GRAFTECH INTERNATIONAL LTD
Form 10-Q
August 11, 2014
Table of Contents

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

FORM 10-Q

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

for the quarterly period ended June 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from to

Commission file number: 1-13888

GRAFTECH INTERNATIONAL LTD.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	27-2496053 (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 ý 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 ý 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 x	Accelerated Filer o
Non-Accelerated Filer o	Smaller Reporting Company o

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

As of July 15, 2014, 136,177,470 shares of common stock, par value $.01 per share, were outstanding.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)
(Unaudited)

	As of December 31, 2013	As of June 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$11,888	$20,728
Accounts and notes receivable, net of allowance for doubtful accounts of $6,718 as of December 31, 2013 and $8,563 as of June 30, 2014	199,566	177,541
Inventories	490,414	450,421
Prepaid expenses and other current assets	73,790	93,693
Total current assets	775,658	742,383
Property, plant and equipment	1,588,880	1,621,461
Less: accumulated depreciation	767,895	938,677
Net property, plant and equipment	820,985	682,784
Deferred income taxes	10,334	12,059
Goodwill	496,810	496,335
Other assets	114,061	110,277
Total assets	$2,217,848	$2,043,838
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$115,212	$122,428
Short-term debt	1,161	142
Accrued income and other taxes	30,687	23,019
Rationalizations	18,421	3,592
Supply chain financing liability	9,455	—
Other accrued liabilities	40,939	38,447
Total current liabilities	215,875	187,628
Long-term debt	541,593	551,533
Other long-term obligations	97,947	95,892
Deferred income taxes	41,684	44,403
Contingencies – Note 12		
Stockholders' equity:		
Preferred stock, par value $.01, 10,000,000 shares authorized, none issued	—	—
Common stock, par value $.01, 225,000,000 shares authorized, 151,929,565 shares issued as of December 31, 2013 and 152,450,629 shares issued as of June 30, 2014	1,519	1,525
Additional paid-in capital	1,820,451	1,826,776
Accumulated other comprehensive loss	(292,624)	(290,313)
Retained earnings	39,625	(127,325)
Less: cost of common stock held in treasury, 16,341,311 shares as of December 31, 2013 and 16,223,318 shares as of June 30, 2014	(247,190)	(245,221)
Less: common stock held in employee benefit and compensation trusts, 87,206 shares as of December 31, 2013 and 89,703 shares as of	(1,032)	(1,060)

June 30, 2014		
Total stockholders’ equity	1,320,749	1,164,382
Total liabilities and stockholders’ equity	$2,217,848	$2,043,838

See accompanying Notes to Consolidated Financial Statements

Table of Contents

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
CONSOLIDATED STATEMENTS OF OPERATIONS				
Net sales	$301,361	$284,184	$555,088	$564,975
Cost of sales	252,440	266,231	457,617	521,328
Gross profit	48,921	17,953	97,471	43,647
Research and development	2,787	2,903	5,880	5,673
Selling and administrative expenses	30,161	32,137	59,874	62,044
Rationalizations	—	831	—	917
Impairments	—	121,570	—	121,570
Operating income (loss)	15,973	(139,488)	31,717	(146,557)
Other expense, net	975	(41)	1,525	753
Interest expense	8,947	9,155	17,955	18,154
Interest income	(49)	(55)	(113)	(113)
Income (loss) before provision for income taxes	6,100	(148,547)	12,350	(165,351)
Provision for income taxes	1,718	6,886	3,758	1,599
Net income (loss)	$4,382	$(155,433)	$8,592	$(166,950)
Basic income (loss) per common share:				
Net income (loss) per share	$0.03	$(1.14)	$0.06	$(1.23)
Weighted average common shares outstanding	134,854	135,963	134,816	135,713
Diluted income (loss) per common share:				
Net income (loss) per share	$0.03	$(1.14)	$0.06	$(1.23)
Weighted average common shares outstanding	135,056	135,963	134,988	135,713
STATEMENTS OF COMPREHENSIVE INCOME				
Net income (loss)	$4,382	$(155,433)	$8,592	$(166,950)
Other comprehensive income:				
Foreign currency translation adjustments	(9,823)	(240)	(17,132)	2,147
Commodities and foreign currency derivatives and other, net of tax of ($307), ($169), $116 and ($53), respectively	(3,326)	479	207	164
Other comprehensive (loss) income, net of tax:	(13,149)	239	(16,925)	2,311
Comprehensive income (loss)	$(8,767)	$(155,194)	$(8,333)	$(164,639)

See accompanying Notes to Consolidated Financial Statements

Table of Contents

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	For the Six Months Ended June 30, 2013	2014
Cash flow from operating activities:		
Net income (loss)	$8,592	$(166,950)
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	44,868	66,507
Impairments	—	121,570
Deferred income tax provision	277	(1,724)
Post-retirement and pension plan changes	2,242	3,093
Stock-based compensation	3,745	2,752
Interest expense	6,919	7,471
Other charges, net	1,420	2,783
(Increase) decrease in working capital*	(51,016)	30,416
Increase in long-term assets and liabilities	(5,401)	(10,018)
Net cash provided by operating activities	11,646	55,900
Cash flow from investing activities:		
Capital expenditures	(38,518)	(46,464)
Proceeds from the sale of assets	—	2,523
Proceeds from (payments for) derivative instruments	1,472	(194)
Insurance recoveries	284	2,834
Net cash used in investing activities	(36,762)	(41,301)
Cash flow from financing activities:		
Short-term debt reductions, net	(5,649)	(1,019)
Revolving Facility borrowings	111,000	209,000
Revolving Facility reductions	(70,500)	(205,000)
Principal payments on long-term debt	(140)	(126)
Supply chain financing	(8,369)	(9,455)
Proceeds from exercise of stock options	175	2,813
Purchase of treasury shares	(709)	(435)
Revolver facility refinancing	—	(2,636)
Other	(6,440)	918
Net cash provided by (used in) financing activities	19,368	(5,940)
Net (decrease) increase in cash and cash equivalents	(5,748)	8,659
Effect of exchange rate changes on cash and cash equivalents	(583)	181
Cash and cash equivalents at beginning of period	17,317	11,888
Cash and cash equivalents at end of period	$10,986	$20,728

* Net change in working capital due to the following components:		
Change in current assets:		
Accounts and notes receivable, net	$28,076	$22,158
Inventories	(33,384)	42,298
Prepaid expenses and other current assets	(16,362)	(18,660)
Decrease in accounts payable and accruals	(29,741)	(284)
Rationalizations	—	(15,076)

Increase (decrease) in interest payable	395	(20)
(Increase) decrease in working capital	$(51,016)	$30,416

See accompanying Notes to Consolidated Financial Statements

5

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Organization and Summary of Significant Accounting Policies

A. Organization

GrafTech International Ltd. is one of the world's largest manufacturers and providers of high quality synthetic and natural graphite and carbon based products. References herein to "GTI," "we," "our," or "us" refer collectively to GrafTech International Ltd. and its subsidiaries. We have seven major product categories: graphite electrodes, refractory products, needle coke products, advanced electronics technologies, advanced graphite materials, advanced composite materials and advanced materials, which are reported in the following segments:

Industrial Materials includes graphite electrodes, refractory products, and needle coke products, and primarily serves the steel industry.

Engineered Solutions includes advanced electronics technologies, advanced graphite materials, advanced composite materials and advanced materials, and provides primary and specialty products to the advanced electronics, industrial, energy, transportation and defense industries.

B. Basis of Presentation

The 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"). December 31, 2013 financial position data included herein was derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013 (the "Annual Report") but does not include all disclosures required by GAAP. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the accompanying notes, contained in 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, comprehensive income and cash flows for the interim period presented. The results for the interim periods are not necessarily indicative of results which may be expected for any other interim period or for the full year.

C. New Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued guidance on Income Taxes titled "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This guidance requires that financial statements reflect a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward as reduced by any unrecognized tax benefit, or a portion of an unrecognized tax benefit. The updated guidance became effective for the Company's interim and annual periods beginning after December 15, 2013. We adopted the guidance effective January 1, 2014 and its implementation did not have a material impact to our financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605—Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The Company is in the process of assessing the impact of the adoption of ASU 2014-09 on its financial position, results of operations and cash flows.

(2) Rationalizations and Impairments

2013 Industrial Materials Rationalization

On October 31, 2013, we announced a global initiative to reduce our Industrial Materials segment's cost base and improve our competitive position. As part of this initiative, we ceased production at our two highest cost graphite electrode plants, located in Brazil and South Africa, as well as a machine shop in Russia. These actions are substantially

6

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

complete as of June 30, 2014. Our graphite electrode capacity was reduced by approximately 60,000 metric tons as a result of these actions. In parallel, we adopted measures for reductions in overhead and related corporate operations. These actions and measures are expected to reduce global headcount by approximately 600 people or approximately 20 percent of our global workforce.

2013 Engineered Solutions Rationalization

In order to optimize our Engineered Solutions platform and improve our cost structure, we also initiated actions to centralize certain operations and reduce overhead in our Engineered Solutions segment. These actions are expected to reduce global headcount by approximately 40 people and be substantially completed during 2014.

Total 2013 Rationalization Initiatives Impact to 2014 Financial Results
In the three and six months ended June 30, 2014, as a result of the 2013 rationalization initiatives we incurred rationalization charges of $0.8 million and $0.9 million, primarily related to contract termination costs. We also incurred non-cash accelerated depreciation charges of $4.2 million and $21.7 million in the three and six months ended June 30, 2014, respectively. Other rationalization-related charges recorded in cost of sales in the three and six months ended June 30, 2014 were $4.9 million and $5.2 million, respectively, and included cleaning and dismantling costs and loss reserves for inventory.

Charges incurred related to the 2013 rationalization initiatives for the three and six months ended June 30, 2014 are as follows:

	For the Three Months Ended June 30, 2014			For the Six Months Ended June 30, 2014		
	Industrial Materials Segment	Engineered Solutions Segment	Total	Industrial Materials Segment	Engineered Solutions Segment	Total
	(Dollars in thousands)			(Dollars in thousands)		
Accelerated depreciation (recorded in Cost of sales)	$3,832	$413	$4,245	$20,852	$826	$21,678
Other (recorded in Cost of sales)	4,255	625	4,880	4,576	615	5,191
Other (recorded in Selling and administrative)	54	—	54	79	—	79
Severance and related costs (recorded in Rationalizations)	831	—	831	945	(28)	917
Total rationalization and related charges	$8,972	$1,038	$10,010	$26,452	$1,413	$27,865

The 2013 rationalization initiatives will result in approximately $95 million of pre-tax charges, of which approximately $25 million will be cash outlays (net of cash inflows). Through June 30, 2014, we incurred $93.6 million of expense related to these initiatives.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table represents the roll-forward of the liability incurred for employee termination benefits and contract termination costs incurred in connection with the 2013 rationalization initiatives described above. This liability is recorded as a current liability on the Consolidated Balance Sheet.

	(Dollars in thousands)
Balance as of December 31, 2013	$ 18,421
Charges incurred	609
Change in estimates	308
Payments and settlements	(15,993)
Effect of change in currency exchange rates	247
Balance as of June 30, 2014	$ 3,592

2014 Engineered Solutions Rationalization

On July 29, 2014, we announced additional rationalization initiatives to increase profitability, reduce cost and improve global competitiveness in our Engineered Solutions segment. During the second quarter of 2014, worldwide pricing of our isomolded graphite products ("isomolded") within our Advanced Graphite Material ("AGM") product group, as well as our expectation of future pricing significantly eroded, driven by significant over-capacity and recent competitor responses. In addition, the solar production has continued to erode with poly-silicone, silicone and silicone wafer production migrating to China. New competitors servicing this industry have commenced production in China at pricing levels making the market now unprofitable. As a result of these conditions, the Company has decided to cease isomolded production and pursue an alternative supply chain relationships in our isomolded product line.

As a result of the above, we tested our long-lived assets used to produce advanced graphite materials for recovery, based on undiscounted cash flows from the use and eventual disposition of these assets. The carrying value of the assets exceeded these undiscounted cash flows, and accordingly, we estimated the fair-value of long-lived assets based on a market participant view. This impairment charge totaled $121.6 million in the three months ended June 30, 2014, and included the impairment of certain acquired customer relationship and technology intangible assets. Goodwill associated with this line of business of $0.4 million was fully impaired, and included in the $121.6 million charge. Other impairment related charges, primarily inventory write-downs, were $10.6 million in the three months ended June 30, 2014. If business conditions and plans do not achieve our expected returns in the Engineered Solutions segment, we may undertake additional restructurings, rationalizations or similar actions which could result in additional charges, write-offs and impairments.

Severance and other related expected costs of these actions, including the costs to relocate certain fixed assets, are expected to result in approximately $12 million of additional charges. Approximately $7 million of these additional costs will be cash outlays, the majority of which will be incurred in 2014.

	For the Three and Six Months Ended June 30, 2014 (Dollars in thousands)
Impairments (recorded in Impairments)	$ 121,570
Other (recorded in Cost of sales)	10,563
Total 2014 Engineered Solutions rationalization	$ 132,133

and related charges

(3) Stock-Based Compensation

For the three months ended June 30, 2013 and 2014, we recognized stock-based compensation expense totaling $1.4 million and $2.2 million, respectively. A majority of the expense, $1.3 million and $1.6 million, respectively, was recorded as selling and administrative expenses in the Consolidated Statements of Operations, with the remaining expenses recorded as cost of sales and research and development. Stock-based compensation expense in the three

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

months ended June 30, 2013 was positively impacted by a $1.3 million adjustment to compensation expense due to changes in share multiples for certain performance share units.

For the six months ended June 30, 2013 and 2014, we recognized stock-based compensation expense of $3.7 million and $2.8 million, respectively. A majority of the expense, $3.4 million and $2.1 million, respectively, was recorded as selling and administrative expenses in the Consolidated Statements of Operations, with the remaining expenses recorded as cost of sales and research and development.

As of June 30, 2014, the total compensation cost related to non-vested restricted stock, performance shares and stock options not yet recognized was $10.9 million, which will be recognized over the remaining weighted average life of 1.5 years.

Restricted Stock and Performance Shares

Restricted stock and performance share awards activity under the plans for the six months ended June 30, 2014 was:

	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding unvested as of January 1, 2014	1,633,491	$10.98
Granted	209,600	10.60
Vested	(125,434)	12.92
Forfeited/canceled/expired	(725,136)	10.07
Outstanding unvested as of June 30, 2014	992,521	11.32

Stock Options

Stock option activity under the plans for the six months ended June 30, 2014 was:

	Number of Shares	Weighted-Average Exercise Price
Outstanding as of January 1, 2014	1,916,718	$12.47
Granted	145,034	11.56
Forfeited/canceled/expired	(164,572)	11.60
Exercised	(316,733)	8.88
Outstanding unvested as of June 30, 2014	1,580,447	13.19

(4) Earnings per Share

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 June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
Weighted average common shares outstanding for basic calculation	134,854,024	135,963,054	134,816,074	135,713,004
Add: Effect of stock options and restricted stock	201,809	—	171,517	—
Weighted average common shares outstanding for diluted calculation	135,055,833	135,963,054	134,987,591	135,713,004

9

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Basic earnings per common share are calculated by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted earnings per share are calculated by dividing net income (loss) 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 earnings per share calculation excludes consideration of stock options covering 870,657 shares and 1,590,814 shares in the three and six months ended June 30, 2013, respectively.

(5) Segment Reporting

We operate in two reportable segments: Industrial Materials and Engineered Solutions.

Industrial Materials. Our Industrial materials Segment manufactures and delivers high quality graphite electrodes, refractory products and needle coke 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. Needle coke, a crystalline form of carbon derived from decant oil, is the key ingredient in, and is used primarily in, the production of graphite electrodes.

Engineered Solutions. The Engineered Solutions segment includes advanced electronics technologies, advanced graphite materials, advanced composite materials and advanced materials. Advanced electronics technologies products consist of electronic thermal management solutions, fuel cell components and sealing materials. Advanced graphite materials are highly engineered synthetic graphite products used in many areas due to their unique properties and the ability to tailor them to specific solutions. These products are used in transportation, alternative energy, metallurgical, chemical, oil and gas exploration and various other industries. Advanced composite materials are highly engineered carbon products that are woven into various shapes primarily to support the aerospace and defense industries. Advanced materials use carbon and graphite powders as components or additives in a variety of industries, including metallurgical processing, battery and fuel cell components, and polymer additives.

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 June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
	(Dollars in thousands)		(Dollars in thousands)	
Net sales to external customers:				
Industrial Materials	$231,339	$206,655	$440,116	$425,431
Engineered Solutions	70,022	77,529	114,972	139,544
Total net sales	$301,361	$284,184	$555,088	$564,975
Segment operating income (loss):				
Industrial Materials	$7,530	$(11,366)	$23,608	$(20,790)
Engineered Solutions	8,443	(128,122)	8,109	(125,767)
Total segment operating income (loss)	$15,973	$(139,488)	$31,717	$(146,557)

Reconciliation of segment operating income (loss) to

income (loss) before provision for income taxes				
Other expense (income), net	$975	$(41)	$1,525	$753
Interest expense	8,947	9,155	17,955	18,154
Interest income	(49)	(55)	(113)	(113)
Income (loss) before provision for income taxes	$6,100	$(148,547)	$12,350	$(165,351)

10

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Assets are managed based on geographic location because certain reportable segments share certain facilities. Assets by reportable segment are estimated based on the value of long-lived assets at each location and the activities performed at the location. As a result of the rationalization initiatives and related impairments discussed in Note 2, the carrying value of our long-lived assets has changed significantly since December 31, 2013, particularly in our Engineered Solutions segment. The following is a summary of long-lived assets by reportable segment.

	As of December 31, 2013	As of June 30, 2014
	(Dollars in thousands)	
Long-lived assets (a):		
Industrial Materials.	$601,322	$586,305
Engineered Solutions	219,663	96,479
Total long-lived assets	$820,985	$682,784

(6) Benefit Plans

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
	(Dollars in thousands)		(Dollars in thousands)	
Service cost	$489	$473	$978	$946
Interest cost	1,985	2,169	3,970	4,338
Expected return on plan assets	(1,706)	(1,938)	(3,412)	(3,876)
Amortization of prior service cost	6	1	12	2
Net cost	$774	$705	$1,548	$1,410

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
	(Dollars in thousands)		(Dollars in thousands)	
Service cost	$28	$19	$56	$38
Interest cost	331	352	662	704
Curtailment loss	—	1,048	—	1,048
Amortization of prior service benefit	(50)	(47)	(100)	(94)
Net cost	$309	$1,372	$618	$1,696

(7) Goodwill and Other Intangible Assets

We are required to review goodwill and indefinite-lived intangible assets annually for impairment. Goodwill impairment is tested at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value.

Our annual impairment test of goodwill was performed as of December 31, 2013 for all reporting units. The estimated fair values of our reporting units were based on discounted cash flow models derived from internal earnings forecasts and assumptions. The assumptions and estimates used in these valuations incorporated the current and expected economic environment. Based on these valuations, the fair value substantially exceeded our net asset value.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In addition to the quantitative analysis, we qualitatively assessed our reporting units and believe that the quantitative analysis supporting the fair value in excess of the carrying value was appropriate.

As a result of the deteriorating market conditions impacting our AGM product group, as discussed in Note 2, we performed a goodwill impairment test as of June 30, 2014 for the $0.4 million of goodwill assigned to our AGM reporting unit. As a result of this test, it was determined that the full $0.4 million of goodwill was impaired, and thus written off.

We evaluated other potential triggering events and did not note any events which would indicate that it is more likely than not that the carrying value of the remaining goodwill would be greater than fair value as of June 30, 2014. However, a further deterioration in the global economic environments or in any of the input assumptions in our calculation could adversely affect the fair value of our reporting units and result in an impairment of some or all of the goodwill that remains on the consolidated balance sheet.

The changes in the carrying value of goodwill during the six months ended June 30, 2014 is as follows:

	Total (Dollars in Thousands)	
Balance as of December 31, 2013	$496,810	
Impairment	(413	)
Currency translation effect	(62	)
Balance as of June 30, 2014	$496,335	

The following table summarizes acquired intangible assets with determinable useful lives by major category as of December 31, 2013 and June 30, 2014:

	As of December 31, 2013				As of June 30, 2014			
	Gross Carrying Amount	Accumulated Amortization		Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization & Impairment		Net Carrying Amount
	(Dollars in Thousands)							
Trade name	$7,900	$(3,944	)	$3,956	$7,900	$(4,264	)	$3,636
Technological know-how	43,349	(18,582	)	24,767	43,349	(21,953	)	21,396
Customer –related intangible	110,798	(44,664	)	66,134	110,798	(51,197	)	59,601
Total finite-lived intangible assets	$162,047	$(67,190	)	$94,857	$162,047	$(77,414	)	$84,633

Accumulated amortization as of June 30, 2014 included impairment charges related to our rationalization initiatives discussed in Note 2. The impairments represented charges of $0.4 million to Customer-related intangible and $0.3 million to Technological know-how.

Amortization expense of acquired intangible assets was $5.2 million and $5.5 million in the three months ended June 30, 2013 and June 30, 2014, respectively. Estimated amortization expense will approximate $9.5 million in the remainder of 2014, $17.1 million in 2015, $13.1 million in 2016, $11.8 million in 2017 and $10.7 million in 2018.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(8) Long-Term Debt and Liquidity

The following table presents our long-term debt:

	As of December 31, 2013	As of June 30, 2014
	(Dollars in thousands)	
Revolving Facility	$64,000	$68,000
Senior Notes	300,000	300,000
Senior Subordinated Notes	175,675	181,720
Other Debt	1,918	1,813
Total	$541,593	$551,533

The fair value of long-term debt, which was determined using Level 2 inputs, was $549.8 million, versus a book value of $541.6 million as of December 31, 2013. As of June 30, 2014, the fair value of our long-term debt was $559.9 million versus a book value of $551.5 million.

Revolving Facility

On April 23, 2014, GrafTech and certain of its subsidiaries entered into an Amended and Restated Credit Agreement (the "Revolving Facility") that provides for, among other things, a five-year tenor, reduced borrowing spreads and greater financial flexibility. This amended facility has a borrowing capacity of $470 million and matures in April 2019.

The interest rate applicable to the Amended and Restated Credit Facility is, at GrafTech’s option, either LIBOR plus a margin ranging from 1.25% to 2.00% (depending on our total net leverage ratio) or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 0.25% to 1.00% (depending upon such ratio). The alternate base rate is the highest of (i) the prime rate announced by JPMorgan Chase Bank, N.A., (ii) the federal fund effective rate plus one-half of 1.0% and (iii) the London interbank offering rate (as adjusted) for a one-month period plus 1.0%. The borrowers pay a per annum fee ranging from 0.20% to 0.35% (depending on our total leverage ratio) on the undrawn portion of the commitments under the Revolving Facility.

The financial covenants under this amended facility require us to maintain a minimum cash interest coverage ratio of 2.50 to 1.00 and a maximum senior secured leverage ratio of 3.00 to 1.00, subject to adjustment for certain events.

Senior Notes

On November 20, 2012, GrafTech International Ltd. issued $300 million principal amount of 6.375% Senior Notes due 2020. These Senior Notes are the Company's senior unsecured obligations and rank pari passu with all of the Company's existing and future senior unsecured indebtedness. The Senior Notes are guaranteed on a senior unsecured basis by each of the Company's existing and future subsidiaries that guarantee certain other indebtedness of the Company or another guarantor.

The Senior Notes bear interest at a rate of 6.375% per year, payable semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2013. The Senior Notes mature on November 15, 2020.

The Company is entitled to redeem some or all of the Senior Notes at any time on or after November 15, 2016, at the redemption prices set forth in the Indenture. In addition, prior to November 15, 2016, the Company may redeem some or all of the Senior Notes at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, plus a “make whole” premium determined as set forth in the Indenture. The Company is also entitled to redeem up to 35% of the aggregate principal amount of the Senior Notes before November 15, 2015 with the net proceeds from certain equity offerings at a redemption price of 106.375% of the principal amount plus accrued and unpaid interest, if any.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

If, prior to maturity, a change in control (as defined in the Indenture) of the Company occurs and thereafter certain downgrades of the ratings of the Senior Notes as specified in the Indenture occur, the Company will be required to offer to repurchase any or all of the Senior Notes at a repurchase price equal to 101% of the aggregate principal amount of the Senior Notes, plus any accrued and unpaid interest.

The Senior Notes also contain covenants that, among other things, limit the ability of the Company and certain of its subsidiaries to: (i) create liens or use assets as security in other transactions; (ii) engage in certain sale/leaseback transactions; and (iii) merge, consolidate or sell, transfer, lease or dispose of substantially all of their assets.

The Senior Notes also contain customary events of default, including (i) failure to pay principal or interest on the Senior Notes when due and payable, (ii) failure to comply with covenants or agreements in the Indenture or the Senior Notes which failures are not cured or waived as provided in the Indenture, (iii) failure to pay indebtedness of the Company, any Subsidiary Guarantor or Significant Subsidiary (as defined in the Indenture) within any applicable grace period after maturity or acceleration and the total amount of such indebtedness unpaid or accelerated exceeds $50.0 million, (iv) certain events of bankruptcy, insolvency, or reorganization, (v) failure to pay any judgment or decree for an amount in excess of $50.0 million against the Company, any Subsidiary Guarantor or any Significant Subsidiary that is not discharged, waived or stayed as provided in the Indenture, (vi) cessation of any subsidiary guarantee to be in full force and effect or denial or disaffirmance by any Subsidiary Guarantor of its obligations under its subsidiary guarantee, and (vii) a default under the Company's Senior Subordinated Notes. In the case of an event of default, the principal amount of the Senior Notes plus accrued and unpaid interest may be accelerated.

Senior Subordinated Notes

On November 30, 2010, in connection with our acquisitions of Seadrift Coke L.P. and C/G Electrodes LLC, we issued Senior Subordinated Notes for an aggregate face amount of $200 million. These Senior Subordinated Notes are non-interest bearing and mature in 2015. Because these notes are non-interest bearing, we were required to record them at their present value (determined using an interest rate of 7%). The difference between the face amount of the notes and their present value is recorded as debt discount. The debt discount is amortized to income using the interest method, over the life of the notes. The loan balance, net of unamortized discount, was $175.7 million as of December 31, 2013 and $181.7 million as of June 30, 2014.

(9) Inventories

Inventories are comprised of the following:

	As of December 31, 2013	As of June 30, 2014
	(Dollars in thousands)	
Inventories:		
Raw materials and supplies	$184,420	$168,232
Work in process	245,160	222,281
Finished goods	78,446	85,785
	508,026	476,298
Reserves	(17,612)	(25,877)
Total	$490,414	$450,421

Additions to the reserve during the second quarter of 2014 included $10.6 million related to the Engineered Solutions rationalization initiatives discussed in Note 2.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(10) Interest Expense

The following table presents an analysis of interest expense:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
	(Dollars in thousands)		(Dollars in thousands)	
Interest incurred on debt	$5,434	$5,345	$10,883	$10,667
Amortization of discount on Senior Subordinated Notes	2,848	3,048	5,649	6,045
Amortization of debt issuance costs	588	762	1,143	1,395
Supply Chain Financing mark-up	77	—	280	47
Total interest expense	$8,947	$9,155	$17,955	$18,154

Interest Rates

The Revolving Facility had an effective interest rate of 2.42% and 2.16% as of December 31, 2013 and June 30, 2014, respectively. The Senior Subordinated Notes have an implied interest rate of 7.00%. The Senior Notes have a fixed interest rate of 6.375%.

(11) Supply Chain Financing

We have a supply chain financing arrangement with a financing party. Under this arrangement, we essentially assign our rights to purchase needle coke from a supplier to the financing party. The financing party purchases the product from a supplier under the supplier's 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. 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 can 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. We record our liability to the financing party as an accrued liability. Our liability under this arrangement was $9.5 million as of December 31, 2013. We recognized Mark-Up of $0.3 million as interest expense in the six months ended June 30, 2013. We had minimal borrowings under this arrangement during the six months ended June 30, 2014 and we incurred negligible Mark-Up.

(12) Contingencies

Legal Proceedings

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.

As a result of its audit of the Company’s Seadrift Coke, L.P. subsidiary, the U.S. Environmental Protection Agency (“EPA”) in the 2014 second quarter alleged that the subsidiary failed to accurately report emissions under the Emergency Planning and Community Right-to-Know Act. The subsidiary is in settlement negotiations with the EPA. Any fines or penalties are not expected to be material to our financial condition, 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

15

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

charge analysis. Claims accrued but not yet paid and the related activity within the accrual for the six months ended June 30, 2014, are presented below:

	(Dollars in thousands)
Balance as of December 31, 2013	$1,050
Product warranty adjustments	(258)
Payments and settlements	(141)
Balance as of June 30, 2014	$651

(13) Income Taxes

We compute and apply to ordinary income an estimated annual effective tax rate on a quarterly basis based on current and forecasted business levels and activities, including the mix of domestic and foreign results and enacted tax laws. The estimated annual effective tax rate is updated quarterly based on actual results and updated operating forecasts. 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 as a discrete item of tax. 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. We assess this approach each quarter to determine if there are any mitigating circumstances where a discrete tax rate computation would be more appropriate.

The following table summarizes the provision for income taxes for the three and six months ended June 30, 2013 and June 30, 2014:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2014	2013	2014
	(Dollars in thousands)		(Dollars in thousands)	
Tax expense	$1,718	$6,886	$3,758	$1,599
Pretax income (loss)	$6,100	$(148,547)	$12,350	$(165,351)
Effective tax rates	28.2%	(4.6)%	30.4%	(1.0)%

During the second quarter of 2014, we impaired the long-lived assets of, and announced the exiting of certain product lines in our Advanced Graphite Material product group which is described in more detail in Note 2. The impairment charges and other impairment related charges were incurred primarily in the U.S. jurisdiction. As a result, we determined that it is no longer “more likely than not” that we will generate sufficient future U.S. taxable income to realize our deferred tax assets related to the U.S., foreign tax credit and state net operating loss carryforwards, as well as against our net U.S. deferred tax assets. As a result of the significant negative evidence of recent losses, the Company recognized a $57.0 million non-cash charge in the second quarter of 2014 to increase the valuation allowance against these deferred income tax assets. The recognition of the valuation allowance does not result in or limit the Company's ability to utilize these tax assets in the future.

For the three and six months ended June 30, 2014, the effective tax rate differs from the U.S. statutory rate of 35% primarily due to the recording of a valuation allowance against U.S. net deferred tax assets.

As of June 30, 2014, we had unrecognized tax benefits of $4.7 million, which, if recognized, would have a favorable impact on our effective tax rate. It is reasonably possible that a reduction of unrecognized tax benefits of $2.6 million may occur within 12 months due to the expiration of statutes of limitation.

During the six months ended June 30, 2014, we settled our audits with the U.S. federal tax authorities for the tax years ended 2008 and 2010-2011, reducing our unrecognized tax benefits by $2.7 million, of which $0.3 million had a favorable impact on our effective tax rate.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. All U.S.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

federal tax years prior to 2012 are generally closed by statute or have been audited and settled with the applicable domestic tax authorities. All other jurisdictions are still open to examination beginning after 2008.

We continue to assess the need for valuation allowances against deferred tax assets based on determinations of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance. 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. In circumstances where the significant positive evidence does not outweigh the negative evidence in regards to whether or not a valuation allowance is required, we have maintained valuation allowances on those net deferred tax assets. We established a valuation allowance against our U.S. net deferred tax assets in the second quarter of 2014, as described in more detail above.

(14) 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.

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. We do not anticipate nonperformance by any of the counter-parties to our instruments.

Foreign currency derivatives

We enter into foreign currency derivatives 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 designated as hedging instruments during the six months ended June 30, 2013 and 2014, respectively.

In 2013 and 2014, we entered into foreign forward currency derivatives denominated in the Mexican peso, South African rand, Brazilian real, euro and Japanese yen. These derivatives were entered into to protect the risk that the eventual cash flows resulting from commercial and business transactions may be adversely affected by changes in exchange rates between the US dollar and the Mexican peso, South African rand, Brazilian real, euro and Japanese yen. As of June 30, 2014, we had outstanding Mexican peso, Brazilian real, euro, and Japanese yen currency contracts with an aggregate notional amount of $98.2 million. The foreign currency derivatives outstanding as of June 30, 2014 have several maturity dates ranging from July 2014 to February 2015.

Commodity derivative contracts

We periodically enter into derivative contracts for certain refined oil products and natural gas. These contracts are entered into to protect against the risk that eventual cash flows related to these products may be adversely affected by future changes in prices. There was no ineffectiveness on these contracts during the six months ended June 30, 2014. As of June 30, 2014, we had outstanding derivative swap contracts for refined oil products with an aggregate notional amount of $8.5 million. These contracts have maturity dates ranging from July 2014 to August 2014.

Net Investment Hedges

We use certain intercompany debt to hedge a portion of our net investment in our foreign operations against currency exposure (net investment hedge). Intercompany debt designated in foreign currency and designated as a non-derivative net investment hedging instrument was $25.2 million and $12.2 million as of December 31, 2013 and

June 30, 2014, respectively. Within our currency translation adjustment portion of other comprehensive income, we

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

recorded gains of $1.8 million and $0.2 million in three months ended June 30, 2013 and June 30, 2014, respectively, resulting from these net investment hedges.
The fair value of all derivatives is recorded as assets or liabilities on a gross basis in our Consolidated Balance Sheets. The following tables present the fair values of our derivatives and their respective balance sheet locations as of December 31, 2013 and June 30, 2014:

	Asset Derivatives		Liability Derivatives	
	Location	Fair Value	Location	Fair Value
As of December 31, 2013	(Dollars in Thousands)			
Derivatives designated as cash flow hedges:				
Foreign currency derivatives	Other receivables	$772	Other payables	$1,185
Commodity derivative contracts	Other current assets	834	Other current liabilities	—
Total fair value		$1,606		$1,185
As of June 30, 2014				
Derivatives designated as cash flow hedges:				
Foreign currency derivatives	Other receivables	$364	Other payables	$198
Commodity derivative contracts	Other current assets	314	Other current liabilities	—
Total fair value		$678		$198

	Asset Derivatives		Liability Derivatives	
	Location	Fair Value	Location	Fair Value
As of December 31, 2013	(Dollars in Thousands)			
Derivatives not designated as hedges:				
Foreign currency derivatives	Other receivables	$328	Other payables	$24
Total fair value		$328		$24
As of June 30, 2014				
Derivatives not designated as hedges:				
Foreign currency derivatives	Other receivables	$230	Other payables	$200
Total fair value		$230		$200

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The location and amount of realized (gains) losses on derivatives are recognized in the Statements of Operations when the hedged item impacts earnings and are as follows for the three and six months ended June 30, 2013 and 2014:

Three Months Ended June 30,	Location of (Gain)/Loss Reclassified from Other Comprehensive Income (Effective Portion)	Amount of (Gain)/Loss Recognized (Effective Portion) 2013	2014
		(Dollars in Thousands)	
Derivatives designated as cash flow hedges:			
Foreign currency derivatives, excluding tax of $28 and ($3), respectively	Cost of goods sold/Other expense / (income) / Revenue	$(284)	$27
Commodity forward derivatives, excluding tax of ($167) and $181, respectively	Cost of goods sold / Revenue	$460	$(503)

Three Months Ended June 30,	Location of (Gain)/Loss Recognized in the Consolidated Statement of Operations	Amount of (Gain)/Loss Recognized 2013	2014
		(Dollars in thousands)	
Derivatives not designated as hedges:			
Foreign currency derivatives	Cost of goods sold/Other expense (income)	$360	$130

Six Months Ended June 30,	Location of (Gain)/Loss Reclassified from Other Comprehensive Income (Effective Portion)	Amount of (Gain)/Loss Recognized (Effective Portion) 2013	2014
		(Dollars in Thousands)	
Derivatives designated as cash flow hedges:			
Foreign currency derivatives, excluding tax of $19 and ($33), respectively	Cost of goods sold/Other expense / (income) / Revenue	$(190)	$328
Commodity forward derivatives, excluding tax of ($50) and ($9), respectively.	Cost of goods sold / Revenue	$137	$26

Six Months Ended June 30,	Location of (Gain)/Loss Recognized in the Consolidated Statement of Operations	Amount of (Gain)/Loss Recognized 2013	2014
		(Dollars in thousands)	
Derivatives not designated as hedges:			
Foreign currency derivatives	Cost of goods sold/Other expense (income)	$(1,421)	$(61)

Our foreign currency and commodity derivatives are treated as hedges 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 by active markets and, therefore, classify the contracts as “Level 2”.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(15) Guarantor Information

On November 20, 2012, GrafTech International Ltd. (the “Parent”), issued $300 million aggregate principal amount of Senior Notes. The Senior Notes mature on November 15, 2020 and bear interest at a rate of 6.375% per year, payable semi-annually in arrears on May 15 and November 15 of each year. The Senior Notes have been guaranteed on a senior basis by the following wholly-owned direct and indirect subsidiaries of the Parent: GrafTech Finance Inc., GrafTech Holdings Inc., GrafTech USA LLC, Seadrift Coke LLP, Fiber Materials, Inc., Intermat, GrafTech Global Enterprises Inc., GrafTech International Holdings Inc., GrafTech DE LLC, GrafTech Seadrift Holding Corp, GrafTech International Trading Inc., GrafTech Technology LLC, GrafTech NY Inc., and Graphite Electrode Network LLC.

The guarantors of the Senior Notes, solely in their respective capacities as such, are collectively called the “Guarantors.” Our other subsidiaries, which are not guarantors of the Senior Notes, are called the “Non-Guarantors.”

All of the guarantees are unsecured. All of the guarantees are full, unconditional (subject to limited exceptions described below) and joint and several. Each of the Guarantors are 100% owned, directly or indirectly, by the Parent. All of the guarantees of the Senior Notes continue until the Senior Notes have been paid in full, and payment under such guarantees could be required immediately upon the occurrence of an event of default under the Senior Notes. If a Guarantor makes a payment under its guarantee of the Senior Notes, it would have the right under certain circumstances to seek contribution from the other Guarantors.

The Guarantors will be released from the guarantees upon the occurrence of certain events, including the following: the unconditional release or discharge of any guarantee or indebtedness that resulted in the creation of the guarantee of the Senior Notes by such Guarantor; the sale or other disposition, including by way of merger or consolidation or the sale of its capital stock, following which such Guarantor is no longer a subsidiary of the Parent; or the Parent's exercise of its legal defeasance option or its covenant defeasance option as described in the indenture applicable to the Senior Notes. If any Guarantor is released, no holder of the Senior Notes will have a claim as a creditor against such Guarantor. The indebtedness and other liabilities, including trade payables and preferred stock, if any, of each Guarantor are effectively senior to the claim of any holders of the Senior Notes.

Investments in subsidiaries are recorded on the equity basis.

The following tables set forth condensed consolidating balance sheets as of December 31, 2013 and June 30, 2014 and condensed consolidating statements of operations and comprehensive income for the three and six months ended June 30, 2013 and 2014 and condensed consolidating statements of cash flows for the six months ended June 30, 2013 and 2014 of the Parent, Guarantors and the Non-Guarantors.

Amounts presented in comprehensive income for the three and six months ended June 30, 2013 have been revised. Previously, the Company did not present comprehensive income of subsidiaries in the guarantor column. This amount has been revised to present $4.1 million in comprehensive loss for the guarantors during the three months ended June 30, 2013 and $1.1 million in comprehensive income during the six months ended June 30, 2013.

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS
As of December 31, 2013
(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$4,752	$7,136	$—	$11,888
Accounts receivable - affiliates	42,410	28,551	15,824	(86,785)	—
Accounts receivable - trade	—	48,998	150,568	—	199,566
Inventories	—	174,935	315,479	—	490,414
Prepaid and other current assets	—	22,555	51,235	—	73,790
Total current assets	42,410	279,791	540,242	(86,785)	775,658
Investment in affiliates	1,709,914	828,012	—	(2,537,926)	—
Property, plant and equipment	—	540,273	280,712	—	820,985
Deferred income taxes	—	—	10,334	—	10,334
Goodwill	—	293,162	203,648	—	496,810
Notes receivable - affiliate	51,090	7,413	—	(58,503)	—
Other assets	4,752	53,447	55,862	—	114,061
Total assets	$1,808,166	$2,002,098	$1,090,798	$(2,683,214)	$2,217,848
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable - affiliate	$—	$58,206	$28,579	$(86,785)	$—
Accounts payable - trade	—	41,971	73,241	—	115,212
Short-term debt	—	165	996	—	1,161
Accrued income and other taxes	2,678	4,736	23,273	—	30,687
Rationalizations	—	1,890	16,531	—	18,421
Supply chain financing liability	—	—	9,455	—	9,455
Other accrued liabilities	2,444	12,404	26,091	—	40,939
Total current liabilities	5,122	119,372	178,166	(86,785)	215,875
Long-term debt - affiliate	—	51,090	7,413	(58,503)	—
Long-term debt - third party	475,675	50,525	15,393	—	541,593
Other long-term obligations	—	66,590	31,357	—	97,947
Deferred income taxes	6,620	4,607	30,457	—	41,684
Stockholders' equity	1,320,749	1,709,914	828,012	(2,537,926)	1,320,749
Total liabilities and stockholders' equity	$1,808,166	$2,002,098	$1,090,798	$(2,683,214)	$2,217,848

21

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEETS
As of June 30, 2014
(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$2,506	$18,222	$—	$20,728
Accounts receivable - affiliates	37,979	33,667	26,143	(97,789)	—
Accounts receivable - trade	—	48,287	129,254	—	177,541
Inventories	—	175,040	275,381	—	450,421
Prepaid and other current assets	—	23,468	70,225	—	93,693
Total current assets	37,979	282,968	519,225	(97,789)	742,383
Investment in affiliates	1,563,399	808,923	—	(2,372,322)	—
Property, plant and equipment	—	426,710	256,074	—	682,784
Deferred income taxes	—	—	12,059	—	12,059
Goodwill	—	292,749	203,586	—	496,335
Notes receivable - affiliate	42,906	7,413	—	(50,319)	—
Other assets	4,437	53,862	51,978	—	110,277
Total assets	$1,648,721	$1,872,625	$1,042,922	$(2,520,430)	$2,043,838
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable - affiliate	$—	$64,124	$33,665	$(97,789)	$—
Accounts payable - trade	28	54,390	68,010	—	122,428
Short-term debt	—	142	—	—	142
Accrued income and other taxes	147	1,685	21,187	—	23,019
Rationalizations	—	805	2,787	—	3,592
Other accrued liabilities	2,444	10,217	25,786	—	38,447
Total current liabilities	2,619	131,363	151,435	(97,789)	187,628
Long-term debt - affiliate	—	42,906	7,413	(50,319)	—
Long-term debt - third party	481,720	57,459	12,354	—	551,533
Other long-term obligations	—	63,829	32,063	—	95,892
Deferred income taxes	—	13,669	30,734	—	44,403
Stockholders' equity	1,164,382	1,563,399	808,923	(2,372,322)	1,164,382
Total liabilities and stockholders' equity	$1,648,721	$1,872,625	$1,042,922	$(2,520,430)	$2,043,838

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the three months ended June 30, 2013
(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Sales - affiliates	$—	$52,679	$36,487	$(89,166)	$—
Sales - third party	—	127,592	173,769	—	301,361
Net sales	—	180,271	210,256	(89,166)	301,361
Cost of sales	—	152,517	189,089	(89,166)	252,440
Gross profit	—	27,754	21,167	—	48,921
Research and development	—	2,787	—	—	2,787
Selling and administrative expenses	—	10,588	19,573	—	30,161
Operating income	—	14,379	1,594	—	15,973
Other expense, net	—	671	304	—	975
Interest expense - affiliate	—	434	188	(622)	—
Interest expense - third party	7,799	790	358	—	8,947
Interest income - affiliate	(346)	(188)	(88)	622	—
Interest income - third party	—	—	(49)	—	(49)
(Loss) income before income taxes	(7,453)	12,672	881	—	`6,100
(Benefit) provision for income taxes	(2,750)	3,575	893	—	1,718
Equity in earnings of subsidiary	9,085	(12)	—	(9,073)	—
Net income (loss)	$4,382	$9,085	$(12)	$(9,073)	$4,382
Statements of Comprehensive Income					
Net income (loss)	$4,382	$9,085	$(12)	$(9,073)	$4,382
Other comprehensive (loss) income	(13,149)	(13,149)	(11,757)	24,906	(13,149)
Comprehensive (loss) income	$(8,767)	$(4,064)	$(11,769)	$15,833	$(8,767)

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the three months ended June 30, 2014
(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Sales - affiliates	$—	$53,959	$33,364	$(87,323)	$—
Sales - third party	—	110,806	173,378	—	284,184
Net sales	—	164,765	206,742	(87,323)	284,184
Cost of sales	—	157,447	196,107	(87,323)	266,231
Gross profit	—	7,318	10,635	—	17,953
Research and development	—	2,903	—	—	2,903
Selling and administrative expenses	—	14,265	17,872	—	32,137
Impairments	—	121,570	—	—	121,570
Rationalizations	—	16	815	—	831
Operating loss	—	(131,436)	(8,052)	—	(139,488)
Other (income) expense, net	—	(4)	(37)	—	(41)
Interest expense - affiliate	—	210	—	(210)	—
Interest expense - third party	8,003	906	246	—	9,155
Interest income - affiliate	(210)	—	—	210	—
Interest income - third party	—	—	(55)	—	(55)
Loss before income taxes	(7,793)	(132,548)	(8,206)	—	`(148,547)
Provision for (benefit from) income taxes	(2,806)	9,847	(155)	—	6,886
Equity in losses of subsidiary	(150,446)	(8,051)	—	158,497	—
Net (loss) income	$(155,433)	$(150,446)	$(8,051)	$158,497	$(155,433)
Statements of Comprehensive Income					
Net income (loss)	$(155,433)	$(150,446)	$(8,051)	$158,497	$(155,433)
Other comprehensive income (loss)	239	239	45	(284)	239
Comprehensive (loss) income	$(155,194)	$(150,207)	$(8,006)	$158,213	$(155,194)

PART I (CONT'D)
GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the six months ended June 30, 2013
(in thousands)

	Parent	Guarantors	Non-Guarantors	Consolidating Entries and Eliminations	Consolidated
Sales - affiliates	$—	$97,946	$72,639	$(170,585)	$—
Sales - third party	—	225,788	329,300	—	555,088
Net sales	—	323,734	401,939	(170,585)	555,088
Cost of sales	—	275,343	352,859	(170,585)	457,617
Gross profit	—	48,391	49,080	—	97,471
Research and development	—	5,880	—	—	5,880
Selling and administrative expenses	—	23,082	36,792	—	59,874
Operating income	—	19,429	12,288	—	31,717
Other (income) expense, net	—	714	811	—	1,525
Interest expense - affiliate	—	833	376	(1,209)	—
Interest expense - third party	15,544	1,595	816	—	17,955
Interest income - affiliate	(710)	(376)	(123)	1,209	—
Interest income - third party	—	—	(113)	—	(113)
Income before income taxes	(14,834)	16,663	10,521	—	`12,350
Provision for income taxes	(5,370)	5,018	4,110	—	3,758
Equity in earnings of subsidiary	18,056	6,411	—	(24,467)	—
Net income	$8,592				