in good faith with the USW. To date there has been no disruption to our operations or ability to meet delivery targets as a result of the negotiations. While we have positive expectations that there will not be a work stoppage, there is the possibility of a work stoppage or other disruption in our Clarksburg operations. We have developed plans to address potential contingencies. However, there is the possibility that any work stoppage or disruption could adversely impact our specialties graphite business;

the possibility of delays in or failure to achieve successful development and commercialization of new or improved engineered solutions or that such solutions could be subsequently displaced by other products or technologies;

the possibility that we will fail to develop new customers or applications for our engineered solutions products;

the possibility that our manufacturing capabilities may not be sufficient or that we may experience delays in expanding or fail to expand our manufacturing capacity to meet demand for existing, new or improved products;

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the possibility that the investments and acquisitions that we make or may make in the future may not be successfully integrated into our business or provide the performance or returns expected;

the possibility that challenging conditions or changes in the capital markets will limit our ability to obtain financing for growth and other initiatives, on acceptable terms or at all;

the possibility that conditions or changes in the global equity markets may have a material impact on our future pension funding obligations and liabilities on our balance sheet;

the possibility that the amount or timing of our anticipated capital expenditures may be limited by our financial resources or financing arrangements or that our ability to complete capital projects may not occur timely enough to adapt to changes in market conditions or changes in regulatory requirements;

the possibility that the actual outcome of uncertainties associated with assumptions and estimates using judgment when applying critical accounting policies and preparing financial statements may have a material impact on our results of operations or financial position;

the possibility that we may be unable to protect our intellectual property or may infringe the intellectual property rights of others, resulting in damages, limitations on our ability to produce or sell products or limitations on our ability to prevent others from using that intellectual property to produce or sell products;

the occurrence of unanticipated events or circumstances or changing interpretations and enforcement agendas relating to legal proceedings or compliance programs;

the occurrence of unanticipated events or circumstances or changing interpretations and enforcement agendas relating to health, safety or environmental compliance or remediation obligations or liabilities to third parties or relating to labor relations;

the possibility that new or expanded regulatory initiatives with respect to greenhouse gas emissions, if implemented, could have an impact on our facilities, increase the capital intensive nature of our business, and add to our costs of production of our products;

the possibility that our provision for income taxes and effective income tax rate or cash tax rate may fluctuate significantly due to changes in applicable tax rates or laws, changes in the sources of our income, changes in tax planning, new or changing interpretations of applicable regulations, or changes in profitability, estimates of future ability to use foreign tax credits, and other factors;

the possibility of changes in interest or currency exchange rates, in competitive conditions, or in inflation or deflation;

the possibility that our outlook could be significantly impacted by, among other things, changes in United States or other monetary or fiscal policies or regulations in response to the capital markets crisis and its impact on global economic conditions, developments in the Middle East, North Korea, and other areas of concern, the occurrence of further terrorist acts and developments (including increases in security, insurance, data back-up, energy and transportation and other costs, transportation delays and continuing or increased economic uncertainty and weakness) resulting from terrorist acts and the war on terrorism;

the possibility that our outlook could be significantly impacted by changes in demand as a result of the effect on customers of the volatility in global credit and equity markets;

the possibility that interruption in our major raw material, energy or utility supplies due to, among other things, natural disasters, process interruptions, actions by producers and capacity limitations, may adversely affect our ability to manufacture and supply our products or result in higher costs;

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the possibility of interruptions in production at our facilities due to, among other things, critical equipment failure, which may adversely affect our ability to manufacture and supply our products or result in higher costs;

the possibility that we may not achieve the earnings or other financial or operational metrics that we provide as guidance from time to time;

the possibility that the anticipated benefits from organizational and work process redesign, changes in our information systems, or other system changes, including operating efficiencies, production cost savings and improved operational performance, including leveraging infrastructure for greater productivity and contributions to our continued growth, may be delayed or may not occur or may result in unanticipated disruption;

the possibility that our disclosure or internal controls may become inadequate because of changes in conditions or personnel, that the degree of compliance with our policies and procedures related to those controls may deteriorate or that those controls may not operate effectively and may not prevent or detect misstatements or errors;

the possibility that delays may occur in the financial statement closing process due to a change in our internal control environment or personnel;

the possibility of changes in performance that may affect financial covenant compliance or funds available for borrowing;

the possibility we will not be able to complete either or both of the announced acquisitions of Seadrift and C/G in view of the closing conditions set forth in the respective merger agreements, including those conditions related to antitrust regulations; and

other risks and uncertainties, including those described elsewhere in this Report or our other SEC filings, as well as future decisions by us.

Occurrence of any of the events or circumstances described above could also have a material adverse effect on our business, financial condition, results of operations, cash flows or the market price of our common stock.

No assurance can be given that any future transaction about which forward looking statements may be made will be completed or as to the timing or terms of any such transaction.

All subsequent written and oral forward looking statements by or attributable to us or persons acting on our behalf are expressly qualified in their entirety by these factors. Except as otherwise required to be disclosed in periodic reports required to be filed by public companies with the SEC pursuant to the SEC's rules, we have no duty to update these statements.

For a more complete discussion of these and other factors, see **Risk Factors** in this Report and in the Annual Report.

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

Global Economic Conditions

We are impacted in varying degrees, both positively and negatively, as global, regional or country conditions fluctuate. Our discussions about market data and global economic conditions below are based on or derived from published industry accounts and statistics.

Based on current International Monetary Fund (IMF) projections and other global economic forecasts, world output is projected to rise in 2010 in both advanced and emerging economies. Although the recovery remains fragile, the IMF projects that world output will grow by 3.7% in 2010, a modest increase of 0.1 percentage points since its last estimates published in July 2010.

The IMF further stated in its most recent report that global indicators of real economic activity strengthened during the first half of 2010. However during the second quarter of 2010, concerns over the stability of the recovery emerged as a result of the sovereign debt market turmoil (particularly in the euro area). As of October 2010 financial conditions are fragile, but have begun to normalize. There are downside risks, but the IMF believes that the probability for a sharp global slowdown remains low.

The pace of economic recovery continues to vary among advanced and emerging countries. Output in emerging countries is projected to expand by 7.1% in 2010, driven largely by continued fixed asset investment and strong consumer spending. By contrast the recovery remains sluggish in most advanced countries, with output expected to grow by 2.7% in 2010.

After peaking in the second quarter, global steel operating rates fell by the end of the third quarter of 2010. Steel mills continued to cautiously adjust operating levels in response to economic uncertainty and weaker demand from key steel end-markets (automotive, construction, and appliances).

According to published reports, estimated global steel capacity utilization was approximately 74% and 78%, respectively, for the three and nine months ended September 30, 2010, compared to approximately 75% and 69% utilization for the same periods last year. The United States steel industry operated at an estimated 71% for both the three and nine months ended September 30, 2010, up from 54% and 47% utilization for the comparable periods in 2009.

Demand for our Industrial Materials segment's products is primarily linked with the global production of steel in an electric arc furnace and, to a lesser extent, with the total production of steel and certain other metals. During the three and nine months ended September 30, 2010, global steel production, excluding China, increased by 11% and 26%, respectively, compared to the same periods last year. China's steel production fell approximately 2% and rose approximately 13% for the respective periods, contributing to global steel production increases of 5% and 19%, compared to 2009 levels. Based on industry projections, total steel production for the fourth quarter of 2010 is expected to be approximately 330 million metric tons, which is relatively flat with the fourth quarter of 2009 and a reduction of approximately 3% compared to the third quarter of 2010. For the second half of 2010, total steel production is expected to be approximately 5% lower than production in the first half of 2010.

EAF steel production has followed a similar trend as overall steel production. During the three and nine months ended September 30, 2010, estimated global EAF steel production, excluding China, increased by 7% and 16%, respectively, compared to the same periods last year. China's estimated EAF steel production fell approximately 2% in the three months ended September 30, 2010, and increased by 15% in the nine months ended September 30, 2010. Global EAF steel production increased by an estimated 6% and 16%, respectively, during the three and nine months ended September 30, 2010, compared to the same periods last year. EAF steel production for the fourth quarter of 2010 is expected to be approximately 94 million metric tons, an estimated increase of 3% compared to the fourth quarter of 2009 and a reduction of approximately 3% compared to the third quarter of 2010. Generally, changes in graphite electrode demand have tracked changes in EAF steel production.

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Outlook

Based on International Monetary Fund (IMF) projections and other economic reports, global economies continue to recover, to varying degrees, however downside risks remain high. The fragility of the global economic recovery remains a concern in both advanced and emerging economies. According to the World Steel Association and other industry sources, global steel operating rates have fallen steadily since the second quarter of 2010 and are not anticipated to improve significantly in the near term. As a result, electric arc furnace steel end market demand is expected to ease in the fourth quarter of 2010.

Our third quarter 2010 results came in stronger than anticipated as a result of favorable currency movement, the timing of shipments in our refractories business and a lower tax rate. For the fourth quarter of 2010, we expect graphite electrode sales volumes to be flat to down with the third quarter in response to subdued operating rates at our customers. Sales in our Engineered Solutions segment are anticipated to remain solid as demand in key end markets such as solar, oil and gas exploration and electronics continues to improve. In aggregate, as a result of softening steel operating rates, our expectation is that operating income in the fourth quarter of 2010 will decline slightly as compared to the third quarter.

Based on IMF projections and other economic forecasts described above, we would expect the following targeted results in 2010, excluding any impact from the announced acquisitions of Seadrift and C/G and related customary transaction costs:

Operating income in the range of \$175 million to \$180 million (previous guidance was \$170 million to \$180 million);

Overhead expense (selling and administrative and research and development expenses) in the range of \$110 million to \$112 million (previous guidance was \$105 million to \$110 million);

Capital expenditures of approximately \$75 million to \$80 million;

Depreciation expense of approximately \$40 million (previous guidance was \$38 million);

An effective tax rate in the range of 21 percent to 23 percent (previous guidance was 23 percent to 25 percent);

Cash flow from operations in the range of \$100 million to \$110 million.

Our outlook could be significantly impacted by, among other things, factors described under **Forward Looking Statements and Risks** in this Report and **Risk Factors** in this Report and in the Annual Report.

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****(Unaudited)****Results of Operations and Segment Review****Three Months Ended September 30, 2009 as Compared to Three Months Ended September 30, 2010.**

The tables presented in our period-over-period comparisons summarize our consolidated statements of operations and illustrate key financial indicators used to assess the consolidated financial results. Financial information is presented for the three months ended September 30, 2009 and 2010. Throughout our Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), changes that are both less than 5% and less than \$1.0 million, are deemed to be not meaningful and are designated as "NM".

(in thousands, except per share data and % change)

	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2009	2010		
Net sales	\$ 164,879	\$ 255,236	\$ 90,357	55
Cost of sales	118,346	180,204	61,858	52
Gross profit	46,533	75,032	28,499	61
Research and development	2,871	3,535	664	NM
Selling and administrative expenses	18,589	30,593	12,004	65
Operating income	25,073	40,904	15,831	63
Equity in losses (earnings) and write-down of investment in non-consolidated affiliate	953	(1,416)	(2,369)	(249)
Other expense, net	10,710	10,111	(599)	NM
Interest expense	1,168	861	(307)	NM
Interest income	(251)	(160)	(91)	NM
Income before provision for income taxes	12,493	31,508	19,015	152
Provision for income taxes	5,629	6,896	1,267	23
Net income	\$ 6,864	\$ 24,612	\$ 17,748	259
Basic income per common share:	\$ 0.06	\$ 0.20	\$ 0.14	
Diluted income per common share:	\$ 0.06	\$ 0.20	\$ 0.14	

Net sales. Net sales by operating segment for the three months ended September 30, 2009 and 2010 were:

(in thousands, except per share data and % change)

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	For the Three Months Ended September 30,		Increase (Decrease)	% Change
	2009	2010		
Industrial Materials	\$ 136,721	\$ 208,248	\$ 71,527	52
Engineered Solutions	28,158	46,988	18,830	67
Total net sales	\$ 164,879	\$ 255,236	\$ 90,357	55

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We experienced higher sales for both of our operating segments led by a significant increase in our Industrial Materials operating segment due to the slow economic recovery that began in the third quarter of 2009 and has continued through the first three quarters of 2010. The demand for our products improved because the destocking activity witnessed in 2009 came to an end and EAF steel operating rates improved significantly year-over-year, when compared to the significantly reduced levels experienced in 2009. We experienced increased demand across most of our products lines, in both of our operating segments, as our customers started the reordering process and shipments continued to increase in response to increasing orders and production.

Our analysis of the percentage change in net sales for Industrial Materials and Engineered Solutions is set forth in the following table:

	Volume	Price/Mix	Currency	Net Change
Industrial materials	73%	(16%)	(5%)	52%
Engineered solutions	76%	(5%)	(4%)	67%

Net sales. For the Industrial Materials segment, sales increased significantly in the three months ended September 30, 2010 compared to the three months ended September 30, 2009 due to higher graphite electrode sales volume. Partially offsetting this increased demand, we saw the weighted average selling price of our melter and non-melter graphite electrodes decrease by approximately 9%, exclusive of currency impacts, from the three months ended September 30, 2009 compared to the three months ended September 30, 2010. Looking forward, we expect graphite electrode prices to remain relatively flat in the fourth quarter as compared to the third quarter pricing levels. Higher electrode sales volumes are expected to continue to mitigate, in part, the lower electrode pricing.

Cost of sales. The two primary drivers of the increase in cost of sales period over period were increases in shipments of our products of \$46.0 million and production costs of \$23.8 million across both of our segments. The global recession led to a dramatic decline in the demand for, and corresponding production of, graphite electrodes during the three months ended September 30, 2009. Our production volume began increasing in the second half of 2009 and has continued to increase throughout 2010 as our customers ramped up production from the low levels experienced during the first half of 2009.

Needle coke is the primary raw material in the manufacture of graphite electrodes. We usually purchase 70% to 80% of our needle coke requirements from one supplier under contracts with one-year fixed price per metric ton schedules. Our production in 2010 began to use higher cost needle coke purchased in the fourth quarter of 2009, at prices which were approximately 45% higher than the cost of needle coke used in production during the first nine months of 2009. The inventory flow through of the higher cost raw material increased our cost of goods sold in the three months ended September 30, 2010 when compared to the same period in 2009. Our ability to pass this increased cost to customers depends to a large extent on the strength of the global economic recovery. Higher volumes increased our fixed costs absorption in the three months ended September 30, 2010, partially offsetting the higher coke cost.

We currently purchase a majority of our requirements for petroleum coke, our principal raw material, from two plants of ConocoPhillips under supply agreements containing customary terms and conditions, including price renegotiation, dispute resolution and termination provisions. The termination provisions permitted either party to terminate the agreements at the end of a calendar year by giving the other party notice of termination by September 30 of that calendar year. During the course of recent discussions with ConocoPhillips regarding our future needle coke requirements, including potential changes in such needs as a result of our pending acquisition of Seadrift, as well as other provisions of the agreements which had become inapplicable due to changes in circumstances over the decade since the agreements were first established, the consensus of the parties was that the agreements should be terminated and that the parties enter into negotiations concerning future supply of needle coke. Accordingly, we received notice of termination of the supply agreements effective as of December 31, 2010 and we have entered into negotiations with them for a new supply agreement to enable us to cover our future needle coke requirements. Under the termination provisions, in the event of such a termination, the parties are required to enter into replacement agreements providing for the supply and

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purchase of needle coke for a term of three years beginning immediately after the effective termination date, with decreasing quantities in each of those years and with pricing based on market prices. We believe the estimated quantities under the replacement agreements will be sufficient for our forecast raw material requirements based on our expectations of closing the proposed Seadrift acquisition in the fourth quarter of 2010, as described on page 21 in Note 17, Acquisitions of the Notes to Consolidated Financial Statements.

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Selling and administrative expenses. Acquisition costs (i.e., advisory, legal, valuation, other professional fees, etc.) associated with our announced agreements to acquire Seadrift and C/G represented \$5.7 million of the increase for the three months ended September 30, 2010 as compared to the same period of the prior year. We also experienced higher overhead expense due to increases in sales and marketing coverage to support internal growth initiatives and higher commission expense related to increased sales during the three months ended September 30, 2010 when compared to the three months ended September 30, 2009.

Equity in losses (earnings) and write-down of investment in non-consolidated affiliate. Our equity in the losses of Seadrift, on a one-month lag, during the three months ended September 30, 2009 were \$0.5 million and our equity in the earnings of Seadrift, on a one-month lag, during the three months ended September 30, 2010 were \$1.9 million. The increase in earnings period over period is due in large part to an increase in production volumes at Seadrift.

Other expense, net. Other expense, net decreased from \$10.7 million in the three months ended September 30, 2009 to \$10.1 million in the three months ended September 30, 2010. Currency losses went from \$9.9 million in the three months ended September 30, 2009 to \$9.7 million during the same period of 2010. Loss on extinguishment of debt was \$0.4 million in the three months ended September 30, 2009.

Segment operating income. Corporate expenses are allocated to segments based on each segment's percentage of consolidated sales. The following table represents our operating income by segment:

	For the Three Months Ended September 30, 2009 2010	
	<i>(Dollars in thousands)</i>	
Industrial Materials	\$ 23,828	\$ 34,666
Engineered Solutions	1,245	6,238
Total segment operating income	\$ 25,073	\$ 40,904

The percentage relationship of operating expenses to sales for Industrial Materials and Engineered Solutions is set forth in the following table:

	For the Three Months Ended September 30, (Percentage of sales)		
	2009	2010	Change
Industrial Materials	83%	83%	0%
Engineered Solutions	96%	87%	(9%)

Segment operating costs and expenses as a percentage of sales for Industrial Materials remained consistent period over period. However total operating costs and expenses increased \$60.7 million from the three months ended September 30, 2009 as compared to the three months ended September 30, 2010. The increase was primarily a result of volume increases of \$30.1 million, higher production costs of \$22.4 million and acquisition costs incurred of \$5.7 million.

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Segment operating costs and expenses as a percentage of sales for Engineered Solutions decreased nine percentage points to 87% in the three months ending September 30, 2010 as compared to the three months ending September 30, 2009. Total operating costs and expenses, however, increased \$13.8 million from the three months ended September 30, 2009 as compared to the three months ended September 30, 2010. The increase was primarily a result of increases in volume of \$15.9 million, partially offset by favorable product mix of \$2.4 million.

Provision for income taxes. The provision for income taxes for the three months ended September 30, 2009 was a tax expense of \$5.6 million on pretax income of \$12.5 million as compared to tax expense of \$6.9 million on pretax income of \$31.5 million for the three months ended September 30, 2010. The effective tax rates were 44.8% and 21.9% for the three months ended September 30, 2009 and 2010, respectively. The decrease in the current year effective tax rate is primarily due to jurisdictional mix of income and changes in the utilization of attributes and related valuation allowances.

Nine Months Ended September 30, 2009 as Compared to Nine Months Ended September 30, 2010.

The tables presented in our period-over-period comparisons summarize our consolidated statements of operations and illustrate key financial indicators used to assess the consolidated financial results. Financial information is presented for the nine months ended September 30, 2009 and 2010. Throughout our MD&A, changes that are both less than 5% and less than \$1.0 million, are deemed to be not meaningful and are designated as NM .

(in thousands, except per share data and % change)

	For the Nine Months Ended September 30,		Increase (Decrease)	% Change
	2009	2010		
Net sales	\$ 456,679	\$ 725,754	\$ 269,075	59
Cost of sales	332,332	507,892	175,560	53
Gross profit	124,347	217,862	93,515	75
Research and development	8,048	9,261	1,213	15
Selling and administrative expenses	63,319	85,412	22,093	35
Operating income	52,980	123,189	70,209	133
Equity in losses (earnings) and write-down of investment in non-consolidated affiliate	54,343	(2,326)	(56,669)	(104)
Other expense (income), net	8,446	(1,744)	10,190	121
Interest expense	4,236	3,063	(1,173)	(28)
Interest income	(552)	(1,228)	676	NM
(Loss) income before provision for income taxes	(13,493)	125,424	138,917	(1,030)
Provision for income taxes	8,265	27,962	19,697	238

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Net (loss) income	\$ (21,758)	\$ 97,462	\$ 119,220	(548)
Basic (loss) income per common share:	\$ (0.18)	\$ 0.81	\$ 0.99	
Diluted (loss) income per common share:	\$ (0.18)	\$ 0.80	\$ 0.98	

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Net sales. Net sales by operating segment for the nine months ended September 30, 2009 and 2010 were:

(in thousands, except per share data and % change)

	For the Nine Months Ended September 30,		Increase (Decrease)	% Change
	2009	2010		
Industrial Materials	\$ 371,076	\$ 599,394	\$ 228,318	62
Engineered Solutions	85,603	126,360	40,757	48
Total net sales	\$ 456,679	\$ 725,754	\$ 269,075	59

We experienced higher sales for both of our operating segments led by a significant increase in our Industrial Materials operating segment due to the slow economic recovery that began in the third quarter of 2009 and has continued through the first nine months of 2010 because of the completion of inventory destocking by our customers. We experienced increased demand across most of our products lines, in both of our operating segments, as our customers, especially those in the Industrial Materials segment, started the reordering process and shipments continued to increase in response to increasing orders and production.

Our analysis of the percentage change in net sales for Industrial Materials and Engineered Solutions is set forth in the following table:

	Volume	Price/Mix	Currency	Net Change
Industrial materials	72%	(6%)	(4%)	62%
Engineered solutions	52%	(3%)	(1%)	48%

Net sales. Sales for the Industrial Materials segment increased significantly in the nine months ended September 30, 2010 when compared to the nine months ended September 30, 2009 due to higher graphite electrode sales volume. Partially offsetting this increased demand, we saw the weighted average selling price of our melter and non-melter graphite electrodes decrease by approximately 6%, exclusive of currency impacts, from the nine months ended September 30, 2009 to the nine months ended September 30, 2010. Looking forward, we expect graphite electrode prices to remain relatively flat in the fourth quarter when compared to current pricing levels. Higher period over period electrode sales volumes are expected to continue to mitigate, in part, the lower electrode pricing.

Cost of sales. The primary drivers of the increase in cost of sales were increases in shipments of our products of \$125.4 million, production costs of \$34.3 million and unfavorable foreign currency impact of \$9.9 million, across both of our segments in the nine months ended September 30, 2010 when compared to the nine months ended September 30, 2009. The global recession led to a dramatic decline in the demand for, and corresponding production of, graphite electrodes during the nine months ended September 30, 2009. Our production volume began increasing in the second half of 2009 and has continued to increase through the first nine months of 2010 as our customers ramped up production from the low levels experienced during the first half of 2009.

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Needle coke is the primary raw material in the manufacture of graphite electrodes. We usually purchase 70% to 80% of our needle coke requirements from one supplier under contracts with one-year fixed price per metric ton schedules. Our production in 2010 began to use higher cost needle coke purchased in the fourth quarter of 2009, at prices which were approximately 45% higher than the cost of needle coke used in production during the first nine months of 2009. The inventory flow through of the higher cost raw material has increased our cost of goods sold in the nine months ended September 30, 2010 when compared to the same period in 2009. Our ability to pass this increased cost to customers depends to a large extent on the strength of the global economic recovery. Higher volumes increased our fixed costs absorption in the nine months ended September 30, 2010, partially offsetting the higher coke cost.

We currently purchase a majority of our requirements for petroleum coke, our principal raw material, from two plants of ConocoPhillips under supply agreements containing customary terms and conditions, including price renegotiation, dispute resolution and termination provisions. The termination provisions permitted either party to terminate the agreements at the end of a calendar year by giving the other party notice of termination by September 30 of that calendar year. During the course of recent discussions with ConocoPhillips regarding our future needle coke requirements, including potential changes in such needs as a result of our pending acquisition of Seadrift, as well as other provisions of the agreements which had become inapplicable due to changes in circumstances over the decade since the agreements were first established, the consensus of the parties was that the agreements should be terminated and that the parties enter into negotiations concerning future supply of needle coke. Accordingly, we received notice of termination of the supply agreements effective as of December 31, 2010 and we have entered into negotiations with them for a new supply agreement to enable us to cover our future needle coke requirements. Under the termination provisions, in the event of such a termination, the parties are required to enter into replacement agreements providing for the supply and purchase of needle coke for a term of three years beginning immediately after the effective termination date, with decreasing quantities in each of those years and with pricing based on market prices. We believe the estimated quantities under the replacement agreements will be sufficient for our forecast raw material requirements based on our expectations of closing the proposed Seadrift acquisition in the fourth quarter of 2010, as described on page 21 in Note 17, Acquisitions of the Notes to Consolidated Financial Statements.

Selling and administrative expenses. Acquisition costs (i.e., advisory, legal, valuation, other professional fees, etc.) associated with our announced agreements to acquire Seadrift and C/G represented \$12.3 million of the increase for the nine months ended September 30, 2010 as compared to the same period of the prior year. We also experienced higher overhead expense due to increases in sales and marketing coverage to support internal growth initiatives and higher commission expense related to increased sales during the nine months ended September 30, 2010 when compared to the nine months ended September 30, 2009.

Equity in losses (earnings) and write-down of investment in non-consolidated affiliate. Our equity in the earnings of Seadrift, on a one-month lag, were \$1.6 million and \$3.8 million during the nine month periods ended September 30, 2009 and 2010, respectively. The increase in earnings period over period is due in large part to an increase in production volumes at Seadrift. Additionally, in the nine months ended September 30, 2009 we recorded an impairment charge for the write-down to fair value of our investment of \$52.8 million.

Other expense (income), net. Other expense (income), net went from an expense of \$8.4 million in the nine months ended September 30, 2009 to income of \$1.7 million in the nine months ended September 30, 2010, due in large part to currency gains from the weakening of the euro in the nine months ending September 30, 2010 which led to favorable gains on remeasurement of intercompany loans and activities denominated in the euro, as compared to a strengthening of the euro in the nine months ending September 30, 2009. During the nine months ended September 30, 2009 we recorded currency losses of \$6.5 million as compared to currency gains of \$3.0 million during the nine months ended September 30, 2010.

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Segment operating income. Corporate expenses are allocated to segments based on each segment's percentage of consolidated sales. The following table represents our operating income by segment:

	For the Nine Months Ended September 30,	
	2009	2010
	<i>(Dollars in thousands)</i>	
Industrial Materials	\$ 46,986	\$ 110,835
Engineered Solutions	5,994	12,354
Total segment operating income	\$ 52,980	\$ 123,189

The percentage relationship of operating expenses to sales for Industrial Materials and Engineered Solutions is set forth in the following table:

	For the Nine Months Ended September 30,		
	<i>(Percentage of sales)</i>		
	2009	2010	Change
Industrial Materials	87%	82%	(5%)
Engineered Solutions	93%	90%	(3%)

Segment operating costs and expenses as a percentage of sales for Industrial Materials decreased five percentage points to 82% in the nine months ended September 30, 2010. However total operating costs and expenses increased \$164.5 million from the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2010. The increase was primarily a result of volume increases of \$95.7 million, increases in production costs and variances of \$38.3 million, unfavorable foreign currency impact of \$10.8 million and acquisition costs incurred of \$12.3 million.

Segment operating costs and expenses as a percentage of sales for Engineered Solutions decreased three percentage points to 90% in the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009. However, total operating costs and expenses increased \$34.4 million from the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2010. The increase was primarily a result of higher volumes of \$29.7 million, depreciation expense \$2.6 million and incentive compensation accruals for \$2.0 million.

Provision for income taxes. The provision for income taxes for the nine months ended September 30, 2009 was a tax expense of \$8.3 million on pretax loss of \$13.5 million as compared to tax expense of \$28.0 million on pretax income of \$125.4 million for the nine months ended September 30, 2010. The effective tax rates were 61.5% and 22.3% for the nine months ended September 30, 2009 and 2010, respectively. The effective tax rate for the nine months ended September 30, 2009 results from not fully realizing the benefit of the \$52.8 million Seadrift impairment charge in the prior year, due to the reestablishment of valuation allowances against tax attributes in the U.S. The current year effective tax rate differs from the U.S statutory rate of 35% primarily due to jurisdictional mix of income and changes in the utilization of attributes and related valuation allowances.

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Effects of Changes in Currency Exchange Rates

When the currencies of non-U.S. countries in which we have a manufacturing facility decline (or increase) in value relative to the U.S. dollar, this has the effect of reducing (or increasing) the U.S. dollar equivalent cost of sales and other expenses with respect to those facilities. In certain countries where we have manufacturing facilities, and in certain instances where we price our products for sale in export markets, we sell in currencies other than the dollar. Accordingly, when these currencies increase (or decline) in value relative to the dollar, this has the effect of increasing (or reducing) net sales. The result of these effects is to increase (or decrease) operating profit and net income.

Many of the non-U.S. countries in which we have a manufacturing facility have been subject to significant economic and political changes, which have significantly impacted currency exchange rates. We cannot predict changes in currency exchange rates in the future or whether those changes will have net positive or negative impacts on our net sales, cost of sales or net income.

During the nine months ended September 30, 2010, the average exchange rate for the Brazilian real and the South African rand increased significantly, about 16.1% and 15.8%, respectively, when compared to their respective average exchange rates for the nine months ended September 30, 2009. During the nine months ended September 30, 2010 the Mexican peso and the Japanese yen increased roughly 7.3% and 6.0%, respectively, while the euro decreased 3.6%, when compared to their average exchange rates for the nine months ended September 30, 2009. The average exchange rate of the British pound decreased less than 1.0% during the nine months ended September 30, 2010 when compared to its average exchange rate for the nine months ended September 30, 2009.

For net sales of Industrial Materials, the impact of changes in the average exchange rates for the period was a decrease of \$13.2 million in the nine months ended September 30, 2010. For the cost of Industrial Materials, the impact of these events was an increase of \$10.8 million in the nine months ended September 30, 2010.

As part of our cash management, we also have intercompany loans between our subsidiaries. These loans are 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.

We had a net total currency loss of \$6.5 million in the nine months ended September 30, 2009 as compared to a net total currency gain of \$3.0 million in the nine months ended September 30, 2010, mainly due to the remeasurement of intercompany loans and the effect of transaction gains and losses on intercompany activities.

We have in the past and may in the future use various financial instruments to manage certain exposures to specific financial market risks caused by changes in currency exchange rates, as described under [Item 3 Quantitative and Qualitative Disclosures about Market Risk](#) .

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****(Unaudited)****Liquidity and Capital Resources**

Global capital markets have been, and continue to be, disrupted and volatile. The cost and availability of funding has been and may continue to be adversely affected by illiquid credit markets. We believe that we have adequate liquidity, including availability under our credit agreement, to meet all of our present operating needs. Continued turbulence in the U.S. and international financial markets, however, could adversely affect the cost and availability of financing to us in the future.

Our financing obligations are as follows:

	At December 31, 2009	At September 30, 2010
	<i>(Dollars in thousands)</i>	
Short-term debt	\$ 1,113	\$ 9
Supply chain financing liability	14,404	25,460
Total current financing liabilities	15,517	25,469
Long-term debt	1,467	1,383
Total financing liabilities	\$ 16,984	\$ 26,852

At September 30, 2010, we had cash and cash equivalents of \$66.5 million, long-term debt of \$1.4 million and stockholders' equity of \$684.4 million. We also have \$257.5 million available through our Revolving Facility. As part of our cash management activities, we manage accounts receivable credit risk, collections, and accounts payable vendor terms to maximize our free cash at any given time and minimize accounts receivable losses.

We have an accounts receivable factoring arrangement in place that provides additional working capital liquidity of up to \$25.0 million. During the three and nine months ended September 30, 2009 certain subsidiaries sold receivables totaling \$8.4 million and \$32.1 million, respectively. These proceeds were used to reduce debt and to fund operations. If we had not sold receivables, our accounts receivable and our debt would each have been about \$9.4 million higher at September 30, 2009. All such receivables were sold without recourse, and no amount of accounts receivable sold are recorded in the Consolidated Balance Sheet. We did not sell any receivables under this arrangement during the three and nine months ended September 30, 2010.

Our sources of funds have consisted principally of cash flow from operations, debt including our Revolving Facility, equity financings, and supply chain financings. Our uses of those funds (other than for operations) have consisted principally of capital expenditures, payment of pension and post-retirement contributions, debt reductions, purchases of treasury shares and other obligations. As of September 30, 2010, we have several future obligations accrued that will utilize a significant amount of such funds. These obligations include our acquisition related expenses of \$3.8 million which will be paid during the fourth quarter.

Lower sales volumes for our products and reduced credit quality of our customers may limit the amount of receivables that we sell in the future. The facility automatically renewed for a one year period on June 30, 2010 and it automatically renews each year thereafter unless a termination notice is sent by either party 30 days prior to the applicable June 30.

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During 2008, we entered into a supply chain financing arrangement with a financing party that provides additional working capital liquidity of up to \$50 million. Under this arrangement, we essentially assigned our rights to purchase needle coke from our supplier to the financing party. The financing party purchases the product from our supplier under the standard payment terms and then immediately resells it to us under longer payment terms. The financing party pays the supplier the purchase price for the product and then we pay the financing party. Our payment for this needle coke will include a mark up (the Mark-Up). For the first nine months of 2010 the Mark-Up was based on 3 month LIBOR plus a margin of 2.90%. The Mark-Up is subject to quarterly reviews. In effect, we have a longer period of time to pay the financing party than by purchasing directly from the supplier which helps us maintain a balanced cash conversion cycle between inventory payments and the collection of receivables. During the nine months ended September 30, 2010, the financing party invoiced us \$153.8 million and we had net borrowings of \$11.1 million for purchases of inventory under this arrangement, including a Mark-Up of \$1.3 million.

In the event that operating cash flow, the sales of receivables and the financing of needle coke purchases fail to provide sufficient liquidity to meet our business needs, including capital expenditures, any such shortfall would be made up by borrowings under our Revolving Facility.

We use cash and cash equivalents, cash flow from operations, funds from receivable and payable factoring arrangements, supply chain financing, and funds available under the Revolving Facility (subject to continued compliance with the financial covenants and representations under the Revolving Facility) as our primary sources of liquidity. The Revolving Facility is secured, and provides for maximum borrowings of up to \$260 million including a letters of credit sub-facility of up to \$35 million and, subject to certain conditions (including a maximum senior secured leverage ratio test), an accordion feature that permits GrafTech Finance to establish additional credit facilities thereunder in an aggregate amount, together with the Revolving Facility, of up to \$390 million.

The Revolving Facility matures in April 2013. See footnote 9, Long-Term Debt and Liquidity , of the Notes to Consolidated Financial Statements on page 13 for a further discussion of our completion of the refinancing of our Revolving Facility during the quarter.

At September 30, 2010, there were no borrowings drawn from the Revolving Facility, and \$257.5 million was available (after consideration of outstanding letters of credit of \$2.5 million). It is possible that our future ability to borrow under the Revolving Facility will be less because of the impact of additional borrowings upon our compliance with the maximum net senior secured debt leverage ratio permitted or minimum interest coverage ratio required under the Revolving Facility.

The interest rate applicable to the Revolving Facility is, at GrafTech's option, either LIBOR plus a margin ranging from 2.50% to 3.50% (depending on our total net leverage ratio and/or senior unsecured rating) or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 1.50% to 2.50% (depending upon such ratio or rating). The alternate base rate is the highest of (i) the prime rate announced by JP Morgan Chase Bank, N.A., (ii) the federal fund effective rate plus 0.50% and (iii) the London interbank offering rate (as adjusted) for a one-month interest period plus 1.00%. GrafTech Finance and Swissco pay a per annum fee ranging from 0.375% to 0.750% (depending on such ratio or rating) on the undrawn portion of the commitments under the Revolving Facility.

At September 30, 2010, we were in compliance with all financial and other covenants contained in the Revolving Facility, as applicable. These covenants include maintaining an interest coverage ratio of at least 1.75 to 1.00 and a maximum net senior secured leverage ratio of 2.25 to 1.00, subject to adjustment based on a rolling average of the prior four quarters. Based on expected operating results and expected cash flows, we expect to be in compliance with these covenants through maturity of our Revolving Facility. If we were to believe that we would not continue to comply with these covenants, we would seek an appropriate waiver or amendment from the lenders thereunder. We cannot assure you that we would be able to obtain such waiver or amendment on acceptable terms or at all.

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At September 30, 2010 we had outstanding letters of credit of \$7.0 million under a \$10 million Letter of Credit facility with another commercial bank.

At September 30, 2010, approximately 88% of our debt outstanding consisted of fixed rate obligations as compared to 83% at December 31, 2009.

On January 14, 2010, S&P upgraded our corporate rating by two notches to BB+ and our senior secured debt rating to BBB. On April 14, 2010, Moody's Investors Services moved our rating outlook to positive from stable, assigned a Ba1 rating to our new senior secured Revolving Credit Facility, and affirmed our Ba2 corporate rating. These ratings reflect the current views of these rating agencies, and no assurance can be given that these ratings will continue for any given period of time. However, we monitor our financial condition as well as market conditions that could ultimately affect our credit ratings.

Cash Flow and Plans to Manage Liquidity. Our business strategies include efforts to enhance our capital structure by further reducing our gross obligations. Our efforts include leveraging our global manufacturing network by driving higher utilization rates and more productivity from our existing assets, accelerating commercialization initiatives across all of our businesses and realizing other global efficiencies.

Typically, our cash flow from operations fluctuates significantly between quarters due to various factors. These factors include customer order patterns, fluctuations in working capital requirements, and other factors.

Certain of our obligations could have a material impact on our liquidity. Cash flow from operations are used to service payments of our obligations, including our incentive compensation program paid out in the second quarter of 2010, thereby reducing funds available to us for other purposes. Although we currently have no borrowings under the Revolving Facility, and no plans to draw thereunder other than in connection with the Seadrift and C/G acquisitions when consummated, another downturn in the global economy, or additional acquisitions, may require borrowings under our Revolving Facility, particularly if our accounts receivable and supply chain financing arrangements are terminated. If the economy continues to improve, we should experience improved results of operations and cash flows, yet could require significant cash requirements to purchase inventories and pay other obligations as accounts receivable increase. A downturn could significantly negatively impact our results of operations and cash flows, which, coupled with increased borrowings, could negatively impact our credit ratings, our ability to comply with debt covenants, our ability to secure additional financing and the cost of such financing, if available.

As described in footnote 17, Acquisitions, of the Notes to Consolidated Financial Statements on page 21, we have entered into an agreement and plan of merger with Seadrift and certain of its partners to acquire all of the equity interests of Seadrift that we do not already own. At the same time, we entered into an agreement and plan of merger with C/G and certain of its members to acquire all of the outstanding equity interests in C/G. The consideration to be paid for Seadrift will consist of \$78.5 million in cash less debt (subject to working capital adjustments), 12 million New GTI Shares, and non-interest bearing, senior subordinated promissory notes in an aggregate face amount of \$100 million due in 2015. The consideration to be paid for C/G will consist of \$152.5 million in cash less debt (subject to working capital adjustments), 12 million New GTI Shares and non-interest bearing, senior subordinated promissory notes in an aggregate face amount of \$100 million due in 2015. Approximately \$185 million of the cash consideration to be paid in connection with the transactions will be funded through borrowings under our Revolving Facility. The balance of the cash purchase portion of the purchase price will be paid from cash on hand.

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In order to seek to minimize our credit risks, we reduce our sales of, or refuse to sell (except for cash on delivery or under letters of credit), our products to some customers and potential customers. In the current economic environment, our customers may experience liquidity shortages or difficulties in obtaining credit, including letters of credit. Our unrecovered trade receivables worldwide have not been material during the last 3 years individually or in the aggregate. We cannot assure you that we will not be materially adversely affected by accounts receivable losses in the future. In addition, we have historically factored a portion of our accounts receivable and used the proceeds to reduce debt. Our ability to factor accounts receivable in the future may be limited by reduced credit ratings of customers or by a reduction in the amount permitted to be financed under the arrangement.

In December 2007, our Board of Directors approved a share repurchase program authorizing the purchase of up to 3 million shares of our common stock. Share repurchases may take place from time to time in the open market, or through privately negotiated transactions, as market conditions warrant. We intend to fund any such share repurchases from available cash and cash flows. These share repurchases may be suspended or discontinued at any time.

Related Party Transactions. In late June and early July 2009, our non-consolidated affiliate, Seadrift, entered into agreements to borrow up to \$17.0 million from certain of its shareholders, which include GrafTech. We agreed to loan up to \$8.5 million and on July 2, 2009, we loaned Seadrift \$6.0 million. The loan was repaid in full with interest on March 31, 2010 and the obligation to make any further loans or advances ceased and terminated.

Except for the pending merger agreement with Seadrift, described above, we have not engaged in or been a party to any other material transactions with affiliates or related parties other than for transactions with our current or former subsidiaries and compensatory transactions with directors and officers (including employee benefits, stock option and restricted stock grants, compensation deferral, executive employee loans and stock purchases).

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****(Unaudited)*****Cash Flows.***

The following is a discussion of our cash flow activities:

	For the	
	Nine Months Ended	
	September 30,	
	2009	2010
	<i>(Dollars in millions)</i>	
Cash flow provided by (used in):		
Operating activities	\$ 121.7	\$ 54.0
Investing activities	(47.0)	(44.7)
Financing activities	(78.8)	\$ 5.7

Operating Activities

Cash flow from operating activities represents cash receipts and cash disbursements related to all our activities other than to investing and financing activities. Operating cash flow is derived by adjusting net income for:

Non-cash items such as depreciation and amortization; post retirement obligations, severance and pension plan changes; stock-based compensation charges; equity in losses (earnings) and write down of investment in our non-consolidated affiliate

Gains and losses attributed to investing and financing activities such as gains and losses on the sale of assets and unrealized currency transaction gains

Changes in operating assets and liabilities which reflect timing differences between the receipt and payment of cash associated with transactions and when they are recognized in results of operations

The net impact of the changes in working capital (operating assets and liabilities), which are discussed in more detail below, include the impact of changes in: receivables, inventories, prepaid expenses, accounts payable, accrued liabilities, interest payable, and payments of other current liabilities.

We continue to maximize our operating cash flows by continuing to improve those working capital items that are most directly affected by changes in sales volume, such as accounts receivable, inventories and accounts payable.

During the nine months ended September 30, 2009, changes in working capital resulted in a net source of funds of \$47.7 million which was impacted by:

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sources of funds of \$64.2 million from a decrease in accounts receivable, net of factoring of \$(16.0) million, which are primarily attributable to decreased sales, credit risk policies, and cash collection efforts;

sources of funds of \$62.8 million from a decrease in inventory on hand; and

use of funds of \$61.8 million for accounts payable and accruals due to the decrease in inventory purchases and the timing of payments.

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During the nine months ended September 30, 2010, changes in working capital resulted in a net use of funds of \$79.2 million which was impacted by:

use of funds of \$42.3 million from the increase in accounts receivable, including the effect of factoring for \$1.1 million, which are due primarily to increased sales for the period and the limited use of factoring;

use of funds for inventories of \$39.0 million primarily due to the increased sales volume; and

sources of funds of \$6.7 million from an increase in accounts payable and accruals through normal operations and inventory purchases.

Other items that affected our cash balance during the nine months ended September 30, 2010 included payment of incentive compensation of \$19.6 million, payments of acquisition costs of \$8.5 million, Federal income tax payments in the United States of \$4.1 million, and income tax payments in Mexico, South Africa and Switzerland of \$2.6 million, \$2.7 million, and \$9.5 million, respectively.

Investing Activities.

Net cash used in investing activities was \$47.0 million during the nine months ended September 30, 2009 which was mainly attributable to capital expenditures of \$40.5 million, and a \$6.0 million loan to our non-consolidated affiliate.

Net cash used in investing activities was \$44.7 million during the nine months ended September 30, 2010 and included capital expenditures of \$51.5 million, which was partially offset by proceeds received on the repayment of our loan to our non-consolidated affiliate of \$6.0 million.

Financing Activities.

Net cash flow used in financing activities was \$78.8 million during the nine months ended September 30, 2009, mainly driven by net repayments of \$30.5 million under our Revolving Facility, net repayments under our supply chain financing arrangement of \$30.1 million, payments on long-term debt totaling \$20.0 million which included the redemption of the remaining outstanding balance of our Senior Notes of \$19.9. Those uses of cash were partially offset by proceeds of \$1.8 million from a zero interest loan from the Spanish government for capital expenditures.

Net cash flow provided by financing activities was \$5.7 million during the nine months ended September 30, 2010 and included net borrowings under our supply chain financing arrangement of \$11.1 million, partially offset by bank fees and charges to amend and restate our credit agreement of \$4.5 million and purchases of treasury shares of \$1.2 million.

Restrictions on Dividends and Stock Repurchases

A description of the restriction on our ability to pay dividends and our ability to repurchase common stock is set forth under **Item 5 Dividend Policies and Restrictions** in the Annual Report and such description is incorporated herein by reference.

Under the Revolving Facility, in general, GTI is permitted to pay dividends or other distributions (whether in cash, securities or other property) so long as such dividends and distributions do not exceed 50% of our consolidated net income for the immediately preceding fiscal period and

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do not exceed, during the term of the Revolving Facility, the aggregate amount of \$75 million (or up to \$300 million if certain leverage ratio requirements are satisfied).

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Recent Accounting Pronouncements

We discuss recently adopted accounting standards on page 6 in Note 2, **New Accounting Standards** of the Notes to Consolidated Financial Statements.

Description of Our Financing Structure

We discuss our financing structure in more detail on page 13 in Note 9, **Long-Term Debt and Liquidity** of the Notes to Consolidated Financial Statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks primarily from changes in interest rates, currency exchange rates and commercial energy rates. We, from time to time, routinely enter into various transactions that have been authorized according to documented policies and procedures to manage these well-defined risks. These transactions relate primarily to financial instruments described below. Since the counterparties, if any, to these financial instruments are large commercial banks and similar financial institutions, we do not believe that we are exposed to material counterparty credit risk, despite the current worldwide economic situation. We do not use financial instruments for trading purposes.

Our exposure to changes in interest rates results primarily from floating rate long-term debt tied to LIBOR or Euro LIBOR. Our exposure to changes in currency exchange rates results primarily from:

sales made by our subsidiaries in currencies other than local currencies;

raw material purchases made by our foreign subsidiaries in currencies other than local currencies; and

investments in and intercompany loans to our foreign subsidiaries and our share of the earnings of those subsidiaries, to the extent denominated in currencies other than the dollar.

Our exposure to changes in energy costs results primarily from the purchase of natural gas and electricity for use in our manufacturing operations.

Currency Rate Management. We enter into foreign currency instruments from time to time to attempt to manage exposure to changes in currency exchange rates. These foreign currency instruments, which include, but are not limited to, forward exchange contracts and purchased currency options, attempt to hedge global currency exposures, net, relating to non-dollar denominated debt and identifiable foreign currency receivables, payables and commitments held by our foreign and domestic subsidiaries. Forward exchange contracts are agreements to exchange different currencies at a specified future date and at a specified rate. Purchased foreign currency options are instruments, which give the holder the right, but not the obligation, to exchange different currencies at a specified rate at a specified date or over a range of specified dates. Forward exchange contracts and purchased currency options are carried at market value. The outstanding contracts at December 31, 2009 and September 30, 2010 represented a net unrealized loss of \$0.1 million and \$1.9 million, respectively.

Commercial Energy Rate Management. We periodically enter into natural gas derivative contracts and short duration fixed rate purchase contracts to effectively fix some or all of our natural gas cost exposure. The outstanding contracts at December 31, 2009 and September 30, 2010 represented a net unrealized gain of \$0.1 million and a net unrealized loss of \$0.5 million, respectively.

Interest Rate Risk Management. We periodically implement interest rate management initiatives to seek to minimize our interest expense and the risk in our portfolio of fixed and variable interest rate obligations. We currently do not have any such contracts outstanding.

We periodically enter into agreements with financial institutions that are intended to limit, or cap, our exposure to incurrence of additional interest expense due to increases in variable interest rates. These instruments effectively cap our interest rate exposure.

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Sensitivity Analysis. We used a sensitivity analysis to assess the potential effect of changes in currency exchange rates on gross margin and changes in interest rates on interest expense. Based on this analysis, a hypothetical 10% weakening or strengthening in the dollar across all other currencies would have changed our reported gross margin for the nine months ended September 30, 2010 by about \$2.2 million including the effect of our foreign currency hedging contracts. Due to our reduced levels of outstanding debt, a hypothetical increase in interest rates of 1,000 basis points (10%) would have a nominal impact of less than \$0.1 million on our interest expense for the nine months ended September 30, 2010.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Management is responsible for establishing and maintaining adequate disclosure controls and procedures at the reasonable assurance level. Disclosure controls and procedures are designed to ensure that information required to be disclosed by a reporting company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by it in the reports that it files under the Exchange Act is accumulated and communicated to management, including the chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2010. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective at the reasonable assurance level as of September 30, 2010.

Changes in Internal Controls over Financial Reporting. There have been no changes in our internal controls over financial reporting that occurred during the three months ended September 30, 2010 that materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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PART II. OTHER INFORMATION

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

Item 1. Legal Proceedings

The information required by this Item is set forth on page 17 in Note 14, *Contingencies* of the Notes to Consolidated Financial Statements and is incorporated herein by reference.

Item 1A. Risk Factors

The following Risk Factors should be read in conjunction with the Risk Factors set forth in the Annual Report.

Risks Relating to the Seadrift and C/G Transactions

We may not be able to obtain the regulatory approvals required to consummate the Seadrift and C/G mergers.

Completion of the Seadrift and C/G mergers is conditioned upon the receipt of all required governmental consents, clearances and authorizations. Complying with requests from such governmental agencies, including requests for additional information and documents, could delay consummation of either or both of the mergers. On June 7, 2010, the Antitrust Division of the DOJ issued requests for additional information and documents relevant to each of the Seadrift merger and the C/G merger, respectively. These requests extend the waiting period during which the mergers may not be consummated for 30 days from the date of receipt by the DOJ of the additional materials requested, unless that period is extended voluntarily by the parties or terminated sooner by the DOJ. We are substantially complete with obtaining all of these consents and authorizations as required by and in accordance with the terms of the merger agreements.

In connection with granting these consents and authorizations, governmental authorities may impose conditions on our operations after completion of the mergers. Such conditions may jeopardize or delay completion of the mergers or may reduce the anticipated benefits of the transactions. Under the terms of the merger agreements, GrafTech, Seadrift and C/G are required to use reasonable best efforts to obtain all necessary governmental approvals, including agreeing to any such conditions in connection with such efforts, other than any such actions that could reasonably be expected to have a material adverse effect on GrafTech.

If we do not integrate our businesses successfully, we may lose customers and fail to achieve our financial objectives.

Achieving the benefits of the mergers will depend in part on the successful integration of Seadrift's and C/G's respective businesses into our operations in a timely and efficient manner. In order for us to provide enhanced and more valuable products to our customers after the mergers, we will need to integrate our product lines and development organizations. This may be difficult, unpredictable, and subject to delay because our businesses and products are highly complex, have been developed independently and were designed without regard to such integration. If we cannot successfully integrate our businesses and products and continue to provide customers with products and new product features in the future on a timely basis, we may lose customers and our business and results of operations may be harmed.

We may not be able to successfully vertically integrate our supply chain.

We hope to produce high quality petroleum coke and improve the efficiency of Seadrift's manufacturing processes. Although petroleum coke is the primary raw material in our manufacturing process, in the past we have purchased our requirements of petroleum coke from third parties and have no prior experience in its production. This will represent a new business for us and this effort to vertically integrate our supply chain may not be successful. We may not be able to improve the efficiency or the quality of the petroleum coke production at Seadrift. Failure to successfully integrate Seadrift into our operations may adversely affect our financial condition.

Integrating our companies may divert management's attention away from our operations.

Successful integration of Seadrift and C/G into our operations, products and personnel may place a significant burden on our management and our internal resources. The diversion of management's attention and any difficulties encountered in the transition and integration process could harm our business, financial condition and operating results.

We expect to incur significant capital costs integrating the companies into a single business.

We expect to incur significant capital costs integrating Seadrift's and C/G's operations and products. These costs may include costs for:

maintenance capital;

capital necessary for quality improvement; and

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capital and related costs and expenditures related to facility stability necessary to achieve production plans. In addition, we expect to incur significant integration costs in connection with the consummation of the mergers. We do not know whether we will be successful in these integration efforts or in consummating the mergers.

The combined companies may not realize the anticipated benefits from the mergers.

The mergers involve the integration of three companies that have previously operated independently. We expect the combined companies to result in financial and operational benefits, including increased cost savings and other financial and operating benefits from the mergers. There can be no assurance, however, regarding when or the extent to which the combined companies will be able to realize these increased cost savings or benefits. This integration may also be difficult, unpredictable, and subject to delay because of possible cultural conflicts and different opinions on technical decisions and product roadmaps. The companies must integrate or, in some cases, replace numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance, many of which are dissimilar. In some instances, C/G and GrafTech serve the same customers, and some of these customers may decide that it is desirable to have additional or different suppliers. Difficulties associated with integrating Seadrift and C/G could have a material adverse effect on the combined companies and the market price of our common stock following the mergers.

The market price of our common stock following the mergers may be volatile, and the market price of our common stock may decline in value following the mergers.

The market price of our common stock could be subject to significant fluctuations following the mergers. Market prices for securities of companies that have undergone significant acquisitions may be volatile. Some of the factors that may cause the market price of our common stock to fluctuate include, without limitation: general stock market and general economic conditions in the United States and abroad, not directly related to the combined companies or their business; the entry into, or termination of, material agreements; the initiation of, material developments in, or conclusion of litigation to enforce or defend any of the combined companies' intellectual property rights; issues in manufacturing the combined companies' products; the introduction of technological innovations or new commercial products by competitors of the combined companies; changes in estimates or recommendations by securities analysts, if any, who cover our common stock; future sales of our securities; fluctuations in the combined companies' financial results, including its cash, cash equivalents and short-term investment balance, operating expenses, cash burn rate or revenues; and other potentially negative financial announcements, including delisting of our common stock from the NYSE, changes in accounting treatment or restatement of previously reported financial results, delays in the combined companies' filings with the SEC or the combined companies' failure to maintain effective internal control over financial reporting.

We have incurred and expect to continue to incur significant transaction and merger-related costs in connection with the mergers and will remain liable for significant transaction costs whether or not we successfully close the mergers, including legal, accounting, financial advisory and other costs.

We have incurred and expect to continue to incur a number of non-recurring costs associated with combining the operations of the three companies which cannot be estimated accurately at this time. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, may offset incremental transaction and transaction-related costs over time, this net benefit may not be achieved in the near term, or at all. Also, speculation regarding the likelihood of the closing of the mergers could increase the volatility of our share price in the interim.

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PART II (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

We have agreed to restrict our business conduct prior to closing.

Under the Seadrift merger agreement and the C/G merger agreement, we have agreed to operate our business in the usual, regular and ordinary course. In addition, we have agreed not to, and not to permit our affiliates to, perform certain actions including, without limitation, to the extent provided in the merger agreements, declaring dividends, issuing securities, encumbering our capital stock, making material acquisitions or disposing of assets. Our agreement not to, and not to permit our affiliates to, take these actions could adversely affect our ability to take actions beneficial to GrafTech or its stockholders.

Our incurrence of additional debt to pay the cash portion of the merger consideration will significantly increase our interest expense, leverage and debt service requirements following the mergers.

We anticipate borrowing approximately \$185 million in order to pay the cash portion of the merger consideration and acquisition related transaction costs. The borrowing amount at closing may increase if the closing of the mergers is delayed. This amount excludes additional borrowings we may need to finance integration, capital expenditures or restructuring activities. Incurrence of this new debt will significantly increase the combined companies' leverage. In addition, we anticipate issuing \$200 million in non-interest bearing senior subordinated notes which will mature five years after they are issued to the equity holders of Seadrift and C/G as part of the merger consideration which will further contribute to the significant increase in our leverage and debt service requirements. While management believes our cash flows will be adequate to service this debt, there may be circumstances in which required payments of principal or interest on this new debt could adversely affect our cash flows and operating results, and therefore the market price of our common stock.

We purchase a majority of our requirements for petroleum coke, our principal raw material, from ConocoPhillips, a direct competitor of Seadrift. The Seadrift Merger may have a negative effect on our relationship with needle coke suppliers. If we are unable to maintain contracts with third party needle coke suppliers, including ConocoPhillips, our production operations could be negatively affected.

There are currently several firms in the world (in addition to Seadrift) producing ultra-high power (UHP) grade needle coke. The Seadrift merger will provide us with control over a direct competitor to these firms. The completion of the Seadrift merger may negatively affect our relationship with the other suppliers of needle coke who may elect not to sell to us or reduce their volume of sales to us.

We currently purchase a majority of our requirements for petroleum coke, our principal raw material, from two plants of ConocoPhillips under supply agreements containing customary terms and conditions, including price renegotiation, dispute resolution and termination provisions. The termination provisions permitted either party to terminate the agreements at the end of a calendar year by giving the other party notice of termination by September 30 of that calendar year. During the course of recent discussions with ConocoPhillips regarding our future needle coke requirements, including potential changes in such needs as a result of our pending acquisition of Seadrift, as well as other provisions of the agreements which had become inapplicable due to changes in circumstances over the decade since the agreements were first established, the consensus of the parties was that the agreements should be terminated and that the parties enter into negotiations concerning future supply of needle coke. Accordingly, we received notice of termination of the supply agreements effective as of December 31, 2010 and we have entered into negotiations with them for a new supply agreement to enable us to cover our future needle coke requirements. Under the termination provisions, in the event of such a termination, the parties are required to enter into replacement agreements providing for the supply and purchase of needle coke for a term of three years beginning immediately after the effective termination date, with decreasing quantities in each of those years and with pricing based on market prices. We believe the estimated quantities under the replacement agreements will be sufficient for our forecast raw material requirements based on our expectations of closing the proposed Seadrift acquisition in the fourth quarter of 2010.

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PART II (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

Natural gas drilling and extraction activities conducted on the C/G site as permitted, subject to certain conditions, by the C/G merger agreement may result in liability or other costs to us.

Pursuant to the C/G Merger Agreement, the holders of equity in C/G immediately prior to the C/G merger are entitled to enter into arrangements for exploration, drilling and extraction of natural gas on the C/G site and to retain the economic benefit therefrom. Such holders are required to provide indemnification by financially responsible indemnitors to us against all loss, cost and expense (including increased insurance costs) arising out of such activities. However, there can be no assurance that such indemnity will be adequate to cover such costs or that the indemnitor will remain financially responsible. Insurance and bonds acceptable to us must also be provided, but there can be no assurance that such insurance and bonds will be adequate to cover applicable losses. All activities are to be conducted in accordance with applicable law, with such holders and their gas contractors being liable for all violations, but there can be no assurance as to such compliance or that we, as the owner of the site, will not be held liable for noncompliance.

General customer uncertainty related to the mergers could harm GrafTech, Seadrift and C/G.

GrafTech's, Seadrift's or C/G's customers may, in response to the announcement of the proposed mergers, delay or defer purchasing decisions or switch suppliers. If GrafTech's, Seadrift's or C/G's customers delay or defer purchasing decisions or switch suppliers, the revenues of GrafTech, Seadrift and C/G, respectively, and the revenues of the combined companies, could materially decline or anticipated increases in revenue could be lower than expected.

The acquisition may still be challenged by regulators or third parties following consummation.

Although we believe we will have obtained prior to consummation of the Mergers, all required regulatory approvals, it is possible that regulatory authorities or third parties such as competitors or customers may still bring actions challenging the Mergers, or seeking damages, before or after consummation of the Mergers. Any such actions, if brought, may lead to additional delay, cause us to incur significant costs and expenses, and result in further diversion of management's attention.

Failure to complete the mergers may result in certain costs that could negatively affect the financial condition and results of operations of GrafTech.

GrafTech may be required to pay a termination fee of up to \$30 million under the terms of the merger agreements if the merger agreements are terminated under certain circumstances. In addition, GrafTech will incur significant transaction and merger-related costs whether or not GrafTech receives the benefits associated with successfully closing the mergers. Moreover, the market price of GrafTech Common Stock may decline as a result of GrafTech's failure to close the mergers.

Table of Contents**PART II (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES**

The mergers could cause GrafTech, Seadrift and C/G to lose key personnel, which could materially affect the respective companies businesses and require the companies to incur substantial costs to recruit replacements for lost personnel.

As a result of the mergers, current and prospective GrafTech, Seadrift and C/G employees could experience uncertainty about their future roles within the combined company. This uncertainty may adversely affect our ability to attract and retain key management, sales, marketing and technical personnel. Any failure to attract and retain key personnel could have material adverse effect on the business of GrafTech now and after completion of the mergers.

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

In December 2007, we announced that our Board of Directors had approved a share repurchase program authorizing the purchase of up to 3 million shares of our common stock. Purchases may take place from time to time in the open market, or through privately negotiated transactions, as market conditions warrant. In addition to the repurchase program, we occasionally purchase or withhold vested restricted stock shares from employees as payment for the withholding taxes due upon the vesting or payment of stock awards.

<i>Period</i>	<i>Total Number of Shares Purchased*</i>	<i>Average Price Paid per Share</i>	<i>Total Number of Shares Purchased as</i>	
			<i>Part of Publicly Announced Plans or Programs</i>	<i>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</i>
July 1 through July 31, 2010	1,316	\$ 14.24	0	2,051,905
August 1 through August 31, 2010	0	0.00	0	2,051,905
September 1 through September 30, 2010	1,623	15.59	0	2,051,905

* Including purchases of vested restricted stock shares from employees as payment for the withholding taxes due upon the vesting or payment of stock awards. These share repurchases are appropriately not considered purchases as part of publicly announced plans or programs.

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The exhibits listed in the following table have been filed as part of this Report.

Exhibit	
Number	Description of Exhibit
*31.1	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Craig S. Shular, Chief Executive Officer, President and Chairman of the Board.
*31.2	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Mark R. Widmar, Vice President and Chief Financial Officer.
*32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Craig S. Shular, Chief Executive Officer, President and Chairman of the Board.
*32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Mark R. Widmar, Vice President and Chief Financial Officer.

* Filed herewith

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

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.

GRAFTECH INTERNATIONAL LTD.

Date: October 28, 2010

By: /s/ Mark R. Widmar
Mark R. Widmar
*Vice President and Chief Financial
Officer (Principal Accounting Officer)*

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