

GRAFTECH INTERNATIONAL LTD

Form 10-Q

July 29, 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 June 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

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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 July 19, 2010, 120,964,116 shares of common stock, par value \$.01 per share, were outstanding.

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

|  | At December 31,<br>2009 | At June 30,<br>2010 |
|--|-------------------------|---------------------|
| <b>ASSETS</b>  |                         |                     |
| Current Assets:  |                         |                     |
| Cash and cash equivalents  | \$ 50,181               | \$ 63,376           |
| Accounts and notes receivable, net of allowance for doubtful accounts of \$4,545 at December 31, 2009 and \$3,888 at June 30, 2010 | 117,620                 | 153,837             |
| Inventories  | 245,511                 | 267,463             |
| Loan to non-consolidated affiliate   | 6,000                   |                     |
| Prepaid expenses and other current assets  | 9,586                   | 11,305              |
| Total current assets   | 428,898                 | 495,981             |
| Property, plant and equipment  | 982,173                 | 955,213             |
| Less: accumulated depreciation   | 610,182                 | 595,215             |
| Net property, plant and equipment  | 371,991                 | 359,998             |
| Deferred income taxes  | 11,437                  | 21,790              |
| Goodwill   | 9,037                   | 8,687               |
| Other assets   | 7,298                   | 11,692              |
| Investment in non-consolidated affiliate   | 63,315                  | 64,225              |
| Restricted cash  | 632                     | 386                 |
| Total assets   | \$ 892,608              | \$ 962,759          |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                         |                     |
| Current liabilities:   |                         |                     |
| Accounts payable   | \$ 33,928               | \$ 42,622           |
| Short-term debt  | 1,113                   |                     |
| Accrued income and other taxes   | 38,977                  | 43,784              |
| Supply chain financing liability   | 14,404                  | 44,008              |
| Other accrued liabilities  | 91,907                  | 93,071              |
| Total current liabilities  | 180,329                 | 223,485             |
| Long-term debt   | 1,467                   | 1,230               |
| Other long-term obligations  | 108,267                 | 101,191             |
| Deferred income taxes  | 25,486                  | 24,473              |
| Contingencies Note 14  |                         |                     |
| Stockholders equity:   |                         |                     |
| Preferred stock, par value \$.01, 10,000,000 shares authorized, none issued  |                         |                     |

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|   |                |                |
|---|----------------|----------------|
| Common stock, par value \$.01, 225,000,000 shares authorized, 124,027,399 shares issued at December 31, 2009 and 124,596,168 shares issued at June 30, 2010 | 1,240          | 1,246          |
| Additional paid-in capital  | 1,300,051      | 1,306,920      |
| Accumulated other comprehensive loss  | (305,644)      | (348,844)      |
| Accumulated deficit   | (305,202)      | (232,352)      |
| Less: cost of common stock held in treasury, 3,974,345 shares at December 31, 2009 and 4,065,473 at June 30, 2010   | (112,511)      | (113,649)      |
| Less: common stock held in employee benefit and compensation trusts, 71,493 shares at December 31, 2009 and 73,691 shares at June 30, 2010                  | (875)          | (941)          |
| <br>Total stockholders' equity  | <br>577,059    | <br>612,380    |
| <br>Total liabilities and stockholders' equity  | <br>\$ 892,608 | <br>\$ 962,759 |

*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)*

|  | <b>For the<br/>Three Months Ended<br/>June 30,</b> |             | <b>For the<br/>Six Months Ended<br/>June 30,</b> |             |
|--|--|-------------|--|-------------|
|  | <b>2009</b>  | <b>2010</b> | <b>2009</b>                                      | <b>2010</b> |
| Net sales  | \$ 157,774   | \$ 254,854  | \$ 291,800                                       | \$ 470,518  |
| Cost of sales  | 112,086  | 180,127     | 213,986  | 327,688     |
| Gross profit   | 45,688   | 74,727      | 77,814   | 142,830     |
| Research and development   | 3,109  | 3,191       | 5,177  | 5,726       |
| Selling and administrative expenses  | 23,095   | 32,308      | 44,730   | 54,819      |
| Operating income   | 19,484   | 39,228      | 27,907   | 82,285      |
| Equity in losses (earnings) and write-down of investment in non-consolidated affiliate | 54,602   | (1,684)     | 53,390   | (910)       |
| Other expense (income), net  | 3,270  | (8,596)     | (2,264)  | (11,855)    |
| Interest expense   | 1,421  | 1,296       | 3,068  | 2,202       |
| Interest income  | (184)  | (507)       | (301)  | (1,068)     |
| (Loss) income before provision for income taxes  | (39,625)   | 48,719      | (25,986)   | 93,916      |
| (Benefit) provision for income taxes   | (2,534)  | 9,397       | 2,636  | 21,066      |
| Net (loss) income  | \$ (37,091)  | \$ 39,322   | \$ (28,622)                                      | \$ 72,850   |
| Basic (loss) income per common share:  |  |             |  |             |
| Net (loss) income per share  | \$ (0.31)  | \$ 0.33     | \$ (0.24)  | \$ 0.61     |
| Weighted average common shares outstanding   | 119,893  | 120,340     | 119,402  | 120,395     |
| Diluted (loss) income per common share:  |  |             |  |             |
| Net (loss) income per share  | \$ (0.31)  | \$ 0.32     | \$ (0.24)  | \$ 0.60     |
| Weighted average common shares outstanding   | 119,893  | 121,088     | 119,402  | 121,083     |

*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)*

|  | <b>For the<br/>Six Months Ended<br/>June 30,</b> |                 |
|--|--|-----------------|
|  | <b>2009</b>                                      | <b>2010</b>     |
| Cash flow from operating activities:   |  |                 |
| Net (loss) income  | \$ (28,622)                                      | \$ 72,850       |
| Adjustments to reconcile net income to cash provided by operations:                    |  |                 |
| Depreciation and amortization  | 16,202   | 18,697          |
| Deferred income tax provision (benefit)  | 848  | (8,242)         |
| Equity in losses (earnings) and write-down of investment in non-consolidated affiliate | 53,390   | (910)           |
| Post-retirement and pension plan changes   | 5,398  | 4,689           |
| Currency (gains)   | (3,682)  | (14,768)        |
| Stock-based compensation, including incentive compensation paid in company stock       | 4,958  | 3,404           |
| Interest expense   | 660  | 1,029           |
| Other charges, net   | 12,599   | 2,416           |
| Dividends from non-consolidated affiliate  | 122  |                 |
| Decrease (increase) in working capital*  | 3,403  | (60,912)        |
| (Increase) in long-term assets and liabilities   | (4,845)  | (4,318)         |
| <b>Net cash provided by operating activities</b>                                       | <b>60,431</b>                                    | <b>13,935</b>   |
| Cash flow from investing activities:   |  |                 |
| Capital expenditures   | (29,964)   | (30,282)        |
| Proceeds from repayments of loan to non-consolidated affiliate                         |  | 6,000           |
| Proceeds (payments) from derivative instruments  | 263  | (120)           |
| Net change in restricted cash  | (19)   | 246             |
| Other  | 69   | 203             |
| <b>Net cash used in investing activities</b>   | <b>(29,651)</b>                                  | <b>(23,953)</b> |
| Cash flow from financing activities:   |  |                 |
| Short-term debt borrowings (reductions), net   | 2,529  | (892)           |
| Revolving Facility borrowings  | 114,715  |                 |
| Revolving Facility reductions  | (112,000)  |                 |
| Principal payments on long-term debt   | (129)  | (56)            |
| Supply chain financing   | (30,115)   | 29,604          |
| Proceeds from exercise of stock options  | 57   | 1,015           |
| Purchase of treasury shares  |  | (1,138)         |
| Excess tax benefit from stock-based compensation                                       |  |                 |