



Redefining limits



Celebrating **125 years**  
1886–2011

**2011** annual report



## WE ARE PASSIONATE ABOUT WHAT WE DO AND IT IS WHY WE ARE CONTINUALLY *REDEFINING LIMITS*

Since 1886, GrafTech has built a reputation for delivering innovative products and solutions that surpass customer expectations. As we propel our business forward for the next 125 years, we will continue to redefine:

### TEAMWORK

Never mind the accepted limitations that are associated with heat management, weight, strength, furnace productivity or even a customer's request—our global team works together to exceed them all.

Recent team-based projects include: commercializing a product that gave us our seventh R&D 100 Award in the past nine years, successfully completing four acquisitions in less than two years, and obtaining governmental funding for advanced energy research and development.

### RELATIONSHIPS

We owe much of our success to the communities where GrafTech facilities are located. To that end, our global teams spent 2011 engaged in community service projects that incorporated the use of the number "125." Our teams collected and donated 125 toys for hospitalized children; planted 125 trees in our communities; and much, much more.

Our team members were so enthusiastic about doing community service that they didn't stop at one project, they did three or four or more. Others enjoyed doing their projects so much that they are already planning to do them again in the future.

### LEAN

GrafTech has embraced Lean and Six Sigma practices, which support our drive for continuous improvement and our efforts to take care of customers better than anyone else in the industry.

In 2011, our global team conducted nearly 300 Kaizens. The top four teams presented at our annual Kaizen Olympics last December at our headquarters in Parma, Ohio. They came from our locations in Salvador, Brazil; Pamplona, Spain; Meyerton, South Africa; and Columbia, Tennessee. The Salvador team took the gold.

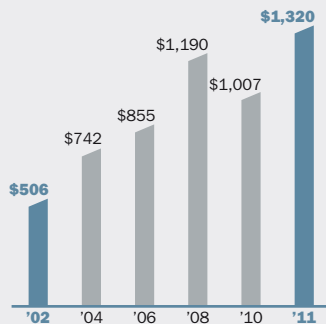
## FINANCIAL HIGHLIGHTS

(dollars in millions, except per share and margin data)

	2007	2008	2009	2010	2011
<b>INCOME STATEMENT DATA</b>					
Net Sales	\$1,005	\$1,190	\$659	\$1,007	<b>\$1,320</b>
Gross Profit	339	423	190	289	<b>325</b>
Operating Income	240	302	100	158	<b>166</b>
Interest Expense	43	19	6	5	<b>18</b>
EBITDA <sup>(1)</sup>	274	369	135	207	<b>269</b>
Diluted EPS	1.48	1.60	0.13	1.41	<b>1.05</b>
Weighted Average Shares Outstanding (Diluted)	116	119	121	123	<b>146</b>
<b>FINANCIAL RATIOS</b>					
Gross Margin	33.7%	35.5%	28.8%	28.7%	<b>24.6%</b>
Operating Income Margin	23.9%	25.4%	15.2%	15.7%	<b>12.6%</b>
<b>LIQUIDITY MEASURES</b>					
Operating Cash Flow	\$ 131	\$ 249	\$170	\$ 145	<b>\$ 77</b>
Net Debt <sup>(2)</sup>	370	78	0	288	<b>419</b>

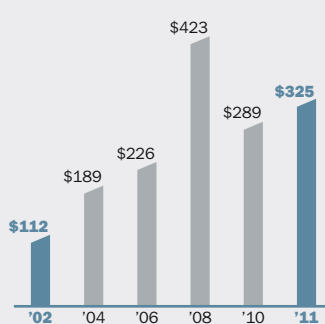
### Net Sales

(in millions)



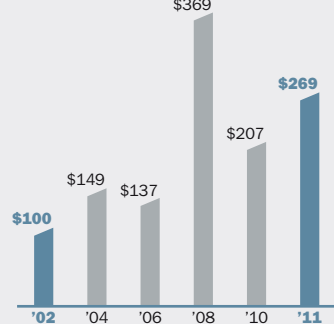
### Gross Profit<sup>(3)</sup>

(in millions)



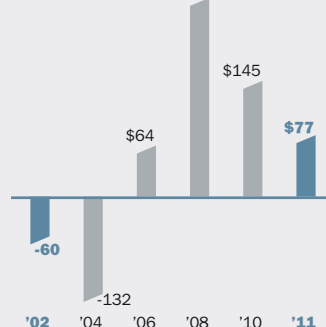
### EBITDA<sup>(1)(3)</sup>

(in millions)



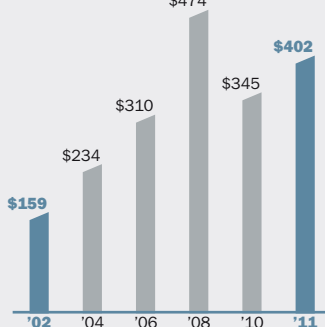
### Operating Cash Flow

(in millions)



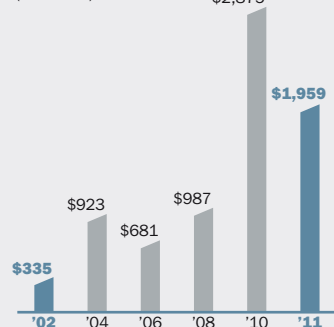
### Sales Per Team Member

(in thousands)



### Market Capitalization

(in millions)



(1) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) also excludes other expense of \$5 million and Mark to Market charges of \$22 million in 2011; other income of \$20 million (including \$15 million related to the Seadrift and St. Marys acquisitions) and Mark to Market charges of \$7 million in 2010; other expense of \$2 million, impairment charges of \$55 million, and Mark to Market charges of \$1 million in 2009; other expense of \$12 million, impairment charges of \$36 million, and Mark to Market charges of \$32 million in 2008; and other income of \$13 million and Mark to Market gains of \$3 million in 2007.

(2) 2011 numbers include \$431 million of total debt less \$12 million cash and cash equivalents. 2010 numbers include \$301 million of total debt less \$13 million of cash and cash equivalents. 2008 numbers include \$90 million of total debt less \$12 million of cash and cash equivalents. 2007 numbers include \$427 million of total debt less \$2 million of fair value adjustments for hedge instruments and \$55 million of cash and cash equivalents.

(3) 2002 and 2004 numbers have not been restated to reflect pension and OPEB Mark to Market accounting changes, as the cumulative impact of this elective change was calculated as of December 31, 2006.

## DEAR FELLOW SHAREHOLDERS:

In 2011, we celebrated GrafTech's 125th anniversary. During this milestone year, we delivered record sales and grew our EBITDA by 30 percent!

We received our seventh R&D 100 Award in nine years for GrafTech's newly invented eGRAF® SPREADERSHIELD™ SS1500 material—the world's thinnest flexible heat spreader enabling the most powerful smartphones.

GrafTech successfully completed the integration of two acquisitions that closed in 2010. Our new team members at Seadrift and St. Marys have performed exceedingly well.

In 2011, we built on this growth when we acquired the businesses of Micron Research Corporation (our GrafTech Emporium facility) in February, and Fiber Materials, Inc. (FMI) in October. We believe that these acquisitions are an excellent fit for capitalizing on our strategies for a number of high-growth markets.

GrafTech Emporium, a Pennsylvania-based facility, manufactures a portfolio of super fine grain graphite using uniquely developed technologies. Its products have applications in the medical, biomedical and semiconductor industries.

FMI, headquartered in Biddeford, Maine, manufactures highly engineered advanced carbon composites serving the aerospace and defense industries, and high temperature insulation for use in industrial applications.

We refinanced our revolving credit facility in October. The new five-year, \$570 million revolver represents a \$310 million increase over the prior credit facility and extends the maturity to October 2016 with improvements to rates, terms and conditions. This larger credit facility will support our future growth.

In late 2011, Moody's Investors Service (Moody's) announced that it had raised GrafTech's corporate credit rating to Ba1, a one-notch upgrade from our prior rating of Ba2. Moody's also raised its rating for GrafTech's new \$570 million credit facility to Baa3, investment grade. These upgrades are further recognition of GrafTech's solid financial position.

### 2011 RESULTS

GrafTech's revenues were \$1,320 million, up 31 percent from 2010, and gross profit was \$325 million, or 25 percent of sales. Operating income was \$166 million, or 13 percent of sales. Net income was \$153 million, or \$1.05 per diluted share.

In addition to the internal and external growth delivered in 2011, we completed the repurchase of approximately two million shares of common stock. This concluded our previously announced program to repurchase up to three million shares. In December, GrafTech's Board of Directors also approved a new share repurchase program for up to ten million shares of our common stock.

### SEGMENT PERFORMANCE

Throughout 2011, our team continued to improve efficiencies and to enhance our products and services across the platform.

Sales for our Industrial Materials segment were \$1,132 million, up 36 percent from 2010, and operating income was \$159 million.

Our Engineered Solutions segment increased revenue, introduced new products into the market and developed new products for commercialization. In 2011, segment sales were \$188 million while operating income was \$7 million. This business serves high-growth markets, which include advanced energy, electronics, and oil and gas.

GrafTech's next 125 years will be propelled by taking care of our customers better than anyone else in our industry, by investing in our team, by capitalizing on internal and external growth opportunities, and by maintaining a solid balance sheet.

## OUTLOOK

GrafTech's next 125 years will be propelled by taking care of our customers better than anyone else in our industry, by investing in our team, by capitalizing on internal and external growth opportunities, and by maintaining a solid balance sheet.

The success we achieved in 2011 would not have been possible without the continuing support and hard work of our entire global team. We thank our team members and their families for their dedication and commitment to GrafTech. Their ability to seize challenges, embrace change and demonstrate a passion for continuous improvement are all key drivers in our success.

I want to again welcome our newest team members at GrafTech Emporium and FMI to the family.

Thank you to GrafTech's Board of Directors for their valuable insight and direction.

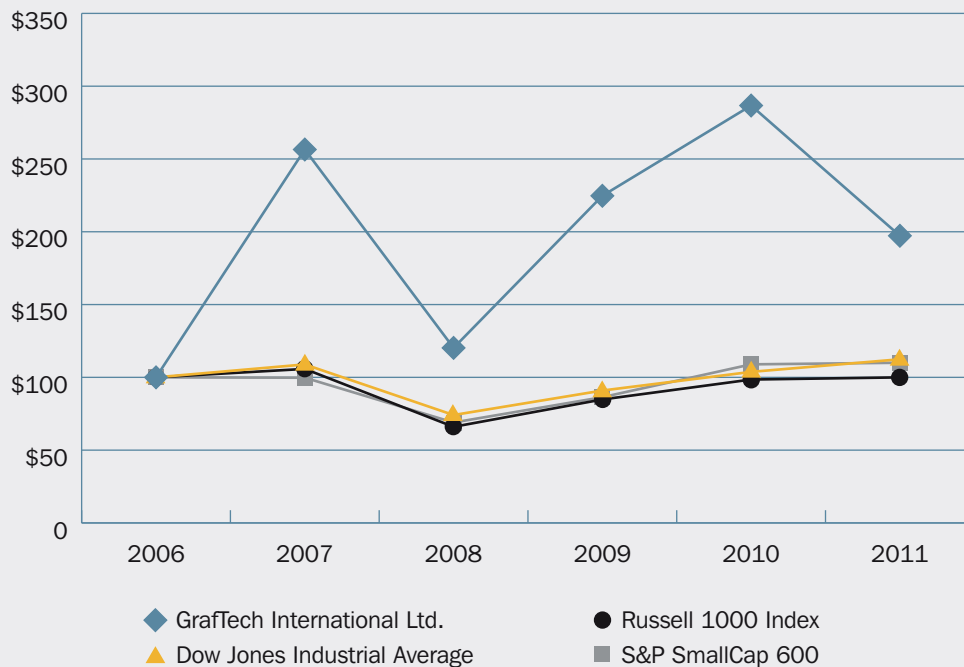
As always, thank you to our customers, suppliers and shareholders for your continued support.



Craig S. Shular  
Chairman and Chief Executive Officer

March 31, 2012

## Stock Performance Chart\*



\*The graph compares the 5-year total return provided to shareholders of our common stock to the cumulative total return of the Dow Jones Industrial Average, the Russell 1000 Index, and the S&P SmallCap 600. An investment of \$100 is assumed to have been made in our common stock and in each of the indexes on December 31, 2006 and its relative performance is tracked through December 31, 2011.

## 2011 HIGHLIGHTS

### CELEBRATED 125 YEARS

We started 2011 by asking our global teams to do community service projects in celebration of our anniversary.

In August, members of GrafTech's management team and Board of Directors acknowledged this milestone year by ringing The Closing Bell® at the New York Stock Exchange.

One month later, we hosted a 125th anniversary celebration at our global headquarters in Parma, Ohio. The nearly 300 people in attendance included GrafTech team members, customers, local civic leaders, government officials, and leaders from academic and other organizations that work with GrafTech.



### SUPPORTED EAST TECH'S FIRST ROBOTICS TEAM

Since 2007, GrafTech has partnered with Cleveland's East Tech High School to build a robot for the FIRST Robotics Competition, which was developed to inspire students to pursue careers in science, technology and engineering. The annual competition is a multinational event that engages high school students in science and technology through a specific project. Together with GrafTech engineers and scientists, the East Tech students develop, design, construct and test a champion robot. The students then present their robot in an exciting tournament complete with referees, mascots, cheerleaders and time clocks. Over the years, this partnership with the high school has evolved into a much broader one for GrafTech.



### WON ANOTHER R&D 100 AWARD

We received an R&D 100 Award for our eGRAF® SPREADERSHIELD™ SS1500 material—the world's thinnest flexible heat spreader enabling the most powerful smartphones. The product provides solutions to customers' thermal management challenges and enables advanced electronics manufacturers to offer lightweight designs.

Since 1963, the R&D 100 Awards have been a benchmark of excellence for industry sectors as diverse as telecommunications, high-energy physics, software, manufacturing and biotechnology.



### HOSTED OUR ANNUAL KAIZEN OLYMPICS

Our four Kaizen Olympics finalists covered very diverse subjects: one sought a new use for a by-product; another worked on increased process yield; the third focused on loss reduction; and the fourth team looked to increase cost savings.

The finalists were judged on six Lean criteria: Business Impact; Sustainability; Transfer of Lessons Learned; Team Enthusiasm; Results Measured (MDI); and Application of Problem Solving Tools.

The winning team represented our Salvador, Brazil site, where the Kaizen participants worked with a supplier to deliver an improved raw material yield of 63 percent, resulting in savings of \$1.3 million per year.



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

**FORM 10-K**

(Mark One)

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

for the fiscal year ended December 31, 2011

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

Redefining limits

**GRAFTECH INTERNATIONAL LTD.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

12900 Snow Road Parma, Ohio

(Address of principal executive offices)

27-2496053

(I.R.S. Employer  
Identification Number)

44130

(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**

Common stock, par value \$.01 per share

**Name of each exchange on which registered**

New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," "non-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

The aggregate market value of our outstanding common stock held by non-affiliates, computed by reference to the closing price of our common stock on June 30, 2011, was approximately \$2,792 million. On January 31, 2012, 144,083,966 shares of our common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information required under Part III is incorporated by reference from the GrafTech International Ltd. Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which will be filed on or about April 3, 2012.

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## PART I

### Preliminary Notes

**Important Terms.** We use the following terms to identify various matters. These terms help to simplify the presentation of information in this Report.

**“Common stock”** means GTI common stock, par value \$.01 per share.

**“Credit Agreement”** refers to the credit agreement providing for our senior secured credit facilities, as amended, or amended and restated at the relevant time. **“Revolving Facility”** refers to the revolving credit facility provided under the Credit Agreement, at the relevant time. On October 7, 2011, the Credit Agreement was amended and restated to, among other things, extend the maturity of the Revolving Facility to October 7, 2016, and add provisions to permit establishment of additional credit facilities thereunder.

**“GrafTech Finance”** refers to GrafTech Finance Inc. only. GrafTech Finance is an indirect wholly-owned, special purpose finance subsidiary of GTI and the borrower under the Revolving Facility. GrafTech Finance was the issuer of the Senior Notes.

**“GrafTech Global”** refers to GrafTech Global Enterprises Inc. only. GrafTech Global is an indirect wholly-owned subsidiary of GTI and the direct or indirect holding company for all of our operating subsidiaries. GrafTech Global is a guarantor of the Revolving Facility.

**“GTI”** refers to GrafTech International Ltd. only. GTI is our public parent company and the issuer of our publicly traded common stock registered under the Exchange Act and listed on the NYSE. GTI is a guarantor of the Revolving Facility.

**“Senior Notes”** means our 10.25% senior notes due 2012 issued under an Indenture dated February 15, 2002 (as supplemented, the **“Senior Note Indenture”**). On September 28, 2009, we redeemed all of the remaining outstanding Senior Notes.

**“Senior Subordinated Notes”** means our senior subordinated promissory notes issued on November 30, 2010, in connection with the Seadrift Coke L.P. (“Seadrift”) and C/G Electrodes LLC (“C/G”) acquisitions, for an aggregate total face amount of \$200 million. These senior subordinated notes are non-interest bearing and will mature in 2015. Because the Senior Subordinated Notes are non-interest bearing, we were required to record them at their present value (determined using an interest rate of 7.00%).

**“MTM Adjustment”** refers to our accounting policy regarding pension and other postretirement benefits plans (“OPEB”) whereby we immediately recognize the change in the fair value of plan assets and net actuarial gains and losses annually in the fourth quarter of each year (referred to as “mark-to-market”).

**“Subsidiaries”** refers to those companies that, at the relevant time, are or were majority owned or wholly-owned directly or indirectly by GTI or its predecessors to the extent that those predecessors’ activities related to the graphite and carbon business.

**“We,” “us” or “our”** refers to GTI and its subsidiaries collectively or, if the context so requires, GTI, GrafTech Global, GrafTech Finance or GrafTech International Holdings Inc., individually. In November 2010, we completed the reorganization of our holding company structure pursuant to which we formed a new parent holding company, GrafTech Holdings Inc., which had been renamed GrafTech International Ltd. (“new parent”). Our former parent holding company, which had been named GrafTech International Ltd. (“former parent”) as part of the reorganization, was renamed GrafTech Holdings Inc. and became a direct wholly owned subsidiary of a new parent. Our new parent adopted the same certificate of incorporation (except for certain technical matters) and by-laws of our former parent; each share of common stock of our former parent was converted into one share of common stock of

our new parent; and our new parent common stock was listed on the NYSE under our former parent's ticker symbol "GTI."

**Presentation of Financial, Market and Legal**

**Data.** References to cost in the context of our low cost advantages and strategies do not include the impact of special charges, expenses or credits, such as those related to investigations, lawsuits, claims, restructurings or impairments, or the impact of changes in accounting principles.

Unless otherwise noted, when we refer to "**dollars**", we mean U.S. dollars. Unless otherwise noted, all dollars are presented in thousands.

References to spot prices for graphite electrodes mean prices under individual purchase orders (not part of an annual or other extended purchase arrangement) for near term delivery for standard size graphite electrodes used in large electric arc steel melting furnaces (sometimes called "**melters**" or "**melter applications**") as distinct from, for example, a ladle furnace or a furnace producing non-ferrous metals.

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.

Unless otherwise noted, market and market share data in this Report are our own estimates. Market data relating to the steel, electronics, semiconductor, solar, thermal management, transportation, petrochemical and other metals industries, our general expectations concerning such industries and our market position and market share within such industries, both domestically and internationally, are derived from trade publications relating to those industries and other industry sources as well as assumptions made by us, based on such data and our knowledge of such industries. Market and market share data relating to the graphite and carbon industry as well as information relating to our competitors, our general expectations concerning such industry and our market position and market share within such industry, both domestically and internationally, are derived from the sources described above and public filings, press releases and other public documents of our competitors as well as assumptions made by us, based on such data and our knowledge of

such industry. Our estimates involve risks and uncertainties and are subject to change based on various factors, including those discussed under "Risk Factors-Risks Relating to Us" and "Risk Factors – Forward Looking Statements" in this 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 mentioned above has consented to the disclosure or use of data in this Report.

Unless otherwise noted, references to "**market shares**" are based on sales volumes for the relevant year and references to "**natural graphite products**" do not include mined natural graphite flake.

The GRAFTECH logo, GRAFCELL®, GRAFOAM®, GRAFIHX™ and eGraf® are our trademarks and trade names used in this report. This Report also contains trademarks and trade names belonging to other parties.

We make available, free of charge, on or through our web site, copies of our proxy statements, our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file them with, or furnish them to, the U.S. Securities and Exchange Commission ("SEC"). We maintain our website at <http://www.graftech.com>. The information contained on our web site is not part of this Report. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically. Please see <http://www.sec.gov> for more information.

We have a code of ethics (which we call our Code of Conduct and Ethics) that applies to our principal executive officer, principal financial officer, principal accounting officers and controller, and persons performing similar functions, as well as our other employees, and which is intended to comply, at a minimum, with the listing standards of the New York Stock Exchange ("NYSE") as well as the Sarbanes-Oxley Act of 2002 and the SEC rules adopted thereunder. A copy of our Code of Conduct and Ethics is available on our web site at <http://www.graftech.com/getdoc/fd25921b-07b1-429f-86fa-397f0d0cb30d/Code-of-Conduct-and-Ethics.aspx>. We intend to report timely on our website any disclosures

concerning amendments or waivers of our Code of Conduct and Ethics that would otherwise require the filing of a Form 8-K with the SEC.

We also have corporate governance guidelines (which we call the Charter of the Board of Directors)

which is available on our website at <http://www.graftech.com/getdoc/6b8a3b4d-967c-4bdd-ab04-ea0011de0c91/GRAFTECH-INTERNATIONAL-LTD-Corp-Gov-Guide.aspx> as required by the NYSE.

## Item 1. Business

### Introduction

Our vision is to enable customer leadership, better and faster than our competition, through the creation, innovation and manufacture of graphite and carbon material science-based solutions. We have over 125 years of experience in the research and development of graphite and carbon-based solutions and our intellectual property portfolio is extensive. Our business was founded in 1886 by the National Carbon Company.

We are one of the world's largest manufacturers of the broadest range of high quality graphite electrodes, products essential to the production of electric arc furnace ("EAF") steel and various other ferrous and nonferrous metals. We also produce needle coke products. Needle coke is the primary raw material needed in the manufacture of graphite electrodes. We also manufacture carbon, graphite and semi-graphite refractory products, which protect the walls of blast furnaces and submerged arc furnaces. We are one of the largest manufacturers of high quality natural graphite products enabling thermal management solutions for the electronics industry and fuel cell solutions for the transportation and power generation industries. We are one of the world's largest manufacturers and providers of advanced graphite and carbon materials for the transportation, solar, and oil and gas exploration industries. We service customers in over 70 countries.

We currently manufacture our products in 19 manufacturing facilities strategically located on four continents. We believe our Industrial Materials network has the largest manufacturing capacity and the lowest manufacturing cost structures of all of our major competitors and delivers the highest-level quality products. We currently have the operating capability, depending on product mix, to manufacture approximately 255,000 metric tons of graphite electrodes sellable capacity. We believe that our global manufacturing network provides us with competitive advantages in product quality, proximity to customers, timely and reliable product delivery, and product costs. Given our global network, we are well positioned to serve the growing number of consolidated, global, multi-plant steel customers as well as certain smaller, regional customers and segments.

We operate one of the premier research, development and testing facilities in the graphite and carbon industry, and we believe we are an industry leader in graphite and carbon material science and high temperature processing know-how. We believe our technological capabilities for developing products with superior thermal, electrical and physical characteristics provide us with a competitive advantage. These capabilities have enabled us to accelerate development and commercialization of our technologies to exploit markets with high growth potential.

**Products.** We have five major product categories: graphite electrodes, refractory products, needle coke products, advanced graphite materials and natural graphite products.

**Reportable Segments.** Our businesses are reported in the following reportable segments: Industrial Materials, which include graphite electrodes, refractory products and needle coke products; and Engineered Solutions, which include advanced graphite materials and natural graphite products. We discuss our reportable segments and geographic areas in more detail in Note 3, "Segment Reporting" of the Notes to the Consolidated Financial Statements.

**Industrial Materials.** Our Industrial Materials segment manufactures and delivers high quality graphite electrodes, refractory products and needle coke products.

We are one of the world's largest manufacturers of the broadest range of 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. Approximately 70% of our graphite electrodes sold is consumed in the EAF steel melting process, the steel making technology used by all "mini-mills," typically at a rate of one graphite electrode every eight to ten operating hours. We believe that mini-mills constitute the higher long-term growth sector of the steel industry and that there is currently no commercially viable substitute for graphite electrodes in EAF steel making. Therefore, graphite electrodes are essential to EAF steel production. The remaining approximately 30% of our graphite electrodes sold is primarily used in various other ferrous and non-ferrous melting applications, including steel

refining (that is, ladle furnace operations for both EAF and basic oxygen furnace steel production), fused materials, chemical processing, and alloy metals. We are a producer of petroleum needle coke. Needle coke is a key raw material in the manufacture of the graphite electrodes used in the EAF steel production process.

GrafTech is also a leading global supplier of carbon, semigraphite and graphite refractory hearth linings for blast and submerged arc furnaces used to produce iron and ferroalloys. Refractory products are used to protect the walls of 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. Among the major refractory product suppliers, GrafTech has one of the most complete offerings, including a full range of brick, block, ramming paste, cement and grout products.

**Engineered Solutions.** Engineered Solutions include advanced graphite materials and natural graphite products. 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 the transportation, defense, solar, metallurgical, chemical, oil and gas exploration, and various other industries as further described below. Our natural graphite products consist of electronic thermal management solutions, fuel cell components, and sealing materials.

## Industrial Materials Segment

Our Industrial Materials segment, which had net sales of \$538.1 million in 2009, \$833.9 million in 2010, and \$1,132 million in 2011, manufactures and delivers high quality graphite electrodes, refractory products and needle coke products, as well as provides customer technical services. Industrial Materials sales represented approximately 82%, 83% and 86% of consolidated net sales for 2009, 2010, and 2011, respectively. We estimate that the worldwide demand for our industrial materials products was approximately \$6.6 billion in 2010 (excluding needle coke products) and approximately \$6.8 billion in 2011. Customers for these products are located in all major geographic regions.

**Graphite Electrode Products.** Graphite electrodes are consumed primarily in EAF steel production, the steel making technology used by all “mini-mills.” Graphite electrodes are also consumed in the refining of steel in ladle furnaces and in other smelting processes such as production of titanium dioxide.

Electrodes act as conductors of electricity in the furnace, generating sufficient heat to melt scrap metal, iron ore or other raw materials used to produce steel or other metals. The electrodes are consumed in the course of that production.

Electric arc furnaces operate using either alternating electric current or direct electric current. The vast majority of electric arc furnaces use alternating current. Each of these alternating current furnaces typically uses nine electrodes (in three columns of three electrodes each) at one time. The other electric arc furnaces, which use direct current, typically use one column of three electrodes. The size of the electrodes varies depending on the size of the furnace, the size of the furnace’s electric transformer and the planned productivity of the furnace. In a typical furnace using alternating current and operating at a typical number of production cycles per day, one of the nine electrodes is fully consumed (requiring the addition of a new electrode), on average, every eight to ten operating hours. The actual rate of consumption and addition of electrodes for a particular furnace depends primarily on the efficiency and productivity of the furnace. Therefore, demand for graphite electrodes is directly related to the amount and efficiency of electric arc furnace steel production.

Electric arc furnace steel production requires significant heat (as high as 5,000° F) to melt the raw materials in the furnace, primarily scrap metal. Heat is generated as electricity (as much as 150,000 amps) passes through the electrodes and creates an electric arc between the electrodes and the raw materials.

Graphite electrodes are currently the only known commercially available products that have the high levels of electrical conductivity and the capability of sustaining the high levels of heat generated in an electric arc furnace producing steel. Therefore, graphite electrodes are essential to the production of steel in electric arc

furnaces. We believe there is currently no commercially viable substitute for graphite electrodes in electric arc furnace steel making. We estimate that, on average, the cost of graphite electrodes represents about 2 – 3% of the cost of producing steel in a typical electric arc furnace.

Electric arc furnace steel production was estimated to be approximately 424 million metric tons in 2011, representing approximately 28% of the world's steel production. As global economic conditions continue to improve, we expect EAF production to increase approximately 2% in 2012. We are aware of approximately 25 million metric tons of new EAF capacity projects in the planning or construction phases due to come online over the next two years. However, given increased market uncertainty, these new EAF projects may be postponed or cancelled. We believe the EAF utilization rate in 2011 was approximately 76%, compared to approximately 73% in 2010.

*Relationship Between Graphite Electrode Demand and EAF Steel Production.* The improved efficiency of electric arc furnaces has resulted in a decrease in the average rate of consumption of graphite electrodes per metric ton of steel produced in electric arc furnaces (called "specific consumption"). We estimate that the average EAF melter specific consumption is approximately 1.7 kilograms of graphite electrodes per metric ton produced.

Over the long term, specific consumption will continue to decrease at a gradual pace, as the EAF steel makers investment cost (relative to the benefits) increases to achieve further efficiencies in specific consumption. Another contributing factor is the ongoing electrode quality improvements of graphite electrode manufacturers.

We further believe that the rate of decline in the future will be impacted by the addition of modern EAF steel making capacity which tends to have lower specific consumption than the average. To the extent that this new capacity replaces old capacity, it has the accelerated effect of reducing industry wide specific consumption due to the efficiency of new electric arc furnaces relative to the old. However, to the extent that this new capacity increases industry wide EAF steel production capacity and that capacity is utilized, it creates additional demand

for graphite electrodes. As an example, the approximately 25 million metric tons of new EAF capacity start ups and projects that we expect will be added over the next 2 years will result in approximately 40,000 metric tons of potentially new graphite electrode demand, depending on steel industry utilization rates.

Increases in EAF steel production, offset by declines in specific consumption, resulted in corresponding changes in demand for graphite electrodes. Due to expected modest growth of EAF production, we are projecting similar modest growth for graphite electrode demand in 2012.

Over the long term, graphite electrode demand is estimated to grow at an average annual net growth rate of approximately 2%, based on the anticipated growth of EAF steel production (average historical growth rate of 3%), partially offset by the decline in future specific consumption.

*Production Capacity.* We believe that the worldwide total graphite electrode manufacturing capacity was approximately 1.6 million metric tons for 2009 and approximately 1.7 million metric tons for 2010 and 2011. We believe that the graphite electrode industry manufacturing capacity utilization rate worldwide was approximately 60% for 2009 and approximately 80% for 2010 and 2011.

We have the capability, depending on product demand and mix, to manufacture approximately 255,000 metric tons of graphite electrodes annually from our existing assets.

*Industrial Materials Demand.* We estimate that the worldwide demand for graphite electrodes, needle coke, refractories and other products was approximately \$6.8 billion in 2011.

*Refractory Products.* We manufacture carbon, semi-graphitic, and graphite refractory bricks which are used primarily for their high thermal conductivity. Common applications in blast furnace and submerged arc furnaces include cooling courses in the hearth bottoms for heat distribution and removal, backup linings in hearth walls for improved heat transfer and safety, and lintels over copper cooling plates where a single brick cannot span the cooling plate.

GrafTech has one of the most unique carbon making processes in the world, called the hot-press process. By using various carbon and other sources and utilizing electricity, a baked refractory brick can be created in minutes as opposed to a month for the traditional block process. After cooling, the bricks are sent to an automated grinder and machined to the required size and shape to fill a customer's order.

**Needle Coke Products.** We are currently producing petroleum needle coke. Needle coke is the key raw material in the manufacture of graphite electrodes which are consumed in EAF steel production. Petroleum needle coke, a crystalline form of carbon derived from decant oil is used primarily in the production of graphite electrodes. Graphite electrode producers combine petroleum or pitch needle coke with pitch adhesives and other ingredients to form graphite electrodes.

Petroleum needle and pitch needle coke, relative to other varieties of coke, is distinguished by its needle-like structure and its quality, which is measured by the presence of impurities, principally sulfur, nitrogen and ash. The needle-like structure of petroleum needle and pitch needle coke encourages expansion along the length of the electrode, rather than the width, which reduces the likelihood of fractures. Impurities reduce quality because they increase the coefficient of thermal expansion and electrical resistivity of the graphite electrode, which can lead to uneven expansion and a build-up of heat and cause the graphite electrode to oxidize rapidly and break. Petroleum needle and pitch needle coke is typically low in these impurities. In order to minimize fractures caused by disproportionate expansion over the width of an electrode, and minimize the effect of impurities, large-diameter graphite electrodes (18 inches to 32 inches) employed in high-intensity electric arc furnace applications are comprised almost exclusively of petroleum needle and pitch needle coke.

## Engineered Solutions Segment

Our Engineered Solutions segment had sales of \$120.9 million in 2009, \$173.1 million in 2010, and \$188.0 million in 2011. Engineered Solutions represented approximately 18% of consolidated net sales for 2009, approximately 17% for 2010 and approximately 14% for 2011. We estimate that our addressable worldwide

demand for engineered solutions was \$716 million in 2009, \$1,100 million in 2010, and \$1,200 million in 2011.

**Advanced Graphite Materials.** Our advanced graphite materials include products in a variety of shapes and grades, weighing up to ten metric tons, for diverse applications. Our products are used in many applications including metallurgy, high-temperature industrial, and solar silicon applications. In addition, certain of our materials, when combined with advanced flexible graphite, provide superior heat management solutions for insulation packages, induction furnaces, high temperature vacuum furnaces and direct solidification furnaces. In addition, we manufacture highly engineered advanced carbon composites serving the aerospace and defense industries.

**Natural Graphite Products.** We manufacture natural graphite products, consisting of flexible graphite. Applications include thermal management solutions used for the electronics, automotive, petrochemical, and transportation industries. We are one of the world's largest manufacturers of natural graphite products for these uses and applications.

## Business Strategies

We believe that, by growing our revenues and operating income, successfully implementing LEAN initiatives, and maximizing our cash flows, we will deliver enhanced financial performance and return on shareholder value. We believe this strategy will position us to capitalize on growth opportunities that may arise. We have transformed our operations, building competitive advantages to enable us to compete successfully in our major product lines, to realize enhanced performance as economic conditions improve and to exploit growth opportunities from our intellectual property portfolio. Our business strategies are designed to expand upon our competitive advantages by:

**Leveraging Our Unique Global Manufacturing Network.** We believe that our global manufacturing network provides us with competitive advantages in product quality, product costs, timely and reliable delivery, and operational flexibility to adjust product mix to meet the diverse needs of a wide range of segments and customers.



We continue to leverage our network to seek to achieve significant increases in throughput generated from our existing assets, through productivity improvements, capital expenditures, and other efficiency initiatives. We believe we can further exploit our network by focusing our technical and customer service capabilities on:

- the increasing number of large global customers created by the consolidation trend within the steel industry, to whom we believe we are well positioned to offer products that meet their volume, product quality, product mix, delivery reliability and service needs at competitive prices; and
- customers in targeted segments where we have competitive advantages to meet identified customer needs due to the range and quality of our products, the utilization of our capacity, the value of our customer technical service and our low cost supplier advantage.

We sell our products in every major geographic region. Sales of our products to buyers outside the U.S. accounted for about 82% of net sales in 2009, 80% of net sales in 2010, and about 73% of net sales in 2011. No single customer or group of affiliated customers accounted for more than 10% of our total net sales in 2009, 2010 or 2011.

***Driving Continuous Improvement with LEAN and Six Sigma.*** We believe a consistent focus on our customers and diligence towards aligning our processes to satisfy these customers is essential in today's global market. We have undertaken a comprehensive launch of LEAN and Six Sigma with dedicated resources at all of our key manufacturing plants intended to create a common language and tool set centering around LEAN and Six Sigma.

Our focus on waste reduction using a team approach creates knowledge at all levels of the organization. Concentrating on creating flow within processes enables us to capitalize on lower inventories while still maintaining high on-time-delivery. Our metric driven behavior and instituting solid corrective actions to anomalies drives us towards customer centric solutions.

We believe we will be able to continue to leverage our stream-lined processes as a sustainable competitive advantage with shorter lead times, lower costs, higher quality products, and exceptional service. We are applying these methodologies and tools to not only our manufacturing processes; but also to our transactional and business processes such as Accounts Receivable, New Product Introduction, and Cash Forecasting in order to develop a high-performing value stream.

***Accelerating Commercialization of Advantaged Technologies.*** We believe that our technological capabilities for developing products with superior thermal, electrical and physical characteristics provide us with a potential growth opportunity as well as a competitive advantage. We seek to exploit these capabilities and our intellectual property portfolio to accelerate development and commercialization of these technologies across all of our businesses, to improve existing products, and to develop and commercialize new products for higher growth rate areas such as electronic thermal management technologies. We received *R&D Magazine's* prestigious R&D 100 Award in seven of the past nine years. The R&D 100 Award honors the 100 most technologically significant products introduced into the marketplace each year. We received this award in 2003 and 2004 for our achievements in electronic thermal management products, in 2005 for our large-diameter pinless graphite electrodes, in 2006 for GRAFOAM® carbon foam, a unique high strength, light weight carbon foam, in 2007 for GrafCell® flow field plates, a key component to the commercialization of fuel cells, in 2009 for our GRAFIHX™ Flexible Heat Exchangers, a graphite solution uniquely suited for radiant floor heating systems, and in 2011, for the eGRAF® Spreadersheet SS1500, the world's thinnest heatspreader, enabling the world's most powerful smart phones.

***Delivering Exceptional and Consistent Quality.*** We believe that our products are among the highest quality products available in our industry. We have been recognized as a preferred or certified supplier by many major steel companies and have received numerous technological innovation and other awards by industry groups, customers and others. Using our technological capabilities, we continually seek to improve the

consistent overall quality of our products and services, including the performance characteristics of each product, the uniformity of the same product manufactured at different facilities and the expansion of the range of our products. We believe that improvements in overall quality create significant efficiencies and opportunities for us, provide us the opportunity to increase sales volumes and potential demand share, and create production efficiencies for our customers.

**Providing Superior Technical Service.** We believe that we are recognized as one of the industry leaders in providing value added technical services to customers for our major product lines. We believe that we have one of the largest customer technical service and related supporting engineering and scientific organizations in our industry, with more than 250 engineers, scientists and specialists around the world. A portion of these employees assist key steel and other metals customers in furnace applications, operations and upgrades to reduce energy consumption, improve raw material costs and increase output.

**Maintaining Liquidity and Building Stockholder Value.** We believe that our business strategies support our goal of growing revenues and operating income and maximizing the cash generated from operations. Maintaining liquidity remains a priority for us. At December 31, 2011, we had outstanding borrowings under our Revolving Facility of \$232.0 million, \$153.4 million carrying value outstanding related to Senior Subordinated Notes, and cash and cash equivalents of \$12.4 million. At December 31, 2010, we had outstanding borrowings under our Revolving Facility of \$130.0 million, \$143.4 million outstanding related to Senior Subordinated Notes, and cash and cash equivalents of \$13.1 million.

We continually review our assets, product lines and businesses to seek out opportunities to maximize value, through re-deployment, merger, acquisition, divestiture or other means, which could include taking on more debt or issuing more equity. We may at any time buy or sell assets, product lines or businesses.

## Production Planning

We plan and source production of our products globally. We have evaluated virtually every aspect of our global supply chain, and we have redesigned and implemented changes to our global manufacturing, marketing and sales processes to leverage the strengths of our repositioned manufacturing network. Among other things, we have reduced manufacturing bottlenecks, improved product and service quality and delivery reliability, expanded our range of products, and improved our global sourcing for our customers.

We deploy synchronous work processes at most of our manufacturing facilities. We have also installed and continue to install and upgrade proprietary process technologies at our manufacturing facilities, and use statistical process controls in our manufacturing processes for all products, and employ LEAN processing improvement techniques.

Our global manufacturing network also helps us to minimize risks associated with dependence on any single economic region.

## Manufacturing

**Graphite Electrode.** The manufacture of a graphite electrode takes, on average, about two months. We manufacture graphite electrodes ranging in size up to 30 inches in diameter and over 11 feet in length, and weighing as much as 5,900 pounds (2.6 metric tons). The manufacture of graphite electrodes includes six main processes: forming the electrode, baking the electrode, impregnating the electrode with a special pitch that improves the strength, rebaking the electrode, graphitizing the electrode using electric resistance furnaces, and machining.

We manufacture graphite electrodes in the United States, Mexico, Brazil, South Africa, France and Spain. We have an electrode machining center in Russia.

**Refractory Products.** Refractory bricks are manufactured in the United States, using a proprietary "hot press" process. We have two primary grades of refractory products. The manufacture of a refractory

block begins with the mixing and blending of the raw materials. The raw materials are fed into molds and pressed into shape. Intense heat and pressure are then applied. The bricks are cooled and then cut into the desired shapes. Our bricks are generally smaller than our competitors' products. We believe our smaller brick size creates an easier installation process compared to larger bricks. We manufacture refractory bricks into sizes up to 18 inches, although we can manufacture bricks into a multitude of sizes and shapes to meet the needs of our customers.

***Petroleum Needle and Coke Products.***

Petroleum needle coke is produced through a manufacturing process very similar to a refinery. The production process converts decant oil into petroleum needle coke shaped in a needle-like structure. Pitch needle coke is produced using coal-tar pitch. We produce petroleum needle coke at one manufacturing facility in the U.S.

***Advanced Graphite Materials.*** Advanced graphite materials are manufactured using processes and technologies similar to those of graphite electrodes. Manufacturing lead times range between four to twelve months for most products and depend on the specific material properties that are needed to be imparted in the final billet. After the forming, baking, impregnation, rebaking and graphitization steps, the billets are either dressed and sold as raw stock or are machined into custom parts against proprietary specifications supplied by our customers. We produce advanced graphite materials in the United States, South Africa, Brazil, France and Italy.

***Natural Graphite Products.*** We use a proprietary process to convert mined natural graphite flake into expandable graphite, an intermediate product. We manufacture flexible graphite by subjecting expandable graphite to additional proprietary processing. Our natural graphite business operates two manufacturing facilities in the U.S. We believe that we operate one of the world's most technologically sophisticated advanced natural graphite production lines.

***Quality Standards and Maintenance.*** Most of our global manufacturing facilities are certified and registered to ISO 9001-2008 international quality standards and some are certified to QS 9001-2008.

Natural graphite has a quality assurance system designed to meet the most stringent requirements of its customers and is ISO TS 16949:2009 certified. Maintenance at our facilities is conducted on an ongoing basis.

***Raw Materials and Suppliers.*** The primary raw materials for electrodes are engineered by-products and residues of the petroleum and coal industries. We use these raw materials because of their high carbon content. The primary raw materials for graphite electrodes are calcined needle coke and pitch. We purchase raw materials from a variety of sources and believe that the quality and cost of our raw materials on the whole is competitive with those available to our competitors.

We are parties to contracts with ConocoPhillips through December 2013 for the supply of petroleum needle coke, our primary raw material used in the manufacture of graphite electrodes. The agreements provide for quantities of needle coke which we believe, together with needle coke that we source from Seadrift and other sources, are sufficient for our requirements as currently forecast. These supply agreements also contain customary terms and conditions including annual price negotiations, dispute resolution and termination provisions. In July 2011, ConocoPhillips announced that its board approved separating its refining and marketing and exploration and production businesses by spinning off the refining and marketing segment to shareholders. We do not believe that such separation will have an adverse impact on these needle coke supply agreements.

We have firm price contracts for the substantially all of our 2012 needle coke requirements. We may purchase up to 70,000 metric tons of our needle coke requirements from Seadrift.

Raw materials for refractory products are primarily sourced internally and from a variety of third parties. The primary raw material used in refractory products is crushed graphite.

The primary raw material used by Seadrift to make petroleum needle coke is decant oil, a by-product of the gasoline refining process. Seadrift is not dependent on any single refinery for decant oil. While Seadrift has purchased a substantial majority of its raw material inventory from two or three suppliers in recent

years, we believe that there is an abundant supply of decant oil in the United States available from a variety of sources on similar terms.

We purchase energy from a variety of sources. Electric power used in manufacturing processes is purchased from local suppliers under contracts with pricing based on rate schedules or price indices. Our electric costs can vary significantly depending on these rates and usage. Natural gas used in manufacturing processes is purchased from local suppliers primarily under annual volume contracts with pricing based on various natural gas price indices.

## Distribution

We deploy various demand management and inventory management techniques to seek to ensure we can meet our customers' delivery requirements while still maximizing the utilization of our production capacity. We can experience significant variation in our customers' delivery requirements as their specific needs vary and change through the year. We generally seek to maintain appropriate inventory levels, taking into account these factors as well as the significant differences in manufacturing cycle times for graphite electrode products and our customers' products.

Finished products are usually stored at our manufacturing facilities. Limited quantities of some finished products are also stored at local warehouses around the world to meet customer needs.

## Sales and Customer Service

Our product quality, our global manufacturing network and our low cost structure allow us to deliver a broad range of product offerings across various segments. We differentiate and sell the value of our product offerings, depending on the segment or specific product application, primarily based on product quality and performance, delivery reliability, price, and customer technical service.

We price our products based on the value that we believe we deliver to our customers. Pricing may vary within any given industry, depending on the segment within that industry and the value of the offer to a specific customer. We believe that we can achieve increased competitiveness, customer demand, and profitability

through our value added offerings to customers. In certain segments where the product is less differentiated, these value added offerings have less impact on our competitiveness. Historically, our graphite electrode customers generally seek to negotiate to secure the reliable supply of their anticipated volume requirements on an annual basis, sometimes called the "graphite electrode book building process". These orders are subject to renegotiation or adjustment to meet changing conditions. The remainder of our graphite electrode customers purchase their electrodes as needed at then current market prices (i.e., at the spot price).

We believe that we are one of the recognized industry leaders in providing value added technical services to customers for our major product lines, and that we have one of the largest customer technical service and related supporting engineering and scientific organizations in our industry, with more than 250 engineers, scientists and specialists around the world.

We deploy these selling methods and our customer technical service to address the specific needs of all products. Our direct sales force operates from 15 sales offices located around the world.

**Industrial Materials.** We sell our Industrial Materials segment products primarily through our direct sales force, independent sales representatives and distributors, all of whom are trained and experienced with our products.

We have customer technical service personnel based around the world to assist customers to maximize their production and minimize their costs. We employ about 140 engineers and technicians in our Industrial Materials segment, a portion of who provide technical service and advice to key steel and other metals customers. These services include furnace applications and operation, as well as furnace upgrades to reduce energy consumption, improve raw material costs and increase output.

**Engineered Solutions.** Our Engineered Solutions products are sold using direct employees and independent sales representatives and distributors in all major geographic regions of the world including North and South America, Africa, Europe and Asia.

The majority of our products are custom built to customer specifications after an iterative review process between the customer's engineers and our sales and technical service employees. Our sales personnel are trained and experienced with the products they sell. We provide technical service to our customers through dedicated technical service engineers who operate out of our North American and European facilities. We believe that our technical service differentiates us from our competition and take pride in our ability to support the technical requirements of our customers.

## Technology

We believe that we are an industry leader in graphite and carbon materials science and high temperature processing know-how and that we operate premier research, development and testing facilities for our industry. We have over 125 years of experience in the research and development of graphite and carbon technologies. Over the past several years, we have analyzed our intellectual property portfolio to identify new product opportunities with high growth potential for us, redirected research to enhance and exploit our portfolio and accelerated development of such products.

**Research and Development.** We conduct our research and development both independently and in conjunction with our strategic suppliers, customers and others. We have a dedicated technology center located at our corporate headquarters in Ohio, which focuses on all products. We also have a pilot plant that has the capability to produce small or trial quantities of new or improved graphite products, to accelerate scale-up and market entry. In addition, we have a state-of-the-art testing facility located at our headquarters capable of conducting physical and analytical testing for those products. The activities at these centers and facilities are integrated with the efforts of our engineers at our manufacturing facilities who are focused on improving manufacturing processes.

Research and development expenses amounted to \$9.4 million, \$12.2 million and \$14.0 million in 2009, 2010 and 2011, respectively.

We believe that our technological and manufacturing strengths and capabilities provide us with a significant growth opportunity as well as a competitive

advantage and are important factors in the selection of us by industry leaders and others as a strategic partner. Our technological capabilities include developing products with superior thermal, electrical and physical characteristics that provide a differentiating advantage. We seek to exploit these strengths and capabilities across all of our businesses, to improve existing products and to develop and commercialize new products with high growth potential.

A significant portion of our research and development is focused on new product development, particularly engineered solutions for advanced energy applications such as solar silicon manufacturing, electronic thermal management, energy storage and generation. Other significant work focuses on advancements in electrode technology and raw material optimization.

**Intellectual Property.** We believe that our intellectual property, consisting primarily of patents and proprietary know-how, provides us with competitive advantages and is important to our growth opportunities. Our intellectual property portfolio is extensive, with close to 400 U.S. and foreign patents, as well as close to 400 pending U.S. and foreign carbon and graphite related patent applications, which we believe, is more than any of our major competitors. Among our competitors, we hold one of the largest number of patents for flexible graphite as well as the largest number of patents relating to the use of natural graphite for certain fuel cell applications. In addition, we have obtained exclusive and non-exclusive licenses to various U.S. and foreign patents relating to our technologies. These patents and licenses expire at various times over the next two decades.

We own, and have obtained licenses to, various trade names and trademarks used in our businesses. For example, the trade name and trademark UCAR are owned by Union Carbide Corporation (which has been acquired by Dow Chemical Company) and are licensed to us on a worldwide, exclusive and royalty-free basis until 2025. This particular license automatically renews for successive ten-year periods. It permits non-renewal by Union Carbide in 2025 or at the end of any renewal period upon five years' notice of non-renewal.

We rely on patent, trademark, copyright and trade secret laws as well as appropriate agreements to protect our intellectual property. Among other things, we

seek to protect our proprietary know-how and information, through the requirement that employees, consultants, strategic partners and others, who have access to such proprietary information and know-how, enter into confidentiality or restricted use agreements.

## Competition

**Industrial Materials.** Competition in the industrial materials segment is intense and is based primarily on product differentiation and quality, delivery reliability, price, and customer service, depending on the segment or specific product application.

In the most demanding product applications (that is, graphite electrodes that can operate in the largest, most productive and demanding EAF steel mills in the world), we compete primarily on product quality, delivery reliability, and customer technical service. We believe these are prerequisite capabilities that not all producers of graphite electrodes possess or can demonstrate consistently. In this segment, we primarily compete with higher quality graphite electrode producers, although this segment of the graphite electrode demand has become increasingly competitive in recent years as graphite electrode producers have improved the quality of their offerings and become qualified suppliers to some of the largest and most sophisticated EAF customers.

In other product applications, including ladle furnaces requiring less demanding performance and certain other ferrous and non-ferrous segments, we compete based on product differentiation and product quality. Our product quality, unique global manufacturing network, proximity to regional and local customers and the related lower cost structure allows us to deliver a broad range of product offerings across these various segments.

We believe that there are no current commercially viable substitutes for graphite electrodes in EAF steel production.

Our refractory products business competes based on product quality, useful life, and technology. We believe our proprietary hot press process and the smaller shape of our refractory bricks provides a more diverse product that is easier to install than larger refractory bricks.

We believe that there are certain cost and technology barriers to entry into our industry, including the need for extensive product and process know-how and other intellectual property and a high initial capital investment. It also requires high quality raw material sources and a developed energy supply infrastructure. However, competing manufacturers, particularly Chinese manufacturers, have been able to expand their sales and manufacturing geographically.

There are a number of international graphite electrode producers, including SGL Carbon A.G. (Germany), Tokai Carbon Co., Ltd. (Japan), Showa Denko Carbon K.K. (Japan), Graphite India Limited (India), HEG Limited (India), SEC Corporation Limited (Japan), Nippon Carbon Co., Ltd. (Japan), Energoprom Group (Russia), Beijing FangDa Carbon Tech Co. Ltd. (China) and Sinosteel Corporation (China), as well as a number of others which are in China.

All graphite electrode manufacturers, even those without multinational manufacturing operations, are capable of, and many in fact are, supplying their products globally, and are experiencing increased competition from Indian, Russian and Chinese graphite electrode manufacturers. The Chinese government has strongly supported and invested heavily in industrial expansion in recent years and continues to do so. As a part of this expansion, Chinese production of graphite electrodes has increased and the quality of the electrodes produced in China has improved. The Chinese policy of maintaining a fixed rate of exchange of the Renminbi to the U.S. dollar may provide Chinese producers with a competitive advantage with respect to exports of graphite electrodes.

We believe there are currently approximately ten other firms producing UHP-grade needle coke. These competitors include ConocoPhillips, Petrocokes Japan Limited (Japan), Mitsubishi Chemical Company, Baosteel Group (China), C-Chem Co., Ltd. (Japan), Indian Oil Company Limited, Hongte Chemical Industry (Group) Co., Ltd. (China), JX Holdings Inc. (Japan), Petrochina International Jinzhou Co., Ltd. (China) and Sinosteel Anshan Research Institute of Thermo-Energy Co. Ltd. (China). Competition in the needle coke industry is based primarily on service, price, reliability and efficiency of products. Our Seadrift facility competes primarily on the quality and price of its needle coke.

**Engineered Solutions.** Competitors of our engineered solutions segment compete on product differentiation and innovation, quality, price, delivery reliability and customer service depending on the specific demands or product applications.

We believe we are the technology leader within the segments we participate in, and we differentiate ourselves based on our ability to provide customers with a solution that gives them one of the lowest total operational costs in meeting their product manufacturing needs. We achieve this by using our extensive product, process and application knowledge.

We believe there are certain barriers to entry into this industry, including the need for extensive product and process know-how, intellectual property and a high initial capital investment.

We compete with other major specialty graphite competitors who manufacture and sell on a global basis. These competitors include SGL Carbon A.G. (Germany), Tokai Carbon Co., Ltd. (Japan), Toyo Tanso Co., Ltd.(Japan), Mersen S.A. (France) and several other competitors, a number of which are in China.

## Environmental Matters

We are subject to a wide variety of federal, state, local and foreign environmental laws and regulations that govern our properties, neighboring properties, and our current and former operations worldwide. These laws and regulations relate to the presence, use, storage, handling, generation, treatment, emission, release, discharge and disposal of wastes and other substances, including the packaging, labeling and transportation of products; that are defined as hazardous or toxic or otherwise believed to have potential to harm the environment or human health. These laws and regulations (and the enforcement thereof) are periodically changed and are becoming increasingly stringent. We have incurred costs in the past, and will continue to incur additional costs in the future, to comply with these legal requirements.

The principal U.S. laws to which our properties and operations are subject include:

- the Clean Air Act, the Clean Water Act and the Resource Conservation and Recovery Act and similar state and local laws which regulate

air emissions, water discharges and hazardous waste generation, treatment, storage, handling, transportation and disposal;

- the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, and the Small Business Liability Relief and Brownfields Revitalization Act of 2002, and similar state laws that provide for the reporting of, responses to and liability for releases of hazardous substances into the environment; and
- the Toxic Substances Control Act and related laws that are designed to track and control chemicals that are produced or imported into the United States and assess the risk to health and to the environment of new products at early developmental stages.

Further, laws and regulations adopted or proposed in various states impose or may impose, as the case may be, reporting or remediation requirements if operations cease or property is transferred or sold.

We believe that we are currently in material compliance with the federal, state, local and foreign environmental laws and regulations to which we are subject. We have experienced some level of regulatory scrutiny at most of our current and former facilities and, in some cases, have been required to take corrective or remedial actions and incur related costs in the past, and may experience further regulatory scrutiny, and may be required to take further corrective or remedial actions and incur additional costs in the future. Although it has not been the case in the past, these costs could have a material adverse effect on us in the future.

We have received and may in the future receive notices from the U.S. Environmental Protection Agency ("U.S. EPA") or state environmental protection agencies, as well as claims from other parties, alleging that we are a potentially responsible party ("PRP") under Superfund and similar state laws for past and future remediation costs at waste disposal sites and other contaminated properties. Although Superfund liability is joint and several, in general, final allocation of responsibility at sites

where there are multiple PRPs is made based on each PRP's relative contribution of hazardous substances to the site. Based on information currently available to us, we believe that any potential liability we may have as a PRP will not have a material adverse effect on us.

As a result of amendments to the Clean Air Act enacted in 1990, certain of our U.S. facilities have been or will be required to comply with new reporting requirements and standards for air emissions that have been or may be adopted by the U.S. EPA and state environmental protection agencies pursuant to new and revised regulations that have been or could be promulgated, including the possible promulgation of future maximum achievable control technology standards that apply to our manufacturing sector(s). Achieving compliance with the regulations that have been promulgated to date has resulted in the need for additional administrative and engineered controls, changes to certain manufacturing processes, and increased monitoring and reporting obligations. Similar foreign laws and regulations have been or may also be adopted to establish new standards for air emissions, which may also require additional controls on our manufacturing operations outside the U.S. Based on information currently available to us, we believe that compliance with these regulations will not have a material adverse effect on us.

As mentioned, our manufacturing operations located outside of the U.S. are also subject to their national and local laws and regulations related to environmental protection and product safety. Under the European Union's ("EU") regulations concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (commonly referred to as "REACH"), enacted in 2007, manufacturers and importers into the EU of certain chemical substances are required to register and evaluate their potential impacts on human health and the environment. Under REACH, the continued importation into the EU, manufacture and/or use of certain chemical substances may be restricted, and manufacturers and importers of certain chemicals will be required to undertake evaluations of those substances. The requirements of REACH are being phased in over a period of years, and compliance is requiring and will continue to require expenditures and resource

commitments. Based on information currently available to us, we believe that compliance with these regulations will not have a material adverse effect on us.

International accords, foreign laws and regulations, and U.S. federal, state and local laws and regulations are increasingly being enacted to address concerns about the effects that carbon dioxide emissions and other identified greenhouse gases ("GHG") may have on the environment and climate worldwide. These effects are widely referred to as Climate Change. Some members of the international community have taken actions in the past to address Climate Change issues on a global basis. The 1997 international Kyoto Protocol set binding GHG emission reduction targets for the participating industrialized countries. Members of the international community have been meeting since 2007 in the interest of negotiating a future treaty to replace the Kyoto Protocol, which will expire at the end of 2012. Although the U.S. did not ratify the Kyoto Protocol, it is possible that the U.S. would sign a future international Climate Change treaty and become subject to the provisions of such treaty. The EU Emissions Trading Scheme ("EU ETS") enacted under the provisions of the Kyoto Protocol requires certain listed energy-intensive industries to participate in an international "cap and trade" system of GHG emission allowances. As carbon and graphite manufacturing is not a covered industry sector under the current EU ETS, our European operations were not required to comply with these provisions. However, the current EU ETS will also expire in 2012 and will be replaced by similar provisions under Directive 2009/29/EC, which will also institute a number of program changes. EU Member States are required to bring into force the necessary laws, regulations and administrative provisions by December 31, 2012 to comply with this new Directive. Carbon and graphite manufacturing is not specifically listed as a covered activity in the revised Annex 1 of this new Directive. However, the post-2012 EU ETS could apply to some or all of our manufacturing operations in Europe under a general combustion of fuels category. Depending on the requirements of these EU Member State rules, our European operations could sustain additional compliance obligations and related expenses.



In the U.S., Climate Change legislation has been proposed in the past, but has not been enacted to date. Such legislation could be passed in the future to reduce the quantity of national GHG emissions in accordance with established goals and deadlines. One or more of our U.S. facilities could be covered by such new legislation and we could incur additional compliance obligations and related expenses.

In 2009, a Final Mandatory Reporting of Greenhouse Gases Rule was issued by the U.S. EPA, which requires facilities with specified GHG sources that emit over the annual threshold quantities to monitor and report their GHG emissions annually. In addition, corporations that are large suppliers of petroleum products (including, by definition, importers and exporters that exceed the annual GHG threshold quantities) must also submit an annual activity report to the U.S. EPA. Some of our operations are covered under this Rule, and we believe that we have the necessary administrative systems in place to comply with the requirements. Under various other foreign and U.S. state regulations, we are currently required to report certain GHG emissions to the pertinent authorities. Furthermore, in December 2009, the U.S. EPA issued an "endangerment and cause or contribute finding" for GHG, under Section 202(a) of the Clean Air Act, allowing it to issue new rules that directly regulate GHG emissions under the existing federal New Source Review, Prevention of Significant Deterioration (PSD) and Title V Operating Permit programs. In May 2010, the U.S. EPA set GHG emissions thresholds to define when permits under these programs are required for new and existing industrial facilities. Under these programs, new or significantly modified facilities must also use best available control technologies to minimize GHG emissions. Therefore, we may incur future expenses to modify our air permits, implement additional administrative and engineered controls, invest in capital improvements, and/or make changes in certain manufacturing processes at our U.S. facilities in order for us to achieve compliance with these regulations or to expand our operations.

Based on information currently available to us, we believe that compliance with international accords, U.S. and foreign laws and regulations concerning Climate

Change, which have been promulgated or that could be promulgated in the future, will not have a material adverse effect on us.

We have sold or closed a number of facilities that had operated solid waste landfills on-site. In most cases where we divested the properties, we have retained ownership of the landfills. When our landfills were or are to be sold, we obtained or seek to obtain financial assurance we believe to be adequate to protect us from any potential future liability associated with these landfills. When we have closed landfills, we believe that we have done so in material compliance with applicable laws and regulations. We continue to monitor these landfills pursuant to applicable laws and regulations. To date, the costs associated with the landfills have not been, and we do not anticipate that future costs will be, material to us.

Estimates of future costs for compliance with U.S. and foreign environmental protection laws and regulations, and for environmental liabilities, are necessarily imprecise due to numerous uncertainties, including the impact of potential new laws and regulations, the availability and application of new and diverse technologies, the extent of insurance coverage, the potential discovery of contaminated properties, or the identification of new hazardous substance disposal sites at which we may be a PRP and, in the case of sites subject to Superfund and similar state and foreign laws, the final determination of remedial requirements and the ultimate allocation of costs among the PRPs. Subject to the inherent imprecision in estimating such future costs, but taking into consideration our experience to date regarding environmental matters of a similar nature and facts currently known, we estimate that our costs and capital expenditures (in each case, before adjustment for inflation) for environmental protection regulatory compliance programs and for remedial response actions will not increase materially over the next several years.

Furthermore, we establish accruals for environmental liabilities when it is probable that a liability has been or will be incurred, and the amount of the liability can be reasonably estimated. We adjust these accruals as new remedial actions or other commitments are made, and when new information becomes available that changes the estimates previously made.

## **Insurance**

We maintain insurance against civil liabilities relating to personal injuries to third parties, for loss of or damage to property, for business interruptions and for environmental matters, that provides coverage, subject to the applicable coverage limits, deductibles and retentions, and exclusions, that we believe are appropriate upon terms and conditions and for premiums that we consider fair and reasonable in the circumstances. We cannot assure you, however, that we will not incur losses beyond the limits of or outside the coverage of our insurance.

## **Employees**

At December 31, 2011, we had 3,284 employees (excluding contractors), an increase of 369 employees compared to 2010. A total of 551 employees were in Europe (including Russia), 911 were in Mexico and Brazil, 427 were in South Africa, 1 was in Canada, 1,373 were in the U.S. and 21 were in the Asia Pacific region. At December 31, 2011, 1,908 of our employees were hourly employees.

At December 31, 2011, approximately 49% of our worldwide employees were covered by collective bargaining or similar agreements, which expire at various times in each of the next several years. At December 31, 2011, about 1,100 employees, or 33% of our employees, were covered by agreements which expire, or are subject to renegotiation, at various times through December 31, 2012. We believe that, in general, our relationships with our unions are satisfactory and that we will be able to renew or extend our collective bargaining or similar agreements on reasonable terms as they expire. We cannot assure, however, that renewed or extended agreements will be reached without a work stoppage or strike or will be reached on terms satisfactory to us.

We have not had any material work stoppages or strikes during the past decade.

## Item 1A. Risk Factors

*An investment in our securities involves a high degree of risk. The risks described below are not the only ones facing us. Additional risks not presently known to us, or that we currently deem immaterial, may also have a material adverse effect on us. If any of the following risks actually occur, our financial condition, results of operations, cash flows or business could be harmed. In that case, the market price of our securities could decline, and you could lose part or all of your investment.*

### **RISKS RELATING TO US**

**A downturn in global economic conditions may materially adversely affect our business.**

While the global recovery continues, the pace of recovery remains sluggish and uneven geographically. Downside risks remain for 2012, including high unemployment, reduced consumer spending, high deficit spending from governments, turbulent financial markets (euro area) and tighter monetary policies (Emerging markets).

The International Monetary Fund reported GDP growth figures for 2011 at approximately 3.8%. We believe that in the graphite electrode markets in which we compete, the capacity utilization rate was approximately 80% in both 2010 and 2011. While improved compared to 2009 levels, these lower than pre-crisis capacity utilization rates continued to adversely affect our financial position and results of operation for 2011.

**We are dependent on the global steel industry and also sell products used in the transportation, semiconductor, solar, petrochemical, electronics, and other industries which are susceptible to global and regional economic downturns.**

We sell our industrial materials products, which accounted for about 86% of our total net sales in 2011, primarily to the EAF steel production industry. Many of our other products are sold primarily to the transportation, solar, oil and gas exploration industries. These are global basic industries, and they are experiencing various degrees of contraction, growth and consolidation. Customers in these industries are located in every major geographic region. As a result, our customers are affected by changes in global and regional

economic conditions. This, in turn, affects overall demand and prices for our products sold to these industries. As a result of changes in economic conditions, demand and pricing for our products sold to these industries has fluctuated and in some cases declined significantly.

Demand for our products sold to these industries may be adversely affected by improvements in our products as well as in the manufacturing operations of customers, which reduce the rate of consumption or use of our products. Our customers, including major steel producers, are experiencing and may continue to experience downturns or financial distress that could adversely impact our ability to collect our accounts receivable or to collect them on a timely basis.

Sales volumes and prices of our products sold to these industries are impacted by the supply/demand balance as well as overall changes in demand, and growth of and consolidation within, the end markets for our products. In addition to the factors mentioned above, the supply/demand balance is affected by factors such as business cycles, rationalization, and increases in capacity and productivity initiatives within our industry and the end markets for our products, some of which factors are affected by decisions by us.

The steel industry, in particular, has historically been highly cyclical and is affected significantly by general economic conditions. Significant customers for the steel industry include companies in the automotive, construction, appliance, machinery, equipment and transportation industries, all of which continue to be affected by the general economic downturn and the deterioration in financial markets, including severely restricted liquidity and credit availability.

In addition, a continuation of the current difficult economic conditions may lead current or potential customers of our Engineered Solutions business to delay or reduce technology purchases or slow their adoption of new technologies. This may result in a continued reduction, or slower rate of recovery, of sales of our Engineered Solutions products and increased price competition, which could materially and adversely affect our financial position and results of operations.

**We are subject to restrictive covenants under the Revolving Facility and expect to be subject to**

**restrictive covenants under any renewal or refinancing thereof. These covenants could significantly affect the way in which we conduct our business. Our failure to comply with these covenants could lead to an acceleration of our debt.**

The Revolving Facility contains a number of covenants that, among other things, restrict our ability to: sell assets; incur, repay or refinance indebtedness; create liens; make investments or acquisitions; engage in mergers or acquisitions; pay dividends; or repurchase stock.

The Revolving Facility also requires us to comply with specified financial covenants, including minimum interest coverage and maximum senior secured leverage ratios. We cannot borrow under the Revolving Facility if the additional borrowings would cause us to breach the financial covenants.

Our ability to continue to comply with applicable covenants may be affected by events beyond our control. The breach of any of the covenants contained in the Revolving Facility, unless waived, would be a default under the Revolving Facility. This would permit the lenders to terminate their commitments to extend credit under, and accelerate the maturity of, the Revolving Facility. The acceleration of our debt could have a material adverse effect on our financial condition and liquidity. If we were unable to repay our debt to the lenders and holders or otherwise obtain a waiver from the lenders and holders, we could be forced to reduce or delay capital expenditures; sell assets or businesses; limit or discontinue, temporarily or permanently, business plans regarding operations; obtain additional debt or equity financing; seek protection under applicable debtor protection statutes, or restructure or refinance debt.

We expect that any renewal or refinancing of the Revolving Facility will contain covenants that may be as restrictive, or more restrictive, than the covenants contained in the Revolving Facility and would extend to the lenders thereunder remedies, in the event of any default, similar to those provided to the lenders under the Revolving Facility described above.

**Disruptions in the capital and credit markets, which may continue indefinitely or intensify, could adversely affect our results of operations, cash flows and**

**financial condition, or those of our customers and suppliers.**

Disruptions in the capital and credit markets may adversely impact our results of operations, cash flows and financial condition, or those of our customers and suppliers. Disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to liquidity needed to conduct or expand our businesses or conduct acquisitions or make other discretionary investments, as well as our ability to effectively hedge our currency or interest rate risks and exposures. Such disruptions may also adversely impact the capital needs of our customers and suppliers, which, in turn, could adversely affect our results of operations, cash flows and financial condition.

**We are subject to risks associated with operations in multiple countries.**

A substantial majority of our net sales are derived from sales outside the U.S., and a substantial majority of our operations and our total property, plant and equipment and other long-lived assets are located outside the U.S. As a result, we are subject to risks associated with operating in multiple countries, including:

- currency devaluations and fluctuations in currency exchange rates, including impacts of transactions in various currencies, impact on translation of various currencies into dollars for U.S. reporting and financial covenant compliance purposes, and impacts on results of operations due to the fact that costs of our foreign subsidiaries are primarily incurred in local currencies while their products are primarily sold in dollars and euros;
- imposition of or increase in customs duties and other tariffs;
- imposition of or increase in currency exchange controls, including imposition of or increases in limitations on conversion of various currencies into dollars, euros, or other currencies, making of intercompany loans by subsidiaries or remittance of dividends, interest or principal payments or other payments by subsidiaries;

- imposition of or increase in revenue, income or earnings taxes and withholding and other taxes on remittances and other payments by subsidiaries;
- imposition of or increases in investment or trade restrictions by the U.S. or by non-U.S. governments or trade sanctions adopted by the U.S.;
- inability to definitively determine or satisfy legal requirements, inability to effectively enforce contract or legal rights and inability to obtain complete financial or other information under local legal, judicial, regulatory, disclosure and other systems; and
- nationalization or expropriation of assets, and other risks which could result from a change in government or government policy, or from other political, social or economic instability.

We cannot assure you that such risks will not have a material adverse effect on us or that we would be able to mitigate such material adverse effects in the future.

In addition to the factors noted above, our results of operations and financial condition are affected by inflation, deflation and stagflation in each country in which we have a manufacturing facility. We cannot assure you that future increases in our costs will not exceed the rate of inflation or the amounts, if any, by which we may be able to increase prices for our products.

**Our ability to grow and compete effectively depends on protecting our intellectual property. Failure to protect our intellectual property could adversely affect us.**

We believe that our intellectual property, consisting primarily of patents and proprietary know-how and information, is important to our growth. Failure to protect our intellectual property may result in the loss of the exclusive right to use our technologies. We rely on patent, trademark, copyright and trade secret laws and confidentiality and restricted use agreements to protect our intellectual property. Some of our intellectual property is not covered by any patent or patent application or any such agreement.

Patents are subject to complex factual and legal considerations. Accordingly, there can be uncertainty as to the validity, scope and enforceability of any particular patent. Therefore, we cannot assure you that:

- any of the U.S. or foreign patents now or hereafter owned by us, or that third parties have licensed to us or may in the future license to us, will not be circumvented, challenged or invalidated;
- any of the U.S. or foreign patents that third parties have non-exclusively licensed to us, or may non-exclusively license to us in the future, will not be licensed to others; or
- any of the patents for which we have applied or may in the future apply will be issued at all or with the breadth of claim coverage sought by us.

Moreover, patents, even if valid, only provide protection for a specified limited duration.

We cannot assure you that agreements designed to protect our proprietary know-how and information will not be breached, that we will have adequate remedies for any such breach, or that our strategic alliance suppliers and customers, consultants, employees or others will not assert rights to intellectual property arising out of our relationships with them.

In addition, effective patent, trademark and trade secret protection may be limited, unavailable or not applied for in the U.S. or in any of the foreign countries in which we operate.

Further, we cannot assure you that the use of our patented technology or proprietary know-how or information does not infringe the intellectual property rights of others.

Intellectual property protection does not protect against technological obsolescence due to developments by others or changes in customer needs.

The protection of our intellectual property rights may be achieved, in part, by prosecuting claims against others whom we believe have misappropriated our technology or have infringed upon our intellectual property rights, as well as by defending against misappropriation or infringement claims brought by

others against us. Our involvement in litigation to protect or defend our rights in these areas could result in a significant expense to us, adversely affect the development of sales of the related products, and divert the efforts of our technical and management personnel, regardless of the outcome of such litigation.

If necessary, we may seek licenses to intellectual property of others. However, we can give no assurance to you that we will be able to obtain such licenses or that the terms of any such licenses will be acceptable to us. Our failure to obtain a license from a third party for its intellectual property that is necessary for us to make or sell any of our products could cause us to incur substantial liabilities and to suspend the manufacture or shipment of products or use of processes requiring the use of such intellectual property.

**Our current and former manufacturing operations are subject to increasingly stringent health, safety and environmental requirements.**

We use and generate hazardous substances in our manufacturing operations. In addition, both the properties on which we currently operate and those on which we have ceased operations are and have been used for industrial purposes. Further, our manufacturing operations involve risks of personal injury or death. We are subject to increasingly stringent environmental, health and safety laws and regulations relating to our current and former properties, neighboring properties, and our current raw materials, products, and operations. These laws and regulations provide for substantial fines and criminal sanctions for violations and sometimes require evaluation and registration of the installation of costly pollution control or safety equipment or costly changes in operations to limit pollution or decrease the likelihood of injuries. It is also possible that the impact of such regulations on our suppliers could affect the availability and cost of our raw materials. In addition, we may become subject to potential material liabilities for the investigation and cleanup of contaminated properties, for claims alleging personal injury or property damage resulting from exposure to or releases of hazardous substances, or for personal injury as a result of an unsafe workplace. Further, alleged noncompliance with or stricter enforcement of, or changes in interpretations of, existing laws and regulations, adoption of more stringent

new laws and regulations, discovery of previously unknown contamination or imposition of new or increased requirements could require us to incur costs or become the basis of new or increased liabilities that could be material.

**We may face risks related to greenhouse gas emission limitations and climate change.**

There is growing scientific, political and public concern that emissions of greenhouse gases (“GHG”) are altering the atmosphere in ways that are affecting, and are expected to continue to affect, the global climate. Legislators, regulators and others, as well as many companies, are considering ways to reduce GHG emissions. GHG emissions are regulated in the European Union via an Emissions Trading Scheme (“ETS”), aka a “Cap and Trade” program. In the United States, environmental regulations issued in 2009 and 2010 will require reporting of GHG emissions by defined industries, activities and suppliers, and will regulate GHG as a pollutant covered under the New Source Review, Prevention of Significant Deterioration (“PSD”) and Title V Operating Permit programs of the Clean Air Act Amendments. It is possible that some form of regulation of GHG emissions will also be forthcoming in other countries in which we operate or market our products. Regulation of GHG emissions could impose additional costs, both direct and indirect, on our business, and on the businesses of our customers and suppliers, such as increased energy and insurance rates, higher taxes, new environmental compliance program expenses, including capital improvements, environmental monitoring, and the purchase of emission credits, and other administrative costs necessary to comply with current requirements and potential future requirements or limitations that may be imposed, as well as other unforeseen or unknown costs. To the extent that similar requirements and limitations are not imposed globally, such regulation may impact our ability to compete with companies located in countries that do not have such requirements or do not impose such limitations. The company may also realize a change in competitive position relative to industry peers, changes in prices received for products sold, and changes to profit or loss arising from increased or decreased demand for products produced by the company. The impact of any future GHG regulatory requirements on our global

business will be dependent upon the design of the regulatory schemes that are ultimately adopted and, as a result, we are unable to predict their significance to our operations at this point in time.

The potential physical impacts of climate change on the company's operations are uncertain and will likely be particular to the geographic circumstances. These physical impacts may include changes in rainfall and storm patterns, shortages of water or other natural resources, changing sea levels, and changing global average temperatures. For instance, the company's Seadrift facility and those facilities supplying it, and the company's Calais facility, are located in geographic areas less than 50 feet above sea level. As a result, any future rising sea levels could have an adverse impact on their operations and on their suppliers. Due to these uncertainties, any future physical effects of climate change may or may not adversely affect the operations at each of our production facilities, the availability of raw materials, the transportation of our products, the overall costs of conducting our business, and the company's financial performance.

**We face certain litigation and legal proceedings risks that could harm our business.**

We are involved in various product liability, occupational, environmental, and other legal claims, demands, lawsuits and other proceedings arising out of or incidental to the conduct of our business. The results of these proceedings are difficult to predict. Moreover, many of these proceedings do not specify the relief or amount of damages sought. Therefore, as to a number of the proceedings, we are unable to estimate the possible range of liability that might be incurred should these proceedings be resolved against us. Certain of these matters involve types of claims that, if resolved against us, could give rise to substantial liability, which could have a material adverse effect on our financial position, liquidity and results of operations.

**We are dependent on supplies of raw materials and energy. Our results of operations could deteriorate if that supply is substantially disrupted for an extended period.**

We purchase raw materials and energy from a variety of sources. In many cases, we purchase them under short term contracts or on the spot market, in each

case at fluctuating prices. The availability and price of raw materials and energy may be subject to curtailment or change due to:

- limitations which may be imposed under new legislation or regulation;
- supplier's allocations to meet demand of other purchasers during periods of shortage (or, in the case of energy suppliers, extended cold weather);
- interruptions or cessations in production by suppliers, and
- market and other events and conditions.

Petroleum and coal products, including decant oil, petroleum coke and pitch, our principal raw materials, and energy, particularly natural gas, have been subject to significant price fluctuations.

We have in the past entered into, and may continue in the future to enter into, derivative contracts and short duration fixed rate purchase contracts to effectively fix a portion of our exposure to certain products.

A substantial increase in raw material or energy prices which cannot be mitigated or passed on to customers or a continued interruption in supply, particularly in the supply of decant oil, petroleum coke or energy, would have a material adverse effect on us.

**Seadrift could be impacted by the availability of low sulfur decant oil and the pricing of needle coke feedstocks.**

Seadrift uses low sulfur decant oil in the manufacture of needle coke. There is no assurance that Seadrift will always be able to obtain an adequate quantity of suitable feedstocks or that capital would be available to install equipment to allow for utilization of higher sulfur decant oil, which is more readily available in the United States, in the event that suppliers of lower sulfur decant oil were to become more limited in the future. Seadrift purchases approximately two million barrels of low sulfur decant oil annually. The prices paid by Seadrift for such feedstocks are governed by the market for heavy fuel oils, which prices can fluctuate widely for various reasons including, among other things, worldwide oil shortages and cold winter weather. The

substantial majority of Seadrift's needle coke is used in the manufacture of graphite electrodes, the price of which is subject to rigorous industry competition thus restricting Seadrift's ability to pass through raw material price increases.

**We engage in acquisitions and may encounter unexpected difficulties identifying, pricing or integrating these businesses.**

We have pursued growth, in part, through strategic acquisitions that are intended to complement or expand our businesses, and expect to continue to do so in the future. The success of this strategy will depend on our ability to identify, price, finance and complete these transactions. Success will also depend on our ability to integrate the businesses acquired in these transactions. We may encounter unexpected difficulties in completing and integrating acquisitions with our existing operations, and in managing strategic investments. Furthermore, we may not realize the degree, or timing, of benefits we anticipated when we first entered into a transaction. Any of the foregoing could adversely affect our financial position, liquidity and results of operations.

**Our results of operations could deteriorate if our manufacturing operations were substantially disrupted for an extended period.**

Our manufacturing operations are subject to disruption due to extreme weather conditions, floods, hurricanes and tropical storms and similar events, major industrial accidents, cybersecurity attacks, strikes and lockouts, adoption of new laws or regulations, changes in interpretations of existing laws or regulations or changes in governmental enforcement policies, civil disruption, riots, terrorist attacks, war, and other events. We cannot assure you that no such events will occur. If such an event occurs, it could have a material adverse effect on us.

**We have non-dollar-denominated intercompany loans and have had in the past, and may in the future have, foreign currency financial instruments and interest rate swaps and caps. The related gains and losses have in the past been, and may in the future be, significant.**

As part of our cash management, we have non-dollar denominated 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 Income.

Additionally, we have in the past entered into, and may in the future enter into, interest rate swaps and caps to attempt to manage interest rate expense. We have also in the past entered into, and may in the future enter into, foreign currency financial instruments to attempt to hedge global currency exposures. We may purchase or sell these financial instruments, and open and close hedges or other positions, at any time. Changes in currency exchange rates or interest rates have in the past resulted, and may in the future result, in significant gains or losses with respect thereto. These instruments are marked-to-market monthly and gains and losses thereon are recorded in Other Comprehensive Income in the Consolidated Balance Sheets.

**There may be volatility in our results of operations between quarters.**

Sales of our products fluctuate from quarter to quarter due to such factors as changes in economic conditions, changes in competitive conditions, scheduled plant shutdowns by customers, national vacation practices, changes in customer production schedules in response to seasonal changes in energy costs, weather conditions, strikes and work stoppages at customer plants and changes in customer order patterns including those in response to the announcement of price increases or price adjustments. We have experienced, and expect to continue to experience, volatility with respect to demand for and prices of our industrial material products, specifically graphite electrodes, both globally and regionally. We have also experienced volatility with respect to prices of raw materials and energy, and we expect to experience volatility in such prices in the future. Accordingly, results of operations for any quarter are not necessarily indicative of the results of operations for a full year.

**The graphite and carbon industry is highly competitive. Our market share, net sales or net income could decline due to vigorous price and other competition.**

Competition in the graphite and carbon products industry (other than, generally, with respect to new products) is based primarily on price, product



differentiation and quality, delivery reliability, and customer service. Electrodes, in particular, are subject to rigorous price competition. In such a competitive market, changes in market conditions, including customer demand and technological development, could adversely affect our competitiveness, sales and/or profitability.

Competition with respect to new products is, and is expected to be, generally based primarily on product innovation, price, performance and cost effectiveness as well as customer service.

Competition could prevent implementation of price increases, require price reductions or require increased spending on research and development, marketing and sales that could adversely affect us.

**We have significant deferred income tax assets in multiple jurisdictions, and we may not be able to realize any benefits from those assets.**

At December 31, 2011 we had \$132.9 million of gross deferred income tax assets, of which \$25.5 million required a valuation allowance. In addition, we had \$123.2 million of gross deferred income tax liabilities. Our valuation allowance means that we do not believe that these assets are more likely than not to be realized. Until we determine that it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets, income tax benefits in each current period will be fully reserved.

Our valuation allowance, which is predominantly in the U.S. tax jurisdiction, does not affect our ability and intent to utilize the deferred income tax assets as we generate sufficient future profitability. We are executing current strategies and developing future strategies, to improve sales, reduce costs and improve our capital structure in order to improve U.S. taxable income of the appropriate character to a level sufficient to fully realize these benefits in future years.

## **Risks Relating to Our Securities**

**To the extent that outstanding options to purchase shares of our common stock are exercised or other equity awards are granted under our incentive plans, the ownership interests of our other stockholders will be diluted.**

We have issued in the past, and expect to issue in the future, stock options, restricted stock units and performance share award units to directors, executive officers and other key employees under our 2005 Long-Term Equity Incentive Plan and other benefit plans. You may experience dilution upon the exercise of options to purchase shares of our common stock, or the issuance of future equity awards, granted under these equity incentive plans.

**Our stock price may be volatile due to the nature of our business as well as the nature of the securities markets, which could affect the value of an investment in our common stock.**

Companies that have experienced volatility in the market price of their stock have been the subject of securities class action litigation which involves substantial costs and a diversion of those companies' management's attention and resources. Many factors may cause the market price for our common stock to decline or fluctuate, perhaps substantially, including:

- failure of net sales, results of operations or cash flows from operations to meet the expectations of securities analysts or investors;
- recording of additional restructuring, impairment or other charges or costs;
- downward revisions in revenue, earnings or cash flow estimates of securities analysts;
- downward revisions or announcements that indicate possible downward revisions in the ratings on debt instruments that we may have outstanding from time to time, if any;
- speculation in the press or investor perception concerning our industry or our prospects; and
- changes in general capital market conditions.

## **Forward Looking Statements**

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," "target," "goal," "continue to," "positioned to" and similar expressions, or the negatives thereof, identify some of these statements.

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 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 that we have failed to comply with one or more export controls or trade sanctions to which we are subject with respect to products or technology exported from the United States or other jurisdictions or the denial of export privileges to which our recently acquired business, Fiber Materials Inc., is subject 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 that, for all of our product lines, capital improvement and expansion in our customers' operations and increases in demand for their products may not occur or may not occur at the rates that we anticipate or the demand for their 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;
- 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 the current debt crisis in certain European countries could cause the value of the euro to deteriorate, reducing the purchasing power of European customers;
- the possibility that the European debt crisis could contribute to further instability in global credit markets;
- the possibility that decreases in prices 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 for our raw materials and the magnitude of such increases, 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, terrorist acts, political and economic instability, civil unrest, and natural or nuclear calamities might interfere with our supply chains, customers or 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, maintain appropriate relations with unions, associations and employees or to renew or extend our collective bargaining or similar agreements on reasonable terms as they expire or do so without a work stoppage or strike;
- the possibility that an adverse determination in litigation pending in Brazil involving disputes related to the proper interpretation of certain collectively bargained wage increase provisions applicable to both us and other employers in the Bahia region might result in the filing of claims against our Brazilian subsidiary;
- 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;
- 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 North Africa, 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 or nuclear 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;
- the possibility that our key or other raw materials become unavailable and that the magnitude of changes in the cost of key and other raw materials, including petroleum based coke, by reason of shortages, market pricing, pricing terms in applicable supply contracts, or other events may adversely affect our ability to manufacture and supply our products or result in higher costs;
- 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 of security violations to the Company's information technology systems;
- 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; 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.

## Item 1B. Unresolved Staff Comments

- Not applicable.

## Item 2. Properties

We currently operate the following facilities, which are owned or leased as indicated.

<u>Location of Facility</u>	<u>Primary Use</u>	<u>Owned or Leased</u>
<i>U.S.</i>		
Biddeford, Maine (2 facilities)	Advanced Graphite Materials Manufacturing (both)	Owned (both)
Presque Isle, Maine	Advanced Graphite Materials Manufacturing	Leased
Columbus, Ohio	Advanced Graphite Materials Warehousing Facility	Owned
Parma, Ohio	Corporate Headquarters, Technology Center, Testing Facility, Pilot Plant, Advanced Flexible Graphite Manufacturing Facility and Sales Office	Owned
Lakewood, Ohio	Natural Graphite Manufacturing Facility and Sales Office	Owned
Emporium, Pennsylvania	Advanced Graphite Materials Manufacturing	Owned
St. Marys, Pennsylvania	Graphite Electrode Manufacturing Facility	Owned
Columbia, Tennessee	Advanced Graphite Materials and Refractory Products Manufacturing, Warehousing Facility and Sales Office	Owned
Lawrenceburg, Tennessee	Refractory Products Manufacturing Facility	Owned
Port Lavaca, Texas	Needle Coke Manufacturing Facility	Owned
Clarksburg, West Virginia	Advanced Graphite Materials Manufacturing Facility and Sales Office	Owned
<i>Europe</i>		
Calais, France	Graphite Electrode Manufacturing Facility	Owned
Notre Dame, France	Advanced Graphite Materials Machine Shop and Sales Office	Owned
Malonno, Italy	Advanced Graphite Materials Manufacturing and Machine Shop and Sales Office	Owned
Moscow, Russia	Sales Office	Leased
Vyazma, Russia	Graphite Electrode Machine Shop	Leased
Pamplona, Spain	Graphite Electrode Manufacturing Facility and Sales Office	Owned
Bussigny, Switzerland	Sales Office	Leased
<i>Other International</i>		
Salvador Bahia, Brazil	Graphite Electrode and Advanced Graphite Materials Manufacturing Facility	Owned
Sao Paulo, Brazil	Sales Office	Leased
Beijing, China	Sales Office	Leased
Hong Kong, China	Sales Office	Leased
Shanghai, China	Sales Office	Leased
Monterrey, Mexico	Graphite Electrode Manufacturing Facility and Sales Office	Owned
Meyerton, South Africa	Graphite Electrode and Advanced Graphite Materials Manufacturing Facility and Sales Office	Owned

We believe that our facilities, which are of varying ages and types of construction, are in good condition, are suitable for our operations and generally provide sufficient capacity to meet our requirements for the foreseeable future.

## Item 3. Legal Proceedings

The information required by Item 3 is set forth in Note 14, "Contingencies" of the Notes to the Consolidated Financial Statements and is incorporated herein by reference.

## Item 4. Mine Safety Disclosures

- Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

#### Market Information

Our common stock is listed on the NYSE under the trading symbol "GTI." Our common stock is included in the Russell 2000 Index. The closing sale price of our common stock was \$13.65 on December 30, 2011, the last trading day of our most recent fiscal year. The following table sets forth, for the periods indicated, the high and low closing sales price per share for our common stock as reported by the NYSE.

	<u>High</u>	<u>Low</u>
2010		
First Quarter .....	\$16.34	\$11.88
Second Quarter .....	17.26	13.43
Third Quarter .....	17.10	14.06
Fourth Quarter .....	20.75	15.50
2011		
First Quarter .....	\$23.69	\$19.40
Second Quarter .....	23.20	18.53
Third Quarter .....	22.37	12.53
Fourth Quarter .....	16.65	12.34

At January 31, 2012, there were 176 stockholders of record and, we estimate, 19,365 beneficial owners.

#### Dividend Policies and Restrictions

It is the current policy of our Board of Directors to retain earnings to finance strategic and other plans and programs, conduct business operations, fund acquisitions, meet obligations and repay debt. Any declaration and payment of cash dividends or repurchases of common stock will be subject to the discretion of our Board of Directors and will be dependent upon our financial condition, results of operations, cash requirements and future prospects, the limitations contained in the Revolving Facility and other factors deemed relevant by our Board of Directors. We did not pay any cash dividends in 2010 or 2011. We periodically review our dividend policy. At the present time, there are no plans for paying cash dividends in the near future.

GTI is a holding company that derives substantially all of its cash flow from issuances of its securities and cash flows of its subsidiaries. Accordingly, GTI's ability to pay dividends or repurchase common stock from cash flow from sources other than issuance of its securities is dependent upon the cash flows of its subsidiaries and the advance or distribution of those cash flows to GTI.

Under the Revolving Facility, in general, GTI is permitted to pay dividends and repurchase our common stock in an aggregate amount (cumulative from October 2011) up to \$75 million (or \$500 million, if certain leverage ratio requirements are satisfied), plus, each year, an aggregate amount equal to 50% of the consolidated net income in the prior year.

#### Repurchases

On December 13, 2011 our Board of Directors authorized a new repurchase program for up to ten million shares of our common stock to replace an earlier program which had been completed. Purchases may take place from time to time in the open market, or through privately negotiated transactions, as market conditions warrant. In addition, upon the vesting or payment of stock awards, an employee may elect receipt of the full share amount and pay the resulting taxes, or have shares withheld to cover the tax obligation. We sometimes elect to purchase these withheld shares and pay the taxes on the employee's behalf, rather than sell the withheld shares in the open market. These repurchases are outside of the programs authorized by our Board of Directors.

During 2011, we repurchased approximately 2.2 million shares of our common stock at a total cost of \$32.1 million, which resulted in a weighted average cost of \$14.70 per share. We did not repurchase any shares under these programs during 2010 and 2009.

The following table provides information with respect to purchases made by or on behalf of us or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our common stock during the three months ended December 31, 2011:

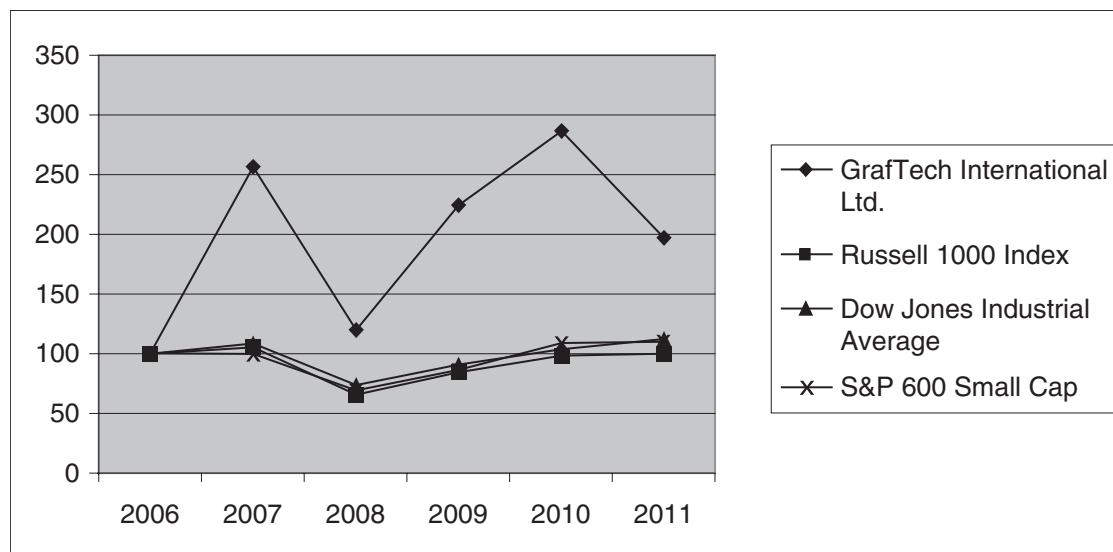
<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (2)</u>
October 1 through October 31, 2011 .....	0	0	0	2,051,905
November 1 through November 30, 2011 .....	2,051,905	\$14.59	2,051,905	0
December 1 through December 31, 2011 .....	22,134	\$14.76	0	10,000,000
Total/Average .....	2,074,039	\$14.59	2,051,905	10,000,000

(1) Includes purchases of vested restricted stock shares from employees as payment for the withholding taxes due upon the vesting or payment of stock awards.

(2) On December 13, 2011, our Board of Directors authorized a new repurchase program for up to ten million shares of our common stock.

### Performance Graph

The following graph compares the 5-year total return provided to shareholders of our common stock to the cumulative total return of the Dow Jones Industrial Average and the Russell 2000 Index. An investment of \$100 is assumed to have been made in our common stock and in each of the indexes on December 31, 2006 and its relative performance is tracked through December 31, 2011.





## Item 6. Selected Financial Data

The data set forth below should be read in conjunction with "Part I. Preliminary Notes-Important Terms", "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and Notes thereto.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	<i>(Dollars in thousands)</i>				
<b>Statement of Operations Data:</b>					
Net sales	\$1,004,818	\$1,190,238	\$659,044	\$1,006,993	\$1,320,184
Income from continuing operations (a)	162,220	184,157	15,708	174,660	153,184
Basic earnings per common share:					
Income from continuing operations	\$ 1.61	\$ 1.65	\$ 0.13	\$ 1.42	\$ 1.06
Loss from discontinued operations	(0.02)	0.00	0.00	0.00	0.00
Net income	<u>\$ 1.59</u>	<u>\$ 1.65</u>	<u>\$ 0.13</u>	<u>\$ 1.42</u>	<u>\$ 1.06</u>
Weighted average common shares outstanding					
(in thousands)	100,468	111,447	119,707	122,621	145,156
Diluted earnings per common share:					
Income from continuing operations	\$ 1.50	\$ 1.60	\$ 0.13	\$ 1.41	\$ 1.05
Loss from discontinued operations	(0.02)	0.00	0.00	0.00	0.00
Net income	<u>\$ 1.48</u>	<u>\$ 1.60</u>	<u>\$ 0.13</u>	<u>\$ 1.41</u>	<u>\$ 1.05</u>
Weighted average common shares outstanding					
(in thousands)	116,343	119,039	120,733	123,453	146,402
<b>Balance sheet data (at period end):</b>					
Total assets	\$ 875,878	\$ 943,129	\$892,608	\$1,913,183	\$2,168,366
Other long-term obligations (b)	94,010	118,272	108,267	114,728	131,300
Total long-term debt	399,586	50,557	1,467	275,799	387,624
<b>Other financial data:</b>					
Net cash provided by operating activities	\$ 130,772	\$ 248,636	\$170,329	\$ 144,922	\$ 76,597
Net cash used in investing activities	(26,525)	(209,858)	(60,110)	(321,552)	(161,966)
Net cash (used in) provided by financing activities	(199,726)	(80,215)	(72,875)	138,240	85,461

(a) Income from continuing operations by period includes

For the Year Ended December 31, 2007:

- a \$1.4 million expense for restructuring, pertaining primarily to a \$0.7 million expense associated with the phase out of our graphite electrode machining and warehousing operations in Clarksville, Tennessee and a \$0.5 million expense associated with changes in estimates of the timing and amounts of severance and related payments to certain employees in Caserta, Italy,
- a \$23.5 million expense for our incentive compensation program,
- a \$23.7 million gain from the sale of our Caserta, Italy facility,
- a \$1.3 million gain from the sale of our Vyazma, Russia facility,
- a \$13.0 million loss on extinguishment on the repurchase of Senior Notes,
- a \$2.3 million (\$0.7 million, net of tax) discontinued operations gain for purchase price adjustments related to our cathodes sale that occurred in December 2006,

- a \$1.5 million overstatement of income tax expense from continuing operations related to the correction of our invalid “check the box” tax election made for our Swiss entity in 2004,
- a \$4.4 million expense for the settlement of our pension obligations in South Africa, and
- a \$3.5 million gain for the MTM Adjustment for our pension and OPEB benefit plans.

For the Year Ended December 31, 2008:

- a \$6.8 million loss on extinguishment on the repurchase of Senior Notes,
- a \$4.1 million gain on derecognition of the our former convertible Senior Debentures (“Debentures”),
- a \$9.0 million expense for the Make-Whole provision in connection with the derecognition of the Debentures,
- a \$22.1 million expense for our incentive compensation program,
- a \$2.8 million benefit to our income tax provision for tax holidays, exemptions, and credits in various jurisdictions,
- a \$34.5 million write down of our investment in a non-consolidated affiliate and our \$1.7 million share of its losses, and
- a \$32.2 million loss for the MTM Adjustment for our pension and OPEB benefit plans.

For the Year Ended December 31, 2009:

- a \$52.8 million write down of our investment in a non-consolidated affiliate and our \$2.7 million share of its losses
- a \$4.3 million gain for the derecognition of our liability for Brazil excise tax,
- a \$1.0 million gain from the sale of our Caserta, Italy facility,
- a \$0.4 million loss on extinguishment on the repurchase of the remaining Senior Notes outstanding,
- a \$5.1 million benefit to our income tax provision for tax holidays, exemptions, and credits in various jurisdictions,
- a \$22.8 million valuation allowance expense for deferred tax assets that might not be realized, and
- a \$1.7 million loss for the MTM Adjustment for our pension and OPEB benefit plans.

For the Year Ended December 31, 2010 (Seadrift and C/G are included in our Consolidated Financial Statements beginning as of December 1, 2010):

- a \$15.2 million expense for Seadrift and C/G acquisition-related costs,
- a \$4.9 million benefit from the equity in earnings of our then non-consolidated affiliate,
- a \$9.6 million gain from the acquisition of the remaining 81.1% equity interest in our previously non-consolidated affiliate,
- a \$16.8 million expense for our incentive compensation program,
- a \$4.8 million benefit to our income tax provision for tax holidays, exemptions, and credits in various jurisdictions,
- a \$30.3 million deferred tax asset valuation allowance release as a result of the 2010 acquisitions, and
- a \$7.4 million loss for the MTM Adjustment for our pension and OPEB benefit plans.



Amortization of acquired intangibles totaling \$5.6 million.

Third Quarter

A loss of \$1.2 million for currency losses due to the remeasurement of intercompany loans,

Amortization of deferred major maintenance and repair costs totaling \$1.4 million, and

Amortization of acquired intangibles totaling \$5.7 million.

Fourth Quarter:

Amortization of deferred major maintenance and repair costs totaling \$1.4 million,

Amortization of acquired intangibles totaling \$5.7 million,

A \$26.5 million income tax benefit primarily attributable to the release of valuation allowance for foreign tax credits carryforwards which are expected to be utilized in future years

A loss of \$22.3 million for the MTM Adjustment for our pension and OPEB benefit plans; driven primarily by a decrease in the discount rate due to lower interest rates.

(b) Net income by quarter for 2010 includes the following:

First Quarter:

A loss of \$0.8 million from the equity in losses of our then non-consolidated affiliate, Seadrift, and

Income of \$3.7 million for currency gains due to the remeasurement of intercompany loans.

Second Quarter:

A \$6.6 million expense for Seadrift and C/G acquisition-related costs,

Income of \$1.7 million from the equity in earnings of our then non-consolidated affiliate, Seadrift, and

Income of \$9.0 million for currency gains due to the remeasurement of intercompany loans and the effect of transaction gains and losses on intercompany activities,

Third Quarter:

A \$5.7 million expense for Seadrift and C/G acquisition-related cost,

Income of \$1.4 million from the equity in earnings of our then non-consolidated affiliate, Seadrift, and

A loss of \$9.7 million for currency gains due to the remeasurement of intercompany loans and the effect of transaction gains and losses on intercompany activities,

Fourth Quarter:

A \$2.9 million expense for Seadrift and C/G acquisition-related costs,

Income of \$3.2 million for currency gains due to the remeasurement of intercompany loans and the effect of transaction gains and losses on intercompany activities,

A \$30.3 million benefit related to deferred tax asset valuation allowance release as a result of the acquisitions,

Income of \$2.6 million from the equity in earnings of our then non-consolidated affiliate, Seadrift,

Income of \$9.6 million relating to the gain recorded after the acquisition of the remaining 81.1% equity interest in our previously non-consolidated affiliate, Seadrift; and

A loss of \$7.4 million for the MTM Adjustment for our pension and OPEB benefit plans.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### General

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide information that is supplemental to, and should be read together with, our Consolidated Financial Statements and the accompanying notes. Information in this Item is intended to assist the reader in obtaining an understanding of our Consolidated Financial Statements, the changes in certain key items in those financial statements from year-to-year, the primary factors that accounted for those changes, any known trends or uncertainties that we are aware of that may have a material effect on our future performance, as well as how certain accounting principles affect our Consolidated Financial Statements. In addition, this Item provides information about our business segments and how the results of those segments impact our financial condition and results of operation as a whole.

### Executive Summary

On November 30, 2010, we acquired Seadrift and C/G. As a result of these acquisitions, our results of operations and MD&A analysis for 2010 include one month of activity of Seadrift and C/G, compared to a full year of operations for 2011. In February 2011 and October 2011 we acquired Micron Research Corporation and Fiber Materials, Inc., respectively. They are included in our results of operations and MD&A analysis for 2011 from their respective acquisition dates.

We have five major product categories: graphite electrodes, refractory products, needle coke products, advanced graphite materials, and natural graphite products.

**Reportable Segments.** Our businesses are reported in the following categories:

- Industrial materials, which consists of graphite electrodes, refractory products and needle coke products.
- Engineered Solutions, which includes advanced graphite materials and natural graphite products.

Reference is made to the information under "Part I" for background information on our businesses, industry and related matters.

### Global Economic Conditions and Outlook

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.

**2012 Outlook.** Global economic forecasts for 2012 were recently downgraded for the second consecutive time since June 2011 due to the slowdown in global output which began to emerge in the third quarter of 2011. The slower pace was largely attributed to the ongoing Eurozone debt crisis and its impact on other advanced and emerging countries. Also, slower growth in several emerging countries (especially China) occurred in reaction to domestic policy tightening.

Based on current projections from the International Monetary Fund and other global economic forecasts, world output is projected to expand by an average of 3.25 percent in 2012. Downside risks remain to the stability of the global recovery.

Despite the slower pace of economic growth, global steel demand is expected to grow at a moderate rate in 2012. However, operating rates in the primary markets we serve are anticipated to remain below pre-crisis levels. According to the World Steel Association's published reports, global steel operating rates decreased by four percentage points in the fourth quarter of 2011 to 74 percent capacity utilization, as compared to the third quarter of 2011. For the full year 2011, global steel operating rates were 79 percent given stronger first half production levels relative to the second half of 2011.

In the energy market, solar segment demand is anticipated to soften due to high inventories and government funding support restrictions, and is not expected to recover until 2013. However, industrial and advanced electronic segments continue to be driven by global industrialization and electronics technology expansion.

For the full year 2012, we are targeting:

- Earnings before interest, taxes, depreciation and amortization in the range of \$250 million to \$290 million;
- Overhead expense (selling and administrative, and research and development expenses) of approximately \$170 million;
- Interest expense in the range of \$18 million to \$22 million;
- Capital expenditures of approximately \$140 million to \$160 million;

- Depreciation expense of approximately \$95 million;
- An effective tax rate in the range of 23 percent to 25 percent;
- Cash flow from operations in the range of \$140 million to \$170 million;
- Fully diluted share count of approximately 145 million shares.

Our outlook could be significantly impacted by, among other things, factors described under "Item 1A – Risk Factors" and "Item 1A – Forward Looking Statements" in this Report.

## Financing Transactions

On October 7, 2011, GrafTech and certain of its subsidiaries, entered into an Amended and Restated Credit Agreement that provides for, among other things, an increase in the line of credit, an extension of the maturity date, a decrease in the cost of borrowings, and changes in financial covenants under our principal revolving credit facility ("Revolving Facility"). The following comparison highlights the principal changes to the Revolving Facility effected by the amendment and restatement:

	<u>Amended and Restated Facility</u>	<u>Facility-September 30, 2011</u>
Availability	\$570 million	\$260 million
Maturity date	October 7, 2016	April 29, 2013
Interest rate <sup>a</sup>	Either LIBOR plus a margin ranging from 1.50% to 2.25% or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 0.50% to 1.25%.	Either LIBOR plus a margin ranging from 2.50% to 3.50% or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 1.50% to 2.50%.
Commitment fee	Per annum fee ranging from 0.25% to 0.40% on the undrawn portion of the commitments under the Revolving Facility.	Per annum fee ranging from 0.375% to 0.750% on the undrawn portion of the commitments under the Revolving Facility.
Financial Covenants	Maximum senior secured leverage ratio of 2.25 to 1.00; Minimum cash interest coverage of 3.00 to 1.00.	Maximum net senior secured leverage ratio of 2.25 to 1.00; Minimum cash interest coverage of 1.75 to 1.00.

<sup>a</sup> The interest rate applicable to the Revolving Facility is at GrafTech's option. The alternate base rate is the highest of (i) the prime rate announced by JP Morgan Chase Bank, N.A., (ii) the federal effective fund rate plus ½ of 1% and (iii) the London interbank offering rate (as adjusted) for a one-month interest period plus 1%.

Under the Revolving Facility we now have additional flexibility for investments, capital expenditures, acquisitions and restricted payments. We are permitted to pay dividends and repurchase our common stock in an aggregate amount (cumulative from October 2011) up to \$75 million (or \$500 million, if certain leverage ratio requirements are satisfied), plus, each year, an aggregate amount equal to 50% of the consolidated net income in the prior year and issue letters of credit under the Revolving Facility in an amount not to exceed \$50 million.

At December 31, 2011, we had outstanding borrowings of \$232.0 million and outstanding letters of credit of \$8.4 million under this Revolving Facility.

On November 30, 2010, in connection with the acquisitions of Seadrift and C/G, we issued Senior Subordinated Notes for an aggregate total face amount of \$200 million. These Senior Subordinated Notes are non-interest bearing and mature in 2015, see Note 2 "Acquisitions". Because the promissory 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 promissory notes and their present value is recorded as debt discount. The debt discount will be amortized to income using the interest method, over the life of the promissory notes. The loan balance, net of unamortized discount, was \$153.4 million at December 31, 2011.

During 2008, we entered into a supply chain financing arrangement, as discussed in more detail under "Liquidity and Capital Resources," below. Our purchases of inventory under this arrangement were \$186.7 million in 2010 and \$169.1 million in 2011.

On occasion we sell accounts receivable without recourse to a third party. We did not sell any receivables during 2010 or 2011. See "Liquidity and Capital Resources" below for further discussion.

## **Proceedings Against Us**

We are involved in various investigations, lawsuits, claims, demands, environmental compliance programs, labor disputes 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 and proceedings, we do not believe that their ultimate disposition will have a

material adverse effect on our financial position, results of operations or cash flows.

There is litigation pending in Brazil involving disputes arising out of the interpretation of certain collectively bargained wage increase provisions applicable in 1989 and 1990 to employers (including our subsidiary in Brazil) in the Bahia region of Brazil. We are not currently party to any of the litigation involving the interpretation of the wage increase provisions at issue; however, litigation is pending against other employers in the region and we have learned that several companies in Brazil have recently settled claims arising out of these provisions. While the most recent ruling on the subject by the Supreme Court of Brazil has held that such provisions are not enforceable, and thus employers are not liable for the wage increases claimed on behalf of employees, further proceedings are pending seeking to reverse that ruling and there have been changes in the composition of the Supreme Court in the interim. While we cannot predict the outcome of the pending proceedings, if the Supreme Court reverses its prior decision and declares the wage increase provisions enforceable, claims could be filed against our Brazilian subsidiary which could become substantial.

## **Realizability of Net Deferred Tax Assets and Valuation Allowances**

At December 31, 2011 we had \$132.9 million of gross deferred income tax assets, of which \$25.5 million required a valuation allowance. In addition, we had \$123.2 million of gross deferred income tax liabilities. Our valuation allowance means that we do not believe that these assets are more likely than not to be realized. Until we determine that it is more likely than not that we will generate sufficient taxable income to realize our deferred income tax assets, income tax benefits in each current period will be fully reserved.

Our valuation allowance, which is predominately in the U.S. tax jurisdiction, does not affect our ability and intent to utilize the deferred income tax assets as we generate sufficient future profitability. We are executing current strategies and developing future strategies, to improve sales, reduce costs and improve our capital structure in order to improve U.S. taxable income of the appropriate character to a level sufficient to fully realize these benefits in future years.

## Customer Base

We are a global company and sell our products in every major geographic market. Sales of these products to buyers outside the U.S. accounted for about 82% of net sales in 2009, 80% in 2010, and 73% in 2011. In 2011, four of our ten largest customers were based in the United States, two in Europe, and one each Korea, China, Africa, and Turkey.

In 2011, nine of our ten largest customers were purchasers of our Industrial Materials products. No single customer or group of affiliated customers accounted for more than 10% of our net sales in 2011.

## Results of Operations and Segment Review

**2011.** Total steel production in 2011 peaked mid-year while the latter half of the year saw significant slowdowns. The World Steel Association reported fourth quarter 2011 total world steel production declined approximately 5 percent versus the third quarter of 2011, with Europe accounting for much of this slowdown. Beginning in the third quarter of 2011, there was a significant drop off in solar production which negatively impacted our Engineered Solutions segment.

**2010.** For most of 2010, companies across the world demonstrated, to varying degrees, a gradual recovery from the reduced production levels experienced during the 2009 global economic downturn. In 2010 we achieved our second highest net sales in our Engineered Solutions segment in our Company's history as demand for our products increased. The graphite electrode restocking initiative, which began in the second half of 2009 continued throughout much of the year in our Industrial Materials segment. Further, EAF capacity utilization rates increased in 2010.

On November 30, 2010, we consummated the acquisitions of Seadrift, a needle coke supplier, and C/G, a producer of graphite electrodes and related products, pursuant to the April 28, 2010 agreements and plans of merger, as described further in Note 2, "Acquisitions" of the Notes to the Consolidated Financial Statements. The consideration paid to the former owners of Seadrift and C/G aggregated \$936.7 million and consisted of cash, shares of our common stock and Senior Subordinated Notes. These businesses are now incorporated into our existing Industrial Materials segment. With the acquisition of

Seadrift we have added another major product category, needle coke products, to the Industrial Materials segment. The analysis below includes the results of operations for Seadrift and C/G for the month of December 2010.

Pursuant to the Seadrift Merger, we acquired from the equity holders of Seadrift the 81.1% of the equity interests in Seadrift that we did not already own. Seadrift is one of the world's largest manufacturers of petroleum-based needle coke and owns the world's only known stand-alone petroleum-based needle coke plant, located in Port Lavaca, Texas. In addition to calcined needle coke, the plant produces naphtha, gas oil and electricity as by-products.

For further discussion on the acquisitions see Note 2, "Acquisitions" of the Notes to the Consolidated Financial Statements.

**2009.** For most of 2009 companies across the world experienced the deepest global downturn in recent history. We weathered the 2009 economic recession despite declines in shipments in both our Industrial Materials and Engineered Solutions segments. We remained profitable by adjusting our production to meet customer orders and aggressively controlling costs. We used existing supplies of raw materials which allowed us to conserve cash and reduce our debt.

In September 2009 signs of a slow recovery in the steel industry began to emerge. Government stimulus programs around the world resulted in modest growth in several economies resulting in our customers replenishing inventories in order to meet slightly higher utilization rates for steel production. In the second half of 2009 customers restocked their depleted inventories of graphite electrodes in order to meet increasing demand.

The World Steel Association estimates that worldwide steel production was about 1.2 billion metric tons in 2009, an 8.1% decrease compared to 2008. China, which accounted for 47% of the total, increased 21.5% compared to 2008. Non-Chinese steel production rose from an average of about 45 million tons per month in the first few months of 2009 to about 60 million tons per month by the end of 2009. While production levels rose in the last half of 2009 compared to the first half, they did not reach the levels of the first half of 2008.



We believe that the worldwide total graphite electrode manufacturing capacity for 2009 was 1.57 million metric tons and that the graphite electrode industry manufacturing capacity utilization rate worldwide was approximately 50% for 2009.

Demand for our engineered solutions products decreased in 2009 as a result of the global recession. We experienced lower sales volume across multiple product lines. We expect our Engineered Solutions segment to begin to recover in the second half of 2010.

The tables presented in our year-over-year comparisons summarize our consolidated statements of income and illustrate key financial indicators used to assess the consolidated financial results. Financial information is presented for the years ended December 31, 2009, 2010, and 2011. Throughout our MD&A, percentage changes that are less than 5% or less than \$1.0 million, are deemed to be not meaningful and are designated as "NM".

### Results of Operations for 2011 as Compared to 2010

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

	<u>2010</u>	<u>2011</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Net sales	\$1,006,993	\$1,320,184	\$313,191	31
Cost of sales	717,742	995,638	277,896	39
Gross profit	289,251	324,546	35,295	12
Research and development	12,202	13,976	1,774	15
Selling and administrative expenses	119,009	144,561	25,552	21
Operating income	158,040	166,009	7,969	5
Equity in earnings of, write-down of investment in and gain recorded on non-consolidated affiliate	(14,500)	0	14,500	(100)
Other (income) expense, net	(4,768)	4,835	9,603	(201)
Interest expense	5,076	18,307	13,231	261
Interest income	(1,333)	(424)	(909)	NM
Income before provision for income taxes	173,565	143,291	(30,274)	(17)
(Benefit) provision for income taxes	(1,095)	(9,893)	(8,798)	803
Net income	<u>\$ 174,660</u>	<u>\$ 153,184</u>	<u>\$ (21,476)</u>	(12)
Basic income per common share	\$ 1.42	\$ 1.06	\$ (0.36)	
Diluted income per common share	\$ 1.41	\$ 1.05	\$ (0.36)	

Net sales. Net sales by operating segment for the years ended December 31, 2010 and 2011 were:

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

	<u>2010</u>	<u>2011</u>	<u>Increase</u>	<u>% Change</u>
Industrial materials	\$ 833,892	\$1,132,194	\$298,302	36
Engineered solutions	173,101	187,990	14,889	9
Total net sales	<u>\$1,006,993</u>	<u>\$1,320,184</u>	<u>\$313,191</u>	31

We experienced higher sales for both of our operating segments in 2011. Our Industrial Materials operating segment had increased sales primarily due to the inclusion of Seadrift and C/G for the full year in 2011,

which contributed approximately \$198.0 million of sales in 2011. Our Engineered Solutions segment had sales increases, primarily due to increased volumes of Electro Thermal Management ("ETM") products.

Our analysis of the percentage change in net sales from 2010 to 2011 for Industrial Materials and Engineered Solutions is set forth in the following table:

	<u>Volume</u>	<u>Price/Mix</u>	<u>Currency</u>	<u>Net Change</u>
Industrial Materials . . . . .	39%	(5%)	2%	36%
Engineered Solutions . . . . .	6%	2%	1%	9%

*Net sales.* Sales for the Industrial Materials segment increased significantly in 2011 when compared to 2010 due to higher graphite electrode sales volume, as well as the inclusion of needle coke products for all of 2011, compared to only one month in 2010. Partially offsetting this increased demand, the weighted average selling price of our melter and non-melter graphite electrodes decrease by approximately 2%, exclusive of currency impacts, in 2011 when compared to 2010. Our Engineered Solutions segment also saw an increase in volumes, in 2011, coupled with a favorable product mix due to increased ETM sales.

We are parties to contracts with ConocoPhillips through December 2013 for the supply of petroleum needle coke, our primary raw material used in the manufacture of graphite electrodes. The agreements provide for quantities of needle coke which we believe, together with needle coke that we source from Seadrift and other sources, are sufficient for our requirements as currently forecast. These supply agreements also contain customary terms and conditions including annual price negotiations, dispute resolution and termination provisions. In July 2011, ConocoPhillips announced that its board approved separating its refining and marketing and exploration and production businesses by spinning off the refining and marketing segment to shareholders. We do not believe that such separation will have an adverse impact on these needle coke supply agreements.

Due to rising costs, we announced price increases to customers for normal premium grade needle coke and graphite electrodes during 2011. These price increases did not have a material impact to 2011 results as the majority of our 2011 business was booked prior to the announced price increases. However, these increases should better position us to manage margins and rising costs in 2012.

*Research and development.* Research and development expense year-over-year increased \$1.8 million, driven by the difference in the MTM Adjustment impact (\$2.1 million expense in 2011; \$0.3 million in 2010).

*Cost of sales.* The primary drivers of the increase in cost of sales were increases in shipments of our products of \$187.7 million and in production costs of \$51.1 million and an unfavorable foreign currency impact of \$18.9 million, across both of our segments during 2011 when compared to 2010. The year-over-year difference in the MTM Adjustment had an unfavorable impact of \$6.1 million (\$11.0 million expense in 2011; \$4.9 million expense in 2010). The 2011 cost of sales also included amortization expense related to the technology intangible assets of \$6.5 million, compared to \$0.5 million in 2010. This increase was a result of a full year of amortization in 2011 compared to only one month in 2010.

*Selling and administrative expenses.* Selling and administrative expenses increased as a result of a higher MTM adjustment in 2011 compared to 2010. The 2011 MTM charge was \$7.0 million more than the 2010 amount (\$9.2 million in 2011; \$2.2 million in 2010). The amortization of intangibles increased selling and administrative expense by \$15.3 million year-over-year, due to a full year of amortization in 2011 compared to only one month in 2010. We also experienced higher overhead expense due to increases in sales and marketing coverage to support internal growth initiatives during 2011 when compared to 2010. These increases in selling and administrative costs were offset by a decline in

acquisition costs (i.e., advisory, legal, valuation, other professional fees, etc.). These acquisition costs represented \$0.7 million of expense in 2011, compared to \$15.2 million in 2010.

*Equity in losses (earnings) of, write-down of investment in and gain recorded on acquisition of non-consolidated affiliate.* We acquired an 18.9% interest in Seadrift on June 30, 2008, and subsequently acquired the remaining 81.1% of the equity interests in Seadrift on November 30, 2010. As a result of the acquisition of the remaining 81.1% of the equity interests in Seadrift, accounting guidance requires us to re-measure the book value of our previously held 18.9% equity interest at the acquisition date to fair value and recognize the resulting gain in our 2010 earnings. We recorded a \$9.6 million non-cash gain in our 2010 earnings. Our equity in Seadrift earnings for 2010 was \$4.9 million.

*Other (income) expense.* Other (income) expense was expense of \$4.8 million in 2011, compared to income of \$4.8 million in 2010, due in large part to currency losses of \$2.6 million in 2011, compared to currency gains of \$6.2 million in 2010.

*Interest expense.* Interest expense increased in 2011 increased \$13.2 million compared to 2010, driven primarily by the amortization of the discount recorded with the issuance of the Senior Subordinated Notes. This amortization totaled \$10.0 million in 2011, compared to \$0.8 million in 2010. Interest incurred on the Revolving Facility increased \$4.8 in million in 2011 as a result of higher debt balances throughout the year.

*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 years ended December 31, 2010 and 2011:

	<b>For the Year ended December 31,</b>	
	<b>2010</b>	<b>2011</b>
	<i>(Dollars in thousands)</i>	
Industrial Materials . . . . .	\$ 140,217	\$158,547
Engineered Solutions . . . . .	17,823	7,462
Total segment operating income . . . . .	<u>\$158,040</u>	<u>\$166,009</u>

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

	<b>Operating Expenses (Percentage of sales)</b>		
	<b>2010</b>	<b>2011</b>	<b>Change</b>
Industrial Materials . . . .	83%	86%	3%
Engineered Solutions . .	90%	96%	6%

Segment operating costs and expenses as a percentage of sales for Industrial Materials increased three percentage points, which resulted from an increase of \$280.0 in total operating costs and expenses year over year. The increase was primarily a result of volume increases (including the effect of the additional volume from the acquisitions) of \$182.5 million, higher production costs of \$55.6 million, and unfavorable currency exchange of \$17.4 million. The amortization of intangibles from the 2010 acquisitions of Seadrift and St. Marys caused \$20.6 million of additional expense in 2011 compared to 2010. Further, the MTM adjustment related to our Industrial Materials segment, including the allocation of the corporate MTM, increased \$6.4 million in 2011 compared to 2010.

Segment operating costs and expenses as a percentage of sales for Engineered Solutions increased six percentage point to 96% in 2011 when compared to 2010. Total operating costs and expenses, increased \$25.3 million year over year. The increase was primarily a result of increases in volume of \$5.1 million, including the acquisitions of Emporium and FMI, as well as \$10.9 million in additional costs related to a shift in product mix, driven by increased ETM sales. Further, the MTM adjustment related to our Engineered Solutions segment, including the allocation of the corporate MTM, increased \$8.5 million in 2011 compared to 2010.

*Provision for income taxes.*

The following table summarizes the (benefit) for income taxes for the years ended December 31, 2010 and 2011:

	<b>For the Year Ended December 31</b>	
	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>	
Tax (Benefit) .....	\$ (1,095)	\$ (9,893)
Pretax Income .....	\$173,565	\$143,291
Effective Tax Rates .....	(0.6%)	(6.9%)

The current year effective tax rate differs from the U.S statutory rate of 35% due to jurisdictional mix of income and changes in the utilization of attributes and related valuation allowances associated with current year income. We realized an additional income tax benefit of \$26.5 million, primarily attributable to the release of valuation allowance for foreign tax credits carryforwards which are expected to be utilized in future years.

In 2010, as a result of our November 2010 acquisitions, we were in an overall net deferred tax liability position and released \$30.3 million of valuation allowance which reduced our 2010 provision for income taxes.

**Results of Operations for 2010 as Compared to 2009**

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

	<u>2009</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Net sales .....	\$659,044	\$1,006,993	\$347,949	53
Cost of sales .....	469,397	717,742	248,345	53
Gross profit .....	189,647	289,251	99,604	53
Research and development .....	9,390	12,202	2,812	30
Selling and administrative expenses .....	79,929	119,009	39,080	49
Operating income .....	100,328	158,040	57,712	58
Equity in losses (earnings) of, write-down of investment in and gain recorded on non-consolidated affiliate .....	55,488	(14,500)	(69,988)	(126)
Other expense (income), net .....	1,868	(4,768)	(6,636)	(355)
Interest expense .....	5,609	5,076	(533)	NM
Interest income .....	(1,047)	(1,333)	286	NM
Income before provision for income taxes .....	38,410	173,565	135,155	352
Provision (benefit) for income taxes .....	22,702	(1,095)	(23,797)	(105)
Net income .....	<u>\$ 15,708</u>	<u>\$ 174,660</u>	<u>\$158,952</u>	1,012
Basic income per common share .....	\$ 0.13	\$ 1.42	\$ 1.29	
Diluted income per common share .....	\$ 0.13	\$ 1.41	\$ 1.28	

*Net sales.* Net sales by operating segment for the years ended December 31, 2009 and 2010 were:

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

	<u>2009</u>	<u>2010</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Industrial materials .....	\$ 538,126	\$ 833,892	\$295,766	55
Engineered solutions .....	120,918	173,101	52,183	43
Total net sales .....	<u>\$659,044</u>	<u>\$1,006,993</u>	<u>\$347,949</u>	53

We experienced higher sales for both of our operating segments as a result of the improved global economic conditions in 2010. Our Industrial Materials operating segment benefitted from the restocking efforts of many of our customers, which began in the second half of 2009 and continued through 2010, as well as the

inclusion of Seadrift and C/G for the month of December 2010. Our Engineered Solutions segment also saw benefits as a result of the recovering economy, as customers started the reordering process in response to increasing orders and production.

Our analysis of the percentage change in net sales from 2009 to 2010 for Industrial Materials and Engineered Solutions is set forth in the following table:

	<u>Volume</u>	<u>Price/Mix</u>	<u>Currency</u>	<u>Net Change</u>
Industrial Materials .....	65%	(6%)	(4%)	55%
Engineered Solutions .....	48%	(3%)	(2%)	43%

*Net sales.* Sales for the Industrial Materials segment increased significantly in 2010 when compared to 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 7%, exclusive of currency impacts, in 2010 when compared to 2009. Higher period over period electrode sales volumes are expected to continue to mitigate, in part, the lower electrode pricing. Our Engineered Solutions segment also saw a significant increase in volumes in 2010, offset slightly by an unfavorable price/mix, and currency impacts.

Needle coke is the primary raw material in the manufacture of graphite electrodes. We have traditionally purchased 70% to 80% of our needle coke requirements from one supplier under contracts with one-year firm 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 for 2010 when compared to 2009. Higher volumes increased our fixed costs absorption in 2010, partially offsetting the higher needle coke cost.

*Cost of sales.* The primary drivers of the increase in cost of sales were increases in shipments of our products of \$198.8 million, production costs of \$28.9 million and unfavorable foreign currency impact of \$7.6 million, across both of our segments during 2010 when compared to 2009. The year-over-year difference in the MTM Adjustment had an unfavorable impact of \$0.8 million (\$4.9 million expense in 2010; \$4.1 million expense in 2009). The 2010 cost of sales also included the amortization expense related to the technology intangible asset acquired in the acquisitions of Seadrift and C/G of \$0.5 million. The global recession led to a dramatic decline in the demand for, and corresponding production of, graphite electrodes during the first nine months of 2009. Our production volume began increasing in the second half of 2009 and continued to increase in the first half of 2010 before leveling off in the second half of the year as our customers ramped up production from the low levels experienced during the first half of 2009.

In recent years, we historically purchased 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 our annual discussions with ConocoPhillips regarding our future needle coke requirements, including potential changes in such needs as a result of our then 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, the agreements were terminated effective as of December 31, 2010 and we have entered into three-year supply agreements for the supply of needle coke. We believe the estimated quantities under the replacement agreements will be sufficient for our forecast raw material requirements. In July 2011, ConocoPhillips announced that its board approved separating its refining and marketing and exploration and production businesses by spinning off the refining and marketing segment to shareholders. We do not believe that such separation will have an adverse impact on these needle coke supply agreements.

*Research and development.* The year-over-year difference in the MTM Adjustment had an unfavorable impact of \$0.9 million (\$0.3 million expense in 2010; \$0.6 million benefit in 2009).

*Selling and administrative expenses.* Acquisition costs (i.e., advisory, legal, valuation, other professional fees, etc.) associated with our acquisitions of Seadrift and C/G represented \$15.2 million in 2010. We also experienced higher overhead expense due to increases in sales and marketing coverage to support internal growth initiatives during 2010 when compared to 2009. Other increases year over year related to our stock-based compensation expense which increased \$3.7 million, commission expense related to increased sales of \$1.6 million and the amortization expense incurred related to the customer list and trade names intangible assets acquired in the acquisitions of Seadrift and C/G of \$1.4 million. The year-over-year difference in the MTM Adjustment had an unfavorable impact of \$4.6 million (\$2.2 million expense in 2010; \$2.4 million benefit in 2009).

*Equity in losses (earnings) of, write-down of investment in and gain recorded on acquisition of non-consolidated affiliate.* We acquired an 18.9% interest in Seadrift on June 30, 2008, and subsequently acquired the remaining 81.1% of the equity interests in Seadrift on November 30, 2010. As a result of the acquisition of the remaining 81.1% of the equity interests in Seadrift, accounting guidance requires us to re-measure the book value of our previously held 18.9% equity interest at the acquisition date to fair value and recognize the resulting gain in our 2010 earnings. We recorded a \$9.6 million non-cash gain in our 2010 earnings.

Our equity in the earnings of Seadrift for 2010 was \$4.9 million as compared to equity in losses of \$2.7 million in 2009. Additionally, in June 2009, we performed an assessment of our investment for impairment and 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 non-cash impairment to recognize this other than temporary loss in value.

*Other (income) expense.* Other (income) expense was income of \$4.8 million in 2010, compared to an expense in 2009 of \$1.9 million, due in large part to favorable currency gains of \$6.2 million in 2010 compared to losses of \$0.5 million in 2009.

*Interest expense.* Interest expense decreased in 2010 as a result of the low long term debt levels carried through 2010 when compared to the debt levels maintained throughout 2009. We expect our interest expense to increase in 2011 due to higher draws on our Revolving Facility and the amortization of the discount recorded with the issuance of the Senior Subordinated Notes.

*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 years ended December 31, 2009 and 2010:

	<b>For the Year ended December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(Dollars in thousands)</i>	
Industrial Materials . . . . .	\$ 86,586	\$140,217
Engineered Solutions . . . . .	13,742	17,823
Total segment operating income . . . . .	<u>\$100,328</u>	<u>\$ 158,040</u>

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

	<b>Operating Expenses (Percentage of sales)</b>		
	<b>2009</b>	<b>2010</b>	<b>Change</b>
Industrial Materials . . . .	84%	83%	(1%)
Engineered Solutions . .	89%	90%	1%

Segment operating costs and expenses as a percentage of sales for Industrial Materials decreased one percentage point. However, total operating costs and expenses increased \$242.1 million year over year. The increase was primarily a result of volume increases (including the effect of the additional volume from the acquisitions) of \$175.2 million, higher production costs of \$27.8 million, unfavorable currency exchange of \$9.3 million and acquisition costs incurred of \$15.2 million.

Segment operating costs and expenses as a percentage of sales for Engineered Solutions increased one percentage point to 90% in 2010 when compared to 2009. Total operating costs and expenses, increased \$48.1 million year over year. The increase was primarily a result of increases in volume of \$39.3 million which were offset by favorable currency of \$1.7 million.

*Provision for income taxes.*

The following table summarizes the provision (benefit) for income taxes for the years ended December 31, 2009 and 2010:

	<b>For the Year Ended December 31</b>	
	<b>2009</b>	<b>2010</b>
	<i>(Dollars in thousands)</i>	
Tax Expense (Benefit) . . . . .	\$22,702	\$ (1,095)
Pretax Income . . . . .	\$38,410	\$173,565
Effective Tax Rates . . . . .	59.1%	(0.6%)

In 2010, as a result of our November 2010 acquisitions, we were in an overall net deferred tax liability position and released \$30.3 million of our deferred tax valuation allowance which reduced our 2010 provision for income taxes. The 2009 tax rate was negatively impacted primarily by an increase in the valuation allowance of \$22.8 million as a result of the impairment of our investment in Seadrift and the establishment of accruals for uncertain tax positions of \$6.1 million.

**Effects of Inflation**

We incur costs in the U.S. and each of the seven non-U.S. countries in which we have a manufacturing facility. In general, our results of operations, cash flows and financial condition are affected by the effects of inflation on our costs incurred in each of these countries.

**Currency Translation and Transactions**

We translate the assets and liabilities of our non-U.S. subsidiaries into U.S. dollars for consolidation and reporting purposes in accordance with FASB ASC 830, *Foreign Currency Matters*. Foreign currency translation adjustments are generally recorded as part of stockholders' equity and identified as part of accumulated other comprehensive loss on the Consolidated Balance Sheets until such time as their operations are sold or substantially or completely liquidated.

We account for our Russian, Swiss and Mexican subsidiaries using the dollar as the functional currency, as sales and purchases are predominantly dollar-denominated. Our remaining subsidiaries use their local currency as their functional currency.

We also record foreign currency transaction gains and losses from non-permanent intercompany balances as part of other (income) expense, net.

Significant changes in currency exchange rates impacting us are described under "Effects of Changes in Currency Exchange Rates" and "Results of Operations."

**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 2011, the average exchange rate of the Brazilian real, the euro, the South African rand and the Japanese yen to the U.S. dollar increased by 5%, 5%, 1%, and 10%, respectively. During 2010, the average exchange rates for the Brazilian real and the South African rand compared to the U.S. dollar increased significantly, about 12% and 14%, respectively, when compared to 2009 rates compared to the U.S. dollar. Also during 2010, the Japanese yen increased roughly 7% compared to the U.S. dollar, while the euro decreased about 5%, as compared to 2009 rates against the U.S. dollar.

For net sales of industrial materials, the impact of these events was a decrease of \$1.4 million in 2009, a decrease of \$20.4 million in 2010 and an increase of \$16.1 million in 2011. For the cost of industrial materials, the impact of these events was an increase of \$3.1 million in 2009, an increase of \$9.3 million in 2010 and an increase of \$17.4 million in 2011.

As part of our cash management, we have intercompany loans between some of 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 Income.

We had a net total currency loss of \$0.5 million in 2009, a net total currency gain of \$6.2 million in 2010, and a net total currency loss of \$2.6 million in 2011 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 7A—Quantitative and Qualitative Disclosures about Market Risks."

## Liquidity and Capital Resources

We believe that we have adequate liquidity to meet all of our present needs. Future disruptions in the U.S. and international financial markets, however, could adversely affect the cost and availability of financing to us in the future.

At December 31, 2011, we had cash and cash equivalents of \$12.4 million, long-term debt of \$387.6 million, short-term debt of \$14.2 million and stockholders' equity of \$1,340 million. We also had \$322.1 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 expend capital to support our operating and strategic plans. Such expenditures include investments to meet regulatory and environmental requirements, maintain capital assets, develop new products or improve existing products, make acquisitions, and to enhance capacity or productivity. Many of the associated projects have long lead-times and require commitments in advance of actual spending. We are targeting capital expenditures to be in the \$140 million to \$160 million range for 2012.

Our sources of funds have consisted principally of cash flow from operations and debt, including our Revolving Facility. Our uses of those funds (other than for operations) have consisted principally of capital expenditures, the repurchase of common shares outstanding, cash paid for acquisitions and expenses thereof, our equity investment in a non-consolidated affiliate, and debt reduction payments and other obligations. During 2009, certain subsidiaries sold receivables totaling \$32.1 million. We did not sell any receivables under this arrangement during 2010 or 2011.

We have 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 a third-party 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"). 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. We purchased approximately \$186.7 million and \$169.1 million of inventory under this arrangement in 2010 and 2011, respectively. In connection with these purchases, we incurred a Mark-Up of approximately \$1.5 million and \$1.0 million in 2010 and 2011, respectively.

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 increased borrowings under our Revolving Facility.

We use cash flow from operations, funds from receivable and payable factoring arrangements and funds available under the Revolving Facility (subject to continued compliance with the financial covenants and representations under the Revolving Facility) as well as cash on hand as our primary sources of liquidity. The Revolving Facility is secured, and provides for maximum borrowings of up to \$570 million including a letters of credit sub-facility of up to \$50 million and, subject to certain conditions (including a maximum senior secured leverage ratio test). The Revolving Facility matures in October 2016.

On December 2, 2011 Moody's Investors Services upgraded our corporate rating one notch from a Ba2 to a Ba1. Moody's also raised its rating for our new \$570 million Credit Facility to Baa3 (investment grade) from Ba1. Our S&P corporate rating remains consistent at BB+. 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.

At December 31, 2011, 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 3.00 to 1.00 and a maximum 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.

All banks in our credit facility currently have Standard & Poor's ("S&P") ratings of BBB or better and Moody's ratings of Baa1 or better. Based on these ratings and the remaining term of the Revolving Facility, we do not anticipate that our availability under this facility would be reduced prior to its maturity.

At December 31, 2011, approximately 39% of our debt consists of fixed rate or zero interest rate obligations compared to 53% at December 31, 2010.

Our foreign subsidiaries have local lines of credit for working capital purposes. The total amount available under these lines of credit approximated \$13.2 million at December 31, 2011.

**Long-Term Contractual, Commercial and Other Obligations and Commitments.** The following tables summarize our long-term contractual obligations and other commercial commitments at December 31, 2011.

	<b>Payments Due by Year Ending December 31,</b>				
	<b>Total</b>	<b>2012</b>	<b>2013- 2014</b>	<b>2015- 2016</b>	<b>2017+</b>
	<i>(Dollars in thousands)</i>				
<b>Contractual and Other Obligations</b>					
Long-term debt	\$387,624	\$ 246	\$ 487	\$385,883	\$ 1,008
Leases	5,899	2,276	3,247	376	0
Purchase obligations (a)	385,759	249,701	136,058	0	0
Total contractual obligations	779,282	252,223	139,792	386,259	1,008
Postretirement, pension and related benefits (b)	105,470	15,840	30,910	26,223	32,497
Other long-term obligations	24,202	3,859	11,113	884	8,346
Uncertain income tax provisions	16,195	221	2,848	12,486	640
Total contractual and other obligations (a)(b)	<u>\$925,149</u>	<u>\$272,143</u>	<u>\$184,663</u>	<u>\$425,852</u>	<u>\$42,491</u>
<b>Other Commercial Commitments</b>					
Letters of credit (c)	\$ 8,402	\$ 7,793	\$ 552	\$ 57	\$ 0
Guarantees	2,215	2,186	0	0	29
Total other commercial commitments	<u>\$ 10,617</u>	<u>\$ 9,979</u>	<u>\$ 552</u>	<u>\$ 57</u>	<u>\$ 29</u>

(a) Based on the estimated timing of deliveries under supply contracts.

(b) Represents estimated postretirement, pension and related benefits obligations based on actuarial calculations.

(c) Letters of credit of \$8.4 million are issued under the Revolving Facility.

**Cash Flow and Plans to Manage Liquidity.** Our business strategies include efforts to enhance our capital structure by further reducing our gross obligations to enable us to pursue strategic growth opportunities that may arise. 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.

We had positive cash flow from operating activities during 2009, 2010, and 2011. Although the global economic environment experienced significant swings in these three years, our aggressive working capital management and cost-control initiatives allowed us to remain operating cash flow positive in both times of declining and improving operating results.

Certain of our obligations could have a material impact on our liquidity. Cash flow from operations and from financing activities services payment of our obligations, thereby reducing funds available to us for other purposes. At December 31, 2011, we had \$322.1 million of additional borrowing capacity under the Revolving Facility. Continued improvement, or another downturn in the global economy may require increased borrowings under our Revolving Facility, particularly if our supply chain financing arrangement is terminated. An improving economy, while resulting in improved results of operations, could require significant cash requirements to purchase inventories, make capital expenditures, 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.

Based on expected operating results and expected cash flows, we expect to be in compliance with our existing financial covenants in 2012.

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.

On December 13, 2011 our Board of Directors authorized a new repurchase program for up to ten million shares of our common stock to replace an earlier program which had been completed. Purchases may take place from time to time in the open market, or through privately negotiated transactions, as market conditions warrant. In addition, upon the vesting or payment of stock awards, an employee may elect receipt of the full share amount and pay the resulting taxes, or have shares withheld to cover the tax obligation. We sometimes elect to purchase these withheld shares and pay the taxes on the employee's behalf, rather than sell the withheld shares in the open market. These repurchases are outside of the programs authorized by our Board of Directors.

**Off-Balance Sheet Arrangements and Commitments.** We have not undertaken or been a party to any material off-balance-sheet financing arrangements or other commitments (including non-exchange traded contracts), other than:

- Notional amount of foreign exchange and commodity contracts.
- Commitments under non-cancelable operating leases that, at December 31, 2010, totaled no more than \$2.5 million in each year

and \$6.7 million in the aggregate, and at December 31, 2011, totaled no more than \$2.3 million in each year and \$5.9 million in the aggregate.

- Letters of credit outstanding under our Revolving Facility of \$8.4 million at December 31, 2011.

We are not affiliated with or related to any special purpose entity other than GrafTech Finance, our wholly-owned and consolidated finance subsidiary.

### Cash Flows.

The following is a discussion of our cash flow activities:

Years Ended December 31,		
2009	2010	2011
<i>(Dollars in millions)</i>		

Cash flow provided by  
(used in):

Operating activities . . .	\$170.3	\$ 144.9	\$ 76.6
Investing activities . . . .	(60.1)	(321.6)	(162.0)
Financing activities . . . .	(72.9)	138.2	85.5

### 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; write-down of our investment in our non-consolidated affiliate; stock-based compensation charges; equity in losses of our previously non-consolidated affiliate
- Gains and losses attributed to investing and financing activities such as gains and losses on the sale of assets and currency (gains) and losses
- Changes in operating sort and long-term 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

Although net income in 2009 was directly impacted by the severe economic recession, operating cash flow in 2009 was \$170.3 million, driven primarily by changes in working capital. During 2010, although the global economy began to recover, our improved operating results were negatively impacted by increased inventory purchases and the build of accounts receivable as business ramped to near pre-recessionary levels. This resulted in a \$25.4 million decrease in operating cash flow, despite the improved economic operating environment. This trend continued in 2011, as operating cash flow decreased an additional \$68.3 million in 2011. This decrease in operating cash flow was again the result of inventory purchases and build of accounts receivable.

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.

In 2011, changes in working capital resulted in a net use of funds of \$142.6 million which was impacted by:

- use of funds of \$68.5 million from the increase in accounts receivable, which was due primarily to increased sales for the period;
- use of funds for inventories of \$111.4 million primarily due to the increased sales volume; and
- source of funds of \$39.4 million from an increase in accounts payable and accruals, primarily tax driven, through normal operations and inventory purchases.

Operating cash flow also included cash outflows of \$7.6 million for contributions to pension and post retirement plans.

In 2010, changes in working capital resulted in a net use of funds of \$41.8 million which was impacted by:

- use of funds of \$40.9 million from the increase in accounts receivable, including the effect of

factoring for \$1.1 million, which was due primarily to increased sales for the period;

- use of funds for inventories of \$13.6 million primarily due to the increased sales volume; and
- source of funds of \$15.0 million from an increase in accounts payable and accruals through normal operations and inventory purchases.

Other items that affected our operating cash flow included cash outflows of \$3.2 million for contributions to pension and post retirement plans, and \$15.2 million of customary acquisition related expenses.

In 2009, changes in working capital resulted in a net source of funds of \$67.6 million which was impacted by:

- cash inflows from a \$33.9 million decrease in accounts receivable, net of factoring of \$(24.3) million, which was primarily attributable to decreased sales, credit risk policies, and cash collection efforts;
- cash inflows of \$69.6 million from the reduction of inventories which was primarily due to decreased purchases of raw materials as a result of decreased sales; and
- cash outflows of \$21.2 million for accounts payable due to the decrease in inventory purchases and the timing of payments.

Other items that affected our operating cash flow included:

- cash inflows from Federal income tax refunds of \$3.7 million;
- cash outflows of \$3.9 million to settle our liability for Brazil excise tax;
- cash outflows of \$6.1 million for our contributions to pension and post-retirement plans;
- cash outflows of \$1.7 million to restore wage reductions instituted in 2009; and
- cash outflows of \$1.4 million to terminate an information technology outsourcing services contract.

Our reduction of debt levels resulted in a cash interest savings of \$13.3 million.

### *Investing Activities.*

Net cash used in investing activities was \$162.0 million in 2011 and included:

- cash paid for the acquisitions of Micron and FMI of \$20.5 million;
- capital expenditures of \$156.6 million; and
- cash inflows of \$14.4 million related to proceeds from derivative instruments.

Net cash used in investing activities was \$321.6 million in 2010 and included:

- cash outflow of \$241.2 million, paid to shareholders of Seadrift and C/G net of cash acquired of \$8.2 million.
- capital expenditures of \$86.0 million; and
- proceeds of \$6.0 million received as a result of the repayment of our loan to Seadrift.

Net cash used in investing activities was \$60.1 million in 2009 and included:

- capital expenditures of \$56.2 million;
- loan of \$6.0 million to our non-consolidated affiliate, Seadrift;
- proceeds of \$1.0 million from derivative contracts settlements; and
- proceeds from the release of escrowed funds of \$1.0 million related to the sale of our Caserta, Italy facility.

### *Financing Activities.*

Net cash flow provided by financing activities was \$85.5 million in 2011 and included:

- net borrowings under our Revolving Facility of \$102.0 million, used primarily to finance the acquisitions of Micron and FMI, and to fund inventory purchases during the year;

- cash outflows of \$30.9 million related to the repurchase of treasury shares; and
- cash outflows of \$5.0 million related to the refinancing of our Revolving Facility.

Net cash flow provided by financing activities was \$138.2 million in 2010 and included:

- net borrowings under our Revolving Facility of \$130.0 million to finance acquisitions of Seadrift and C/G;
- net borrowings under our supply chain financing arrangement of \$10.6 million;
- proceeds from exercised stock options of \$3.9 million; and
- payments of \$4.6 million related to bank fees and charges to amend and restate our credit agreement.

Net cash flow used in financing activities was \$72.9 million in 2009 and included:

- repayment of our Senior Notes (\$20.0 million);
- net repayments of borrowings under our Revolving Facility (\$30.0 million), our supply chain financing arrangement (\$15.7 million), and other short-term debt arrangements (\$8.1 million);
- proceeds from the a Spanish government incentive loan (\$1.8 million); and
- payments on the financing arrangement related to the sale-leaseback of a portion of our Vyazma, Russia facility (\$1.0 million).

## Costs Relating to Protection of the Environment

We have been and are subject to increasingly stringent environmental protection laws and regulations. In addition, we have an on-going commitment to rigorous internal environmental protection standards. Environmental considerations are part of all significant capital expenditure decisions. The following table sets forth certain information regarding environmental expenses and capital expenditures.

	Years Ended December 31,		
	2009	2010	2011
	<i>(Dollars in thousands)</i>		
Expenses relating to environmental protection .....	\$ 9,196	\$12,475	\$15,723
Capital expenditures related to environmental protection .....	10,901	6,535	12,832

## Critical Accounting Policies

Critical accounting policies are those that require difficult, subjective or complex judgments by management, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Our significant accounting policies are described in Note 1 "Business and Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements. The following accounting policies are deemed to be critical.

**Business Combinations and Goodwill.** The application of the purchase method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates of the fair values of assets and liabilities acquired are based on assumptions believed to be reasonable and, when appropriate, include assistance from independent third-party appraisal firms.

As a result of our acquisitions of Seadrift Coke L.P. and C/G Electrodes LLC, we have a significant amount of goodwill. Goodwill is tested for impairment

annually or more frequently if an event or circumstances indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires us to use significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital for purposes of establishing discount rate and relevant market data.

Our annual impairment test of goodwill was performed in the fourth quarter. 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 economic environment in performing our 2011 impairment test. Our model was based on our internally developed forecast for 2012-2014, then adding a 2% growth to each subsequent year in the model. We believe these estimated assumptions are appropriate for our circumstances, including our historical results, consistent with our forecasted long-term business model and give consideration to the current economic environment.

Based on these valuations, we determined that the fair values of our reporting units exceeded their carrying values and no goodwill impairment charge was required during the fourth quarter 2011.

Refer to Note 1 "Business and Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements for further information regarding our goodwill impairment testing.

**Reliance on Estimates.** In preparing the Consolidated Financial Statements, we use and rely on estimates in determining the economic useful lives of our assets, obligations under our employee benefit plans, provisions for doubtful accounts, provisions for restructuring charges and contingencies, tax valuation allowances, evaluation of goodwill, our investment in our previously non-consolidated affiliate and other intangible

assets, pension and postretirement benefit obligations and various other recorded or disclosed amounts, including inventory valuations. Estimates require us to use our judgment. While we believe that our estimates for these matters are reasonable, if the actual amount is significantly different than the estimated amount, our assets, liabilities or results of operations may be overstated or understated.

**Employee Benefit Plans.** We sponsor various retirement and pension plans, including defined benefit and defined contribution plans and postretirement benefit plans that cover most employees worldwide. Excluding the defined contribution plans, accounting for these plans requires assumptions as to the discount rate, expected return on plan assets, expected salary increases and health care cost trend rate. See Note 12 "Retirement Plans and Postretirement Benefits" of the Notes to the Consolidated Financial Statements for further details.

**Contingencies.** We account for contingencies by recording an estimated loss when information available prior to issuance of the Consolidated Financial Statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the Consolidated Financial Statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as those relating to environmental, legal and income tax matters requires us to use our judgment. While we believe that our accruals for these matters are adequate, if the actual loss is significantly different from the estimated loss, our results of operations may be overstated or understated. Legal costs expected to be incurred in connection with a loss contingency are expensed as incurred.

**Impairments of Long-Lived Assets.** We record impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the future undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated future undiscounted net cash flows to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset

exceeds the estimated fair value of the asset. Assets to be disposed are reported at the lower of the carrying amount or fair value less estimated costs to sell. Estimates of the future cash flows are subject to significant uncertainties and assumptions. If the actual value is significantly less than the estimated fair value, our assets may be overstated. Future events and circumstances, some of which are described below, may result in an impairment charge:

- new technological developments that provide significantly enhanced benefits over our current technology;
- significant negative economic or industry trends;
- changes in our business strategy that alter the expected usage of the related assets; and
- future economic results that are below our expectations used in the current assessments.

**Accounting for Income Taxes.** When we prepare the Consolidated Financial Statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process requires us to make the following assessments:

- estimate our actual current tax liability in each jurisdiction;
- estimate our temporary differences resulting from differing treatment of items for tax and accounting purposes (which result in deferred tax assets and liabilities that we include within the Consolidated Balance Sheets); and
- assess the likelihood that our deferred tax assets will be recovered from future taxable income and, if we believe that recovery is not more likely than not, a valuation allowance is established.

If our estimates are incorrect, our deferred tax assets or liabilities may be overstated or understated.

**Revenue Recognition.** Revenue from sales of our commercial products is recognized when persuasive evidence of an arrangement exists, delivery has occurred, title has passed, the amount is determinable and collection is reasonably assured. Sales are recognized

when both title and the risks and rewards of ownership are transferred to the customer or services have been rendered and fees have been earned in accordance with the contract.

Revenue from sales of non-commercial products manufactured to customer specifications are recognized using the units-of-delivery measure under the percentage-of-completion accounting method as units are delivered and accepted by the customer. Sales using this measure of progress are recognized at the contractually agreed upon unit price.

Volume discounts and rebates are recorded as a reduction of revenue in conjunction with the sale of the related products. Changes to estimates are recorded when they become probable. Shipping and handling revenues relating to products sold are included as an increase to revenue. Shipping and handling costs related to products sold are included as an increase to cost of sales.

**Stock-Based Compensation Plans.** Stock-based compensation expense is measured at the grant date, based on the fair market value of the award and recognized over the requisite service period. The fair value of restricted stock is based on the trading price of our common stock on the date of grant, less required adjustments to reflect dividends paid and expected forfeitures or cancellations of awards throughout the vesting period, which ranges between one and three years. Our stock option compensation expense calculated under the fair value method, using a Black Scholes model, is recognized over the vesting period, which ranges between one and three years.

## Recent Accounting Pronouncements

We discuss recently adopted and issued accounting standards in Note 1 "Business and Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements.

## Description of Our Financing Structure

We discuss our financing structure in more detail in Note 6 "Long-Term Debt and Liquidity" of the Notes to the Consolidated Financial Statements.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks primarily from changes in interest rates, currency exchange rates, energy commodity prices 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 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 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 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 commodity prices and commercial energy rates results primarily from the purchase or sale of refined oil products, and the purchase of natural gas and electricity for use in our manufacturing operations.

**Currency Rate Management.** We enter into foreign currency derivatives from time to time to attempt to manage exposure to changes in currency exchange rates. These foreign currency derivatives, which include, but are not limited to, forward exchange contracts and purchased currency options, attempt to hedge global currency exposures. 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 foreign currency derivatives at December 31, 2010 and 2011 represented a net unrealized loss of \$0.8 million and a net unrealized gain of \$2.6 million, respectively.

**Energy Commodity Management.** We periodically enter into commodity derivative contracts and short duration fixed rate purchase contracts to effectively fix some or all of our natural gas and refined oil product exposure. The outstanding contracts at December 31, 2010 and 2011 represented a net unrealized gain of \$0.6 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 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. We currently do not have any such instruments outstanding.

**Sensitivity Analysis.** We use sensitivity analysis to quantify potential impacts that market rate changes may have on the fair values of our foreign currency derivatives and our commodity derivatives. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the related gain or loss on the forecasted underlying transaction. A 10% appreciation or depreciation in the value of the U.S. Dollar against foreign currencies from the prevailing market rates would result in a corresponding increase or decrease of \$10.4 million as of December 31, 2011 in the fair value of the foreign currency hedge portfolio. A 10% increase or decrease in the value of the underlying commodity prices that we hedge would result in a corresponding increase or decrease of \$4.7 million as of December 31, 2011 in the fair value of the commodity hedge portfolio. Because of the high correlation between the hedging instrument and the underlying exposure, fluctuations in the value of the instruments are generally offset by reciprocal changes in the value of the underlying exposure.

We had no interest rate derivative instruments outstanding as of December 31, 2011. A hypothetical increase in interest rates of 100 basis points (1%) would have increased our interest expense by \$2.5 million for the year ended December 31, 2011.

## Item 8. Financial Statements and Supplementary Data

*(Unless otherwise noted, all dollars are presented in thousands)*

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See the Table of Contents located at the beginning of this Report for more detailed page references to information contained in this Item.

## Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process, designed by, or under the supervision of, the chief executive officer and chief financial officer and effected by the board of directors, management and other personnel of a company, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and the board of directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets of the company that could have a material effect on its financial statements.

Internal control over financial reporting has inherent limitations which may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the level of compliance with related policies or procedures may deteriorate.

Management has conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on that assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of the Company's internal control over financial reporting has been audited by PricewaterhouseCoopers, LLP, our independent registered public accounting firm, as stated in their report which is presented in this Annual Report on Form 10-K.

Date: February 22, 2012

/s/ CRAIG S. SHULAR

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Craig S. Shular,  
Chief Executive Officer, President and  
Chairman of the Board

/s/ LINDON G. ROBERTSON

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Lindon G. Robertson,  
Vice President and Chief Financial  
Officer

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of GrafTech International Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, stockholders' equity and cash flows present fairly, in all material respects, the financial position of GrafTech International Ltd. and its subsidiaries at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

Cleveland, Ohio

February 23, 2012

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

**CONSOLIDATED BALANCE SHEETS**

*(Dollars in thousands, except share data)*

	<u>At December 31, 2010</u>	<u>At December 31, 2011</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents .....	\$ 13,096	\$ 12,429
Accounts and notes receivable, net of allowance for doubtful accounts of \$3,892 at December 31, 2010 and \$4,153 at December 31, 2011 .....	179,755	253,151
Inventories .....	340,418	444,062
Prepaid expenses and other current assets .....	12,615	22,308
Total current assets .....	<u>545,884</u>	<u>731,950</u>
Property, plant and equipment .....	1,328,004	1,431,432
Less: accumulated depreciation .....	635,530	654,548
Net property, plant and equipment .....	692,474	776,884
Deferred income taxes .....	6,746	7,931
Goodwill .....	499,238	498,681
Other assets .....	168,841	152,920
Total assets .....	<u>\$1,913,183</u>	<u>\$2,168,366</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 69,930	\$ 74,280
Short-term debt .....	155	14,168
Accrued income and other taxes .....	30,019	44,330
Supply chain financing liability .....	24,959	29,930
Other accrued liabilities .....	95,580	114,545
Total current liabilities .....	<u>220,643</u>	<u>277,253</u>
Long-term debt .....	275,799	387,624
Other long – term obligations .....	114,728	131,300
Deferred income taxes .....	72,287	32,245
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, 149,063,197 shares issued at December 31, 2010 and 149,861,081 shares issued at December 31, 2011 .....	1,491	1,499
Additional paid – in capital .....	1,782,859	1,798,161
Accumulated other comprehensive loss .....	(235,758)	(261,937)
Accumulated deficit .....	(203,941)	(50,757)
Less: cost of common stock held in treasury, 4,081,134 shares at December 31, 2010 and 6,265,114 at December 31, 2011 .....	(113,942)	(146,041)
Less: common stock held in employee benefit and compensation trusts, 76,259 shares at December 31, 2010 and 75,807 shares at December 31, 2011 .....	(983)	(981)
Total stockholders' equity .....	<u>1,229,726</u>	<u>1,339,944</u>
Total liabilities and stockholders' equity .....	<u>\$1,913,183</u>	<u>\$2,168,366</u>

See accompanying Notes to the Consolidated Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF INCOME**

*(Dollars in thousands, except per share data)*

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Net sales .....	\$659,044	\$1,006,993	\$1,320,184
Cost of sales .....	469,397	717,742	995,638
Gross profit .....	189,647	289,251	324,546
Research and development .....	9,390	12,202	13,976
Selling and administrative expenses .....	79,929	119,009	144,561
Operating income .....	100,328	158,040	166,009
Equity in losses (earnings) of, write-down of investment in and gain recorded on acquisition of non-consolidated affiliate .....	55,488	(14,500)	0
Other expense (income), net .....	1,868	(4,768)	4,835
Interest expense .....	5,609	5,076	18,307
Interest income .....	(1,047)	(1,333)	(424)
Income before provision (benefit) for income taxes .....	38,410	173,565	143,291
Provision (benefit) for income taxes .....	22,702	(1,095)	(9,893)
Net income .....	<u>\$ 15,708</u>	<u>\$ 174,660</u>	<u>\$ 153,184</u>
Basic income per common share:			
Net income per share .....	<u>\$ 0.13</u>	<u>\$ 1.42</u>	<u>\$ 1.06</u>
Weighted average common shares outstanding .....	119,707	122,621	145,156
Diluted income per common share:			
Net income per share .....	<u>\$ 0.13</u>	<u>\$ 1.41</u>	<u>\$ 1.05</u>
Weighted average common shares outstanding .....	120,733	123,453	146,402

See accompanying Notes to the Consolidated Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(Dollars in thousands)*

	<b>For the year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
Cash flow from operating activities:			
Net income .....	\$ 15,708	\$ 174,660	\$153,184
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization .....	32,737	42,664	81,953
Deferred income tax benefit .....	(11,154)	(29,028)	(45,053)
Equity in losses (earnings) of, write-down of investment in and gain recorded on acquisition of non-consolidated affiliate .....	55,488	(14,500)	0
Post-retirement and pension plan changes .....	5,545	11,088	27,184
Currency losses (gains) .....	629	(7,153)	(1,463)
Stock-based compensation, including incentive compensation paid in company stock .....	6,845	7,355	8,910
Interest expense .....	1,366	2,620	11,607
Other charges, net .....	6,464	4,299	(11,201)
Decrease (increase) in working capital* .....	67,608	(41,790)	(142,587)
Increase in long-term assets and liabilities .....	(10,907)	(5,293)	(5,937)
Net cash provided by operating activities .....	170,329	144,922	76,597
Cash flow from investing activities:			
Capital expenditures .....	(56,220)	(86,049)	(156,616)
(Loan to) repayment from non-consolidated affiliate .....	(6,000)	6,000	0
Proceeds (payments) from derivative instruments .....	984	(1,109)	14,412
Cash paid for acquisitions, net of cash acquired of \$8,240 in 2010 and \$0 in 2011 .....	0	(241,204)	(20,510)
Other .....	1,126	810	748
Net cash used in investing activities .....	(60,110)	(321,552)	(161,966)
Cash flow from financing activities:			
Short-term debt (reductions) borrowings, net .....	(8,128)	(850)	14,016
Revolving Facility borrowings .....	124,715	165,000	584,000
Revolving Facility reductions .....	(155,231)	(35,000)	(482,000)
Proceeds from long-term debt .....	1,837	0	0
Principal payments on long-term debt .....	(20,041)	(56)	(222)
Supply chain financing .....	(15,711)	10,555	4,970
Proceeds from exercise of stock options .....	651	3,901	2,028
Purchase of treasury shares .....	0	(1,431)	(30,940)
Excess tax benefit from stock-based compensation .....	124	1,864	(946)
Long-term financing obligations .....	(1,091)	(1,148)	(457)
Revolving facility refinancing cost .....	0	(4,595)	(4,988)
Net cash (used in) provided by financing activities .....	(72,875)	138,240	85,461
Net increase (decrease) in cash and cash equivalents .....	37,344	(38,390)	92
Effect of exchange rate changes on cash and cash equivalents .....	1,173	1,305	(759)
Cash and cash equivalents at beginning of period .....	11,664	50,181	13,096
Cash and cash equivalents at end of period .....	\$ 50,181	\$ 13,096	\$ 12,429

See accompanying Notes to the Consolidated Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(Dollars in thousands)

	<b>For the year ended December 31,</b>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
<i>Supplemental disclosures of cash flow information:</i>			
<i>Net cash paid during the periods for:</i>			
Interest .....	\$ 5,413	\$ 2,294	\$ 6,609
Income taxes .....	32,707	31,385	26,224
<i>Non-cash operating, investing and financing activities:</i>			
Common stock issued to savings and pension plan trusts .....	2,393	2,572	4,414
* Net change in working capital due to the following components:			
Decrease (increase) in current assets:			
Accounts and notes receivable, net .....	\$ 58,210	\$(39,780)	\$ (68,462)
Effect of factoring of accounts receivable .....	(24,268)	(1,115)	0
Inventories .....	69,630	(13,641)	(111,395)
Prepaid expenses and other current assets .....	904	(1,719)	(2,082)
Restructuring payments .....	(35)	(809)	0
(Decrease) increase in accounts payables and accruals .....	(35,908)	15,029	39,097
(Decrease) increase in interest payable .....	(925)	245	255
Decrease (increase) in working capital .....	<u>\$ 67,608</u>	<u>\$(41,790)</u>	<u>\$(142,587)</u>

See accompanying Notes to the Consolidated Financial Statements



GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except share data)

	Issued Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Common Stock Held in Employee Benefit & Trust	Total Stockholders' Equity	Total Comprehensive Income (Loss)
<b>Balance at January 1, 2009</b>	122,634,854	\$ 1,226	\$ 1,290,381	\$(279,403)	\$(394,309)	\$(112,511)	\$(794)	\$ 504,590	
Comprehensive income (loss):									
Net income	0	0	0	0	15,708	0	0	15,708	\$ 15,708
Other comprehensive income:									
Pension and post-retirement adjustments, net of tax	0	0	0	(1,236)	0	0	0	(1,236)	(1,236)
Unrealized losses on securities, net of tax of \$319	0	0	0	1,116	0	0	0	1,116	1,116
Foreign currency translation adjustments	0	0	0	47,278	0	0	0	47,278	47,278
Total comprehensive income	0	0	0	0	0	0	0	0	\$ 62,866
Treasury stock	464,205	4	2,904	0	0	0	0	2,908	
Stock-based compensation	592,536	6	3,644	0	0	0	0	3,650	
Shares issued in lieu of cash for incentive compensation	275,804	3	2,471	0	0	0	(81)	2,393	
Common stock issued to savings and pension plan trusts	60,000	1	651	0	0	0	0	652	
Sale of common stock under stock options	124,027,399	\$ 1,240	\$ 1,300,051	\$(232,245)	\$(378,601)	\$(112,511)	\$(875)	\$ 577,059	
<b>Balance at December 31, 2009</b>									
Comprehensive income (loss):									
Net income	0	0	0	0	174,660	0	0	174,660	\$ 174,660
Other comprehensive income:									
Pension and post-retirement adjustments, net of tax	0	0	0	1,288	0	0	0	1,288	1,288
Unrealized losses on securities, net of tax of \$292	0	0	0	1,065	0	0	0	1,065	1,065
Foreign currency translation adjustments	0	0	0	(5,866)	0	0	0	(5,866)	(5,866)
Total comprehensive income	0	0	0	0	0	0	0	0	\$ 171,147
Treasury stock	407,983	4	9,199	0	0	(1,431)	0	7,772	
Stock-based compensation	0	0	0	0	0	0	0	0	
Shares issued in lieu of cash for incentive compensation	0	0	0	0	0	0	0	0	
Common stock issued to savings and pension plan trusts	180,767	2	2,678	0	0	0	(108)	2,572	
Sale of common stock under stock options	447,080	5	3,892	0	0	0	0	3,897	
Shares issued in connection with our acquisition of Seadrift and C/G	23,999,968	240	467,039	0	0	0	0	467,279	
<b>Balance at December 31, 2010</b>	149,063,197	\$ 1,491	\$ 1,782,859	\$(235,758)	\$(203,941)	\$(113,942)	\$(983)	\$ 1,229,726	

See accompanying Notes to the Consolidated Financial Statements

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Continued)

(Dollars in thousands, except share data)

	Issued Shares of Common Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock	Common Stock Held in Employee Benefit & Trust	Total Stockholders' Equity	Total Comprehensive Income (Loss)
Comprehensive income (loss):									
Net income	0	0	0	0	153,184	0	0	153,184	\$153,184
Other comprehensive income:									
Pension and post-retirement adjustments, net of tax	0	0	0	(10)		0	0	(10)	(10)
Unrealized losses on securities, net of tax of \$1,714	0	0	0	6,033	0	0	0	6,033	6,033
Foreign currency translation adjustments	0	0	0	(32,202)	0	0	0	(32,202)	(32,202)
Total comprehensive income	0	0	0	0	0	(29,930)	0	(29,930)	
Treasury stock	241,851	3	7,996	0	0	(1,082)	0	6,917	
Stock-based compensation	239,219	2	4,410	0	0	0	2	4,414	
Common stock issued to savings and pension plan trusts	316,814	3	2,896	0	0	(1,087)	0	1,812	
Sale of common stock under stock options	149,861,081	\$1,499	\$1,798,161	\$(261,937)	\$(50,757)	\$(146,041)	\$(981)	\$1,339,944	
<b>Balance at December 31, 2011</b>									

# GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands, except as otherwise noted)

### (1) Business and Summary of Significant Accounting Policies

#### Discussion of Business and Structure

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 five major product categories: graphite electrodes, refractory products, needle coke products, advanced graphite materials and natural graphite, 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 graphite materials and natural graphite products, and provides primary and specialty products to the advanced electronics, industrial, energy, transportation and defense markets.

#### Summary of Significant Accounting Policies

The Consolidated Financial Statements include the financial statements of GrafTech International Ltd. and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

#### Cash Equivalents

We consider all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. Cash equivalents consist of certificates of deposit, money market funds and commercial paper.

#### Revenue Recognition

Revenue from sales of our commercial products is recognized when they meet four basic criteria (1) persuasive evidence of an arrangement exists, (2) delivery has occurred, (3) the amount is determinable

and (4) collection is reasonably assured. Sales are recognized when both title and the risks and rewards of ownership are transferred to the customer or services have been rendered and fees have been earned in accordance with the contract.

Revenue from sales of non-commercial products manufactured to customer specifications are recognized using the units-of-delivery measure under the percentage-of-completion accounting method as units are delivered and accepted by the customer. Sales using this measure of progress are recognized at the contractually agreed upon unit price.

Volume discounts and rebates are recorded as a reduction of revenue in conjunction with the sale of the related products. Changes to estimates are recorded when they become probable. Shipping and handling revenues billed to our customers are included in net sales and the related shipping and handling costs are included as an increase to cost of sales.

#### Earnings per Share

The calculation of basic earnings per share is based on the weighted-average number of our common shares outstanding during the applicable period. We use the two-class method of computing earnings per share for our instruments granted in share-based payment transactions that are determined to be participating securities prior to vesting.

Diluted earnings per share recognizes the dilution that would occur if outstanding stock options and restricted stock awards were exercised or converted into common shares. We use the treasury stock method to compute the dilutive effect of our stock options and restricted stock awards (using the average market price for the period).

#### Inventories

Inventories are stated at the lower of cost or market. Cost is principally determined using the "first-in first-out" ("FIFO") and average cost, which approximates

FIFO, methods. Elements of cost in inventory include raw materials, direct labor and manufacturing overhead.

### **Property, Plant and Equipment**

Expenditures for property, plant and equipment are recorded at cost. Maintenance and repairs of property and equipment are expensed as incurred. Expenditures for replacements and betterments are capitalized and the replaced assets are retired. Gains and losses from the sale of property are included in cost of goods sold or other (income) expense, net. We depreciate our assets using the straight-line method over the estimated useful lives of the assets. The ranges of estimated useful lives are as follows:

	<u>Years</u>
Buildings .....	25-40
Land improvements .....	20
Machinery and equipment .....	5-20
Furniture and fixtures .....	5-10

The carrying value of fixed assets is assessed when events and circumstances indicating impairment are present. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If the assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed are reported at the lower of the carrying amount or fair value less costs to sell.

Depreciation expense was \$32.1 million for 2009, \$40.1 million for 2010, and \$58.3 million for 2011.

### **Accounts and Notes Receivable**

Trade accounts receivable primarily arise from sales of goods to customers and distributors in the normal course of business.

### **Sales of trade accounts receivable**

We have in the past sold certain trade accounts receivable to a bank under a factoring arrangement. The receivables were sold at a discount on a nonrecourse basis and we did not retain interests in the receivables sold. We also acted as a servicer of the sold receivables for a fee. The servicing duties included collecting

payments on receivables and remitting them to the bank. While servicing the receivables, we applied the same servicing policies and procedures that are applied to our owned accounts receivable.

### **Allowance for Doubtful Accounts**

Considerable judgment is required in assessing the realizability of receivables, including the current creditworthiness of each customer, related aging of the past due balances and the facts and circumstances surrounding any non-payment. We evaluate specific accounts when we become aware of a situation where a customer may not be able to meet its financial obligations. The reserve requirements are based on the best facts available to us and are reevaluated and adjusted as additional information is received. Receivables are charged off when amounts are determined to be uncollectible.

### **Capitalized Bank Fees**

We capitalize bank fees upon the incurrence of debt. At December 31, 2010 and December 31, 2011, capitalized bank fees amounted to \$3.6 million and \$6.9 million, respectively. We amortize such amounts over the life of the respective debt instrument using the effective interest method. The estimated life may be adjusted upon the occurrence of a triggering event. Amortization of capitalized bank fees amounted to \$1.6 million in 2009, \$1.8 million in 2010, and \$1.4 million in 2011, respectively, and is included in interest expense. Interest expense for 2009 includes accelerated amortization of capitalized bank fees related to the Senior Notes redeemed in that year.

### **Derivative Financial Instruments**

We do not use derivative financial instruments for trading purposes. They are used to manage well-defined commercial risks associated with commodity contracts and currency exchange rate risks.

### **Foreign Currency Derivatives**

We enter into foreign currency derivatives from time to time to manage exposure to changes in currency exchange rates. These instruments, which include, but are not limited to, forward exchange contracts and purchased currency options, attempt to hedge global currency exposures, 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. The result is the creation of a range in which a best and worst price is defined, while minimizing option cost. Forward exchange contracts and purchased currency options are carried at fair value. These contracts are treated as hedges to the extent they are effective. Changes in fair values related to these contracts are recognized in other comprehensive income in the Consolidated Balance Sheets until settlement. At the time of settlement, realized gains and losses are recognized in revenue or cost of goods sold on the Consolidated Statements of Income.

### ***Commodity Derivative Contracts***

We periodically enter into derivative contracts for natural gas and certain refined oil products. These contracts are entered into to protect against the risk that eventual cash flows related to these products will be adversely affected by future changes in prices. All commodity contracts are carried at fair value and are treated as hedges to the extent they are effective. Changes in their fair values are included in other comprehensive income in the Consolidated Balance Sheets until settlement. At the time of settlement of these hedge contracts, realized gains and losses are recognized as part of cost of goods sold on the Consolidated Statements of Income.

### ***Investments in Non-Consolidated Affiliates***

We use the equity method to account for investments in entities that we do not control, but where we have the ability to exercise significant influence. Equity method investments are recorded at original cost and adjusted periodically to recognize (1) our proportionate share of the investees' net income or losses after the date of investment, (2) additional contributions made and dividends or distributions received, and (3) impairment losses resulting from adjustments to net realizable value.

We assess the potential impairment of our equity method investments when indicators such as a history of operating losses, a negative earnings and cash flow outlook, and the financial condition and prospects for the investee's business segment might indicate a loss in value. We determine fair value based on valuation methodologies, as appropriate, including the present value of our estimated future cash flows. If the fair value is less than our carrying amount, the investment is determined to be impaired. If the decline in value is other than temporary, we record an appropriate write-down.

### ***Research and Development***

Expenditures relating to the development of new products and processes, including significant improvements to existing products, are expensed as incurred.

### ***Income Taxes***

We file a consolidated United States ("U.S.") federal income tax return for GTI and its eligible domestic subsidiaries. Our non-U.S. subsidiaries file income tax returns in their respective local jurisdictions. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax benefit carry forwards. Deferred tax assets and liabilities at the end of each period are determined using enacted tax rates. A valuation allowance is established or maintained, when, based on currently available information and other factors, it is more likely than not that all or a portion of a deferred tax asset will not be realized.

Under the guidance on accounting for uncertainty in income taxes, we recognize the benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also provides guidance on derecognition,

classification, interest and penalties on income taxes, and accounting in interim periods.

### ***Stock-Based Compensation Plans***

We have various plans that provide for the granting of stock-based compensation to employees and, in certain instances, to non-employee directors, which are described more fully in Note 13, "Management Compensation and Incentive Plans." Shares are issued upon option exercise from authorized, unissued shares.

We account for those plans under the applicable standards on accounting for share-based payment. For transactions in which we obtain employee services in exchange for an award of equity instruments, we measure the cost of the services based on the grant date fair value of the award. We recognize the cost over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period). Costs related to plans with graded vesting are generally recognized using a straight-line method. Cash flows resulting from tax benefits for deductions in excess of compensation cost recognized are included in financing cash flows.

### ***Retirement Plans and Postretirement Benefits***

We use actuarial methods and assumptions to account for our defined benefit pension plan and our postretirement benefits. We immediately recognize the change in the fair value of plan assets and net actuarial gains and losses annually in the fourth quarter of each year (MTM Adjustment) and whenever a plan is remeasured (e.g. due to a significant curtailment, settlement, etc.). Pension and postretirement benefits expense includes the MTM adjustment, actuarially computed cost of benefits earned during the current service period, the interest cost on accrued obligations, the expected return on plan assets based on fair market values, and adjustments due to plan settlements and curtailments. Contributions to the qualified U.S. retirement plan are made in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

Postretirement benefits and benefits under the non-qualified retirement plan have been accrued, but not

funded. The estimated cost of future postretirement life insurance benefits is determined by the Company with assistance from independent actuarial firms using the "projected unit credit" actuarial cost method. Such costs are recognized as employees render the service necessary to earn the postretirement benefits. We record our balance sheet position based on the funded status of the plan.

We exclude the inactive participant portion of our pension and other postretirement benefit costs as a component of inventoriable costs. Additional information with respect to benefits plans is set forth in Note 12, "Retirement Plans and Postretirement Benefits."

### ***Environmental, Health and Safety Matters***

Our operations are governed by laws addressing protection of the environment and worker safety and health. These laws provide for civil and criminal penalties and fines, as well as injunctive and remedial relief, for noncompliance and require remediation at sites where hazardous substances have been released into the environment.

We have been in the past, and may become in the future, the subject of formal or informal enforcement actions or proceedings regarding noncompliance with these laws or the remediation of company-related substances released into the environment. Historically, such matters have been resolved by negotiation with regulatory authorities resulting in commitments to compliance, abatement or remediation programs and in some cases payment of penalties. Historically, neither the commitments undertaken nor the penalties imposed on us have been material.

Environmental considerations are part of all significant capital expenditure decisions. Environmental remediation, compliance and management expenses were approximately \$9.2 million in 2009, \$12.5 million in 2010, and \$15.7 million in 2011. The accrued liability relating to environmental remediation was \$10.8 million at December 31, 2010 and \$8.2 million at December 31, 2011. A charge to income is recorded when it is probable that a liability has been incurred and the cost can be reasonably estimated. When payments are fixed or determinable, the liability is discounted using a rate at which the payments could be effectively settled.

Our environmental liabilities do not take into consideration possible recoveries of insurance proceeds. Because of the uncertainties associated with environmental remediation activities at sites where we may be potentially liable, future expenses to remediate sites could be considerably higher than the accrued liability.

### **Foreign Currency Translation**

We translate the financial statements of foreign subsidiaries, whose local currency is their functional currency, to U.S. dollars using period-end exchange rates for assets and liabilities and weighted average exchange rates for each period for revenues, expenses, gains and losses. Differences arising from exchange rate changes are included in accumulated other comprehensive loss on the Consolidated Balance Sheets until such time as the operations of such non-U.S. subsidiaries are sold or substantially or completely liquidated.

For our Mexican, Swiss and Russian subsidiaries, whose functional currency is the U.S. dollar, we remeasure non-monetary balance sheet accounts and the related income statement accounts at historical exchange rates. Resulting gains and losses arising from the fluctuations in currency for monetary accounts are recognized in other (income) expense, net, in the Consolidated Statements of Income. Gains and losses arising from fluctuations in currency exchange rates on transactions denominated in currencies other than the functional currency are recognized in earnings as incurred.

We have had non-dollar denominated intercompany loans between GrafTech Finance and some of our foreign subsidiaries. These loans are subject to remeasurement gains and losses due to changes in currency exchange rates. Certain of these loans had been deemed to be essentially permanent prior to settlement and, as a result, remeasurement gains and losses on these loans were recorded as a component of accumulated other comprehensive loss in the stockholders' equity section of the Consolidated Balance Sheets. The remaining 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 Income.

### **Software Development Costs**

In connection with our development and implementation of global enterprise resource planning systems with advanced manufacturing, planning and scheduling software, we capitalize certain computer software costs after technological feasibility is established. These capitalized costs are amortized utilizing the straight-line method over the economic lives of the related products. Total costs capitalized as of December 31, 2010 and 2011 amounted to \$15.6 million and \$16.4 million, respectively. Amortization expense was \$1.6 million for 2009, 2010, and 2011.

### **Restructuring**

We recognize an accrual for costs associated with exit or disposal activities when the liability is incurred.

### **Goodwill and Other Intangible Assets**

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. We do not recognize deferred income taxes for the difference between the assigned value and the tax basis related to nondeductible goodwill. Goodwill is not amortized; however, impairment testing is performed annually or more frequently if circumstances indicate that impairment may have occurred. We perform the goodwill impairment test annually at December 31.

The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one compares the fair value of the reporting unit (using a discounted cash flow method) to its carrying value. The fair value for each reporting unit with goodwill is determined in accordance with accounting guidance on determining fair value, which requires consideration of the income, market, and cost approaches as applicable. If the carrying value exceeds the fair value, there is potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to implied fair value (i.e., fair value of the reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the fair value of goodwill is less than the carrying amount of goodwill, an impairment is recognized. There has been no impairment of our goodwill as of December 31, 2011.

Other amortizable intangible assets, which consist primarily of patents, trademarks and trade names, customer-related intangibles, and technological know-how, are amortized over their estimated useful lives using the straight line or sum-of-the-years digits method. The estimated useful lives for each major category of amortizable intangible assets are:

	<u>Years</u>
Patents .....	20
Trade name .....	5-10
Technology and know-how .....	5-9
Customer related intangible .....	5-14

Additional information about goodwill and other intangibles is set forth in Note 5 "Goodwill and Other Intangible Assets."

### **Major Maintenance and Repair Costs**

We perform scheduled major maintenance of the storage and processing units at our Seadrift plant (referred to as "overhaul"). Time periods between overhauls vary by unit. We also perform an annual scheduled significant maintenance and repair shutdown of the plant (referred to as "turnaround").

Costs of overhauls and turnarounds include plant personnel, contract services, materials, and rental equipment. We defer these costs when incurred and use the straight-line method to amortize them over the period of time estimated to lapse until the next scheduled overhaul of the applicable storage or processing unit or over one year for our turnaround. Under this policy, in 2011 costs deferred were \$6.4 million and costs amortized were \$3.4 million.

Our turnaround, normally scheduled during the spring or early summer of each year, was completed during the three months ended June 30, 2011.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses. Significant estimates and assumptions are used for, but are not

limited to, pension and other post-retirement benefits, allowance for doubtful accounts, accruals and valuation allowances, asset impairment, and environmental-related accruals. Actual results could differ from our estimates.

### **Subsequent Events**

We evaluate events that occur after the balance sheet date but before financial statements are issued to determine if a material event requires our amending the financial statements or disclosing the event.

### **Reclassification**

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

### **Recently Adopted Accounting Standards**

#### *Revenue Recognition*

We adopted a new revenue recognition standard that applies to sales arrangements entered into or materially modified in the year beginning January 1, 2011. The guidance:

- Provides principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated and consideration allocated;
- Eliminates the residual method of allocating revenue;
- Requires the allocation of consideration received in a bundled revenue arrangement among the separate deliverables by introducing an estimated selling price method for valuing elements if vendor-specific objective evidence or third-party evidence of a selling price is not available; and
- Expands related disclosure requirements.

The adoption of this standard had no material effect on our consolidated financial statements or on existing revenue recognition policies.

### **Recently Issued Accounting Standards**

Accounting guidance issued by various standard setting and governmental authorities that have not yet become effective with respect to our Consolidated Financial Statements are described below, together with



our assessment of the potential impact they may have on our results of operation and financial position.

### *Fair Value Measurement and Disclosure*

In May 2011, the FASB issued Accounting Standards Update 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"). The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. While disclosure requirements have been enhanced, most amendments clarify existing guidance in U.S. GAAP.

ASU 2011-04 becomes effective for us in the first quarter of 2012, with early adoption prohibited. All amendments are to be applied prospectively. We are currently assessing its impact on our Consolidated Financial Statements.

### *Presentation of Other Comprehensive Income ("OCI")*

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05") which eliminates the option of presenting OCI and its components in the statement of shareholders' equity. ASU 2011-05 requires us to present components of net income and OCI in one continuous statement or in two separate but consecutive statements. The new presentation is required to be adopted retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance.

In December 2011, the FASB issued Accounting Standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05* ("ASU 2011-12"). ASU 2011-12 defers the requirement of ASU 2011-05 that reclassification adjustments for each component of accumulated other comprehensive income ("AOCI") in

both net income and OCI be presented on the face of the financial statements; however, we will continue to be required to present amounts reclassified out of AOCI on the face of the financial statements or disclose those amounts in the notes to the consolidated financial statements. ASU 2011-12 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and does not affect the main provision of ASU 2011-05. We will amend our disclosures to meet this standard when required.

### *Testing Goodwill for Impairment*

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, *Intangibles-Goodwill and Other: Testing Goodwill for Impairment* ("ASU 2011-08") which simplifies how we test goodwill for impairment. ASU 2011-08 allows us an option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, we no longer would be required to calculate the fair value of a reporting unit unless we determine, based on the qualitative assessment, that it is more likely than not that the reporting unit's fair value is less than its carrying value.

ASU 2011-08 becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 31, 2011 with early adoption permitted. The adoption of this guidance impacts testing steps only, and therefore adoption will not have an impact on our Consolidated Financial Statements.

### *Offsetting (Netting) Financial Instruments and Derivative Instruments*

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, *Balance Sheet Disclosures about Offsetting Assets and Liabilities* ("ASU 2011-11") which requires disclosure of the effect or potential effect of netting, known as offsetting, our derivative assets and liabilities in the balance sheet if permitted by the arrangements.

ASU 2011-11 becomes effective for annual and interim financial statements beginning after December 31, 2012. The new guidance is required to be adopted retrospectively. We are currently assessing its impact on our Consolidated Financial Statements.

## (2) Acquisitions

On November 30, 2010, we acquired from the equity holders of Seadrift Coke L.P. ("Seadrift") the 81.1% of the equity interests of Seadrift that we did not already own and from the equity holders of C/G Electrodes LLC ("C/G") 100% of the equity interests of C/G. Because Seadrift and C/G meet the SEC definition of common control, we have treated the transactions as the acquisition of one business and they are referred to collectively as the "Acquisitions." Seadrift and C/G are included in our Consolidated Financial Statements beginning as of December 1, 2010.

Seadrift is one of the largest producers of petroleum-based needle coke in the world and owns the world's only known stand-alone petroleum-based needle coke plant. Needle coke is the key raw material used to make graphite electrodes, including premium UHP graphite electrodes, which are critical consumables in electric arc furnace ("EAF") steel production. The acquisition of Seadrift helps to assure us of a stable supply for a majority of the primary raw material in the production of graphite electrodes and should allow us to reduce the relative cost of a significant portion of our supply of needle coke.

C/G is a U.S.-based producer of large diameter premium UHP graphite electrodes used in the EAF steel making process. C/G also sells various other graphite-related products, including specialty graphite blocks, granular graphite and partially processed electrodes. The acquisition of C/G provides us with a large diameter graphite electrode manufacturing facility in the U.S. which will allow us to respond to customer orders more quickly and reduce freight cost and transit time for North American shipments.

*Consideration transferred:* The consideration paid to the equity holders of Seadrift consisted of \$90.0 million in cash (including working capital adjustments), approximately 12 million shares of GTI common stock and \$100 million in aggregate face amount of Senior Subordinated Notes of GTI due 2015. The consideration paid to the equity holders of C/G consisted of \$159.5 million in cash (including working capital adjustments), approximately 12 million shares of GTI common stock and \$100 million in aggregate face amount of Senior Subordinated Notes of GTI due in 2015.

The computation of the fair value of the total consideration at the date of acquisition follows (in thousands, except share price):

GTI common shares issued	24,000
Price per share of GTI common stock	\$ 19.47
Fair value of consideration attributable to	
common stock	\$467,280
Fair value of Senior Subordinated Notes	142,597
Cash	249,444
Total consideration paid to equity	
holders	859,321
Fair value of our previously held 18.9%	
equity interest in Seadrift	77,342
Total consideration	<u>\$936,663</u>

The volume weighted average price of a share of GTI common stock on November 30, 2010 was used to determine the fair value of the stock issued as consideration in connection with the Acquisitions. The fair value of the non-interest bearing senior subordinated notes was determined using an interest rate of 7%.

*Recording of assets acquired and liabilities assumed:* The Acquisitions are accounted for using the acquisition method of accounting in accordance with FASB ASC 805, *Business Combinations* ("ASC 805"). Under the acquisition method the identifiable assets acquired and the liabilities assumed are assigned a new basis of accounting reflecting their estimated fair values. The information included herein has been prepared based on the preliminary allocation of purchase price using estimates of the fair values and useful lives of assets acquired and liabilities assumed based on the best available information determined with the assistance of independent valuations, quoted market prices and management estimates.

The following table summarizes the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date (in thousands):

Cash	\$ 8,240
Accounts receivable	23,079
Inventories	82,665
Property, plant and equipment	280,710
Intangible assets	158,200
Other assets	988
Accounts payable	14,130
Other accrued liabilities	6,830
Debt obligations	1,197
Other long-term liabilities	1,000
Deferred tax liability	<u>83,306</u>
Net identifiable assets acquired	447,419
Goodwill	<u>489,244</u>
Net assets acquired	<u><u>\$936,663</u></u>

*Intangible assets:* The following table is a summary of the fair values of the identifiable intangible assets and their estimated useful lives (dollars in thousands):

	<u>Fair Value</u>	<u>Weighted Average Amortization Period</u>
Customer relationships	\$107,500	13.4 years
Technology and know-how	42,800	8.1 years
Tradenames	<u>7,900</u>	<u>7.7 years</u>
Total intangible assets	<u><u>\$158,200</u></u>	11.6 years

*Goodwill:* Goodwill of approximately \$489.2 million was recognized for the Acquisitions and is calculated as the excess of the consideration transferred over the net assets acquired and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the Acquisitions includes:

- the expected synergies and other benefits that we believe will result from combining the operations of Seadrift and C/G with the operations of GrafTech;

- any intangible assets that do not qualify for separate recognition such as the assembled workforce; and
- the value of the going-concern element of Seadrift's and C/G's existing businesses (the higher rate of return on the assembled collection of net assets versus acquiring all of the net assets separately).

We have assigned the goodwill to our Industrial Materials segment. Approximately \$168.2 million of the goodwill is deductible for federal income tax purposes.

*Debt:* We repaid \$80.6 million of debt and interest rate swaps and assumed an additional \$1.2 million of debt. The recorded amount of the debt assumed approximated its fair value. The following is a summary of the third-party debt assumed and not repaid in connection with the close of the Acquisitions (dollars in thousands):

Pennsylvania Industrial Development Authority mortgage note due 2018, interest rate of 3%		\$1,020
Secured promissory note due 2014, interest rate of 6.25%		<u>177</u>
Total debt assumed		<u><u>\$1,197</u></u>

*Pro-forma impact of the Acquisitions:* The unaudited pro-forma results presented below include the effects of the Acquisitions as if they had been consummated as of January 1, 2009. The pro forma results include the amortization associated with the acquired intangible assets and interest expense associated with debt used to fund the Acquisitions, as well as fair value adjustments for property, plant and equipment and the elimination of related party transactions. To better reflect the combined operating results, material non-recurring charges directly attributable to the Acquisitions have been excluded. In addition, the pro forma results do not include any anticipated synergies or other expected benefits of the Acquisitions. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the Acquisitions been consummated as of January 1, 2009 (dollars in thousands, except per share):

	<b>Year Ended December 31,</b>	
	<u>2009</u>	<u>2010</u>
Revenue .....	\$802,770	\$1,228,935
Net income .....	58,158	141,909

Material non-recurring pro forma adjustments directly attributable to the Acquisitions include: reversal of LIFO impact, \$1.9 million expense in 2009 and \$21.0 million benefit in 2010; reversal of equity in (income) losses of non-consolidated affiliate, \$55.5 million expense in 2009 and \$14.5 million income in 2010; and \$25.9 million of transaction expenses in 2010.

*Previously held 18.9% equity interest in Seadrift:* On June 30, 2008, we acquired 100% of Falcon-Seadrift Holding Corp., now named GrafTech Seadrift Holding Corp. ("GTSD"), which held approximately 18.9% of the equity interests in Seadrift. The substance of the transaction was the acquisition of an asset, the limited partnership units, rather than a business combination. Because the amount we paid for the limited partnerships interests exceeded their tax basis accounting guidance required us to recognize a deferred tax liability for this difference and increase our purchase price. We also had a deferred tax asset valuation allowance at the time we acquired the limited partnership units. Accounting guidance required us to reduce the valuation allowance

and decrease the purchase price because the deferred tax liability recorded for the purchase was expected to reverse during the same period that our deferred tax assets were expected to reverse.

We accounted for our investment in Seadrift using the equity method of accounting because we had the ability to exercise significant influence, but not exercise control. In 2009 we determined that the fair value of our investment was less than our carrying amount and that the losses in value were other than temporary. We recorded a non-cash impairment of \$52.8 million in 2009 to recognize this other than temporary loss in value.

The following table summarizes the carrying amount (book value) of our investment in Seadrift from January 1, 2010 to November 30, 2010, the date we acquired the remaining 81.1% equity interests (dollars in thousands):

Balance at January 1, 2010 .....	\$63,315
Equity in earnings (losses) .....	4,941
Distributions .....	(473)
Gain from remeasuring book value to acquisition date fair value .....	<u>9,559</u>
Balance at November 30, 2010 .....	<u>\$77,342</u>

ASC 805 required us to remeasure the book value of our previously held 18.9% equity interest in Seadrift at November 30, 2010 to its fair value and recognize the resulting gain in our 2010 earnings.

*Loan to Seadrift:* In July 2009, Seadrift entered into agreements to borrow \$12.0 million from certain of its shareholders, which included up to \$6.0 million from us. Each loan was evidenced by a demand note with an interest rate of 10%. We recorded our \$6.0 million loan at its face amount, which reasonably approximated its present value. Seadrift repaid the total borrowing of \$12.0 million on March 31, 2010.

## **Micron Research Corporation**

On February 9, 2011, we purchased substantially all of the assets and assumed certain trade liabilities of Micron Research Corporation ("Micron Research"), a subsidiary of E. Holdings, Inc., for \$6.5 million of cash. Micron Research manufactures super fine grain graphite

materials and primarily services Electrical Discharge Machining customers. We intend to utilize their technology and capability to service other applications including solar, electronics and medical. The substance of the transaction is the acquisition of a business and we accounted for the transaction following the guidance in ASC 805. Tangible assets acquired and liabilities assumed were recorded at their estimated fair values of \$5.0 million and \$0.2 million, respectively. The estimated fair values of finite-lived intangible assets acquired of \$1.3 million related to technology and know-how and customer relationships are being amortized over their estimated useful lives ranging from 5 to 15 years. Goodwill of \$0.4 million represents the excess of the consideration transferred over the net assets acquired and has been assigned to our Engineered Solutions segment. These values have been prepared based on the preliminary allocation of purchase price using estimates of the fair values and useful lives of assets acquired and liabilities assumed based on best available information determined with the assistance of independent valuations, quoted market prices and management estimates. The purchase price allocations are subject to further adjustment until all pertinent information regarding the assets acquired and liabilities assumed are fully evaluated by us.

### **Fiber Materials, Inc.**

On October 30, 2011, we purchased substantially all of the assets and assumed certain trade liabilities of Fiber Materials, Inc. ("FMI") for \$14.0 million of cash. FMI is manufacturer of highly engineered advanced carbon composite materials serving the aerospace and defense industries and high temperature insulation for use in industrial applications. FMI has been assigned to our Engineered Solutions ("ES") business segment. The substance of the transaction was the acquisition of a business and we accounted for the transaction following the guidance in ASC 805. Tangible assets acquired and liabilities assumed were recorded at their estimated fair values of \$13.3 million and \$1.4 million, respectively. The estimated fair value of finite-lived intangible assets acquired of \$2.5 million relating to customer relationships is being amortized over its estimated useful life of 5 years. The \$0.4 million excess of the fair value of the net assets acquired over the

consideration paid has been recorded as a gain on bargain purchase in Other (Income) Expense, Net and is reported in the ES business segment's results of operations. These values have been prepared based on the preliminary allocation of purchase price using estimates of the fair values and useful lives of assets acquired and liabilities assumed based on best available information determined with the assistance of independent valuations, quoted market prices and management estimates. The purchase price allocations are subject to further adjustment until all pertinent information regarding the assets acquired and liabilities assumed are fully evaluated by us.

### **(3) 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.** Engineered solutions include advanced graphite materials products for the advanced electronics, industrial, energy, transportation and defense markets, as well as natural graphite products enabling thermal management solutions for the electronics industry and energy storage solutions for the transportation and power generation industries.

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 sales.

The following tables summarize financial information concerning our reportable segments:

	For the year Ended December 31,		
	2009	2010	2011
	<i>(Dollars in thousands)</i>		
Net sales to external customers:			
Industrial Materials .....	\$538,126	\$ 833,892	\$1,132,194
Engineered Solutions .....	120,918	173,101	187,990
Total net sales .....	<u>\$659,044</u>	<u>\$1,006,993</u>	<u>\$1,320,184</u>
Segment operating income:			
Industrial Materials .....	\$ 86,586	\$ 140,217	\$ 158,547
Engineered Solutions .....	13,742	17,823	7,462
Total segment operating income .....	<u>\$100,328</u>	<u>\$ 158,040</u>	<u>\$ 166,009</u>
Reconciliation of segment operating income to income from continuing operations before provision for income taxes			
Equity in losses (earnings) of, write-down of investment in and gain recorded on acquisition of non-consolidated affiliate .....			
	55,488	(14,500)	0
Other expense (income), net .....	1,868	(4,768)	4,835
Interest expense .....	5,609	5,076	18,307
Interest income .....	(1,047)	(1,333)	(424)
Income before provision for income taxes .....	<u>\$ 38,410</u>	<u>\$ 173,565</u>	<u>\$ 143,291</u>

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 sales mix to third party customers at that location.

	At December 31,	
	2010	2011
	<i>(Dollars in thousands)</i>	
Long-lived assets (a):		
Industrial Materials .....	\$622,800	\$649,389
Engineered Solutions .....	69,674	127,495
Total long-lived assets .....	<u>\$692,474</u>	<u>\$776,884</u>

The following tables summarize information as to our operations in different geographic areas.

For the year Ended December 31,		
2009	2010	2011
<i>(Dollars in thousands)</i>		

Net sales:

U.S . . . . .	\$118,883	\$ 203,438	\$ 353,416
Americas . . .	113,380	177,396	252,316
Asia			
Pacific . . . .	126,012	193,061	240,220
Europe, Middle East,			
Africa . . . .	300,769	433,098	474,232
Total . . .	<u>\$659,044</u>	<u>\$1,006,993</u>	<u>\$1,320,184</u>

At December 31,	
2010	2011
<i>(Dollars in thousands)</i>	

Long-lived assets (a):

U.S and Canada . . . . .	\$387,468	\$470,196
Mexico . . . . .	71,408	75,145
Brazil . . . . .	56,913	54,466
France . . . . .	52,675	52,337
Spain . . . . .	77,598	76,510
South Africa . . . . .	35,401	35,559
Switzerland . . . . .	4,509	5,032
Other countries . . . . .	<u>6,502</u>	<u>7,639</u>
Total . . . . .	<u>\$692,474</u>	<u>\$776,884</u>

(a) Long-lived assets represent fixed assets, net of accumulated depreciation.

#### (4) 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 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 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. We record our liability to the financing party as an accrued liability. Our purchases of inventory under this arrangement were \$186.7 million in 2010 and \$169.1 million in 2011. We recognized Mark-Up of \$1.5 million in 2010 and \$1.0 million in 2011 as interest expense.

#### (5) Goodwill and Other Intangible Assets

The Company is 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.

The Company completed its annual impairment review of goodwill as of December 31, 2011 and noted no impairment. Based on the results of this review, we do not believe any of our reporting units have goodwill that is at risk of impairment. The fair value used in the analysis was estimated using a market approach, which contains significant unobservable inputs, based on earnings before interest and taxes and cash flow multiples. The Company has been consistent with its method of estimating fair value when an indication of fair value from a buyer or similar specific transaction is not available.

The Seadrift and C/G acquisitions resulted in goodwill of \$489.2 million. See Note 2 "Acquisitions" for further discussion of these acquisitions. The changes in the Company's carrying value of goodwill during the years ended December 31, 2010 and 2011 are as follows:

	<u>Total</u> <i>(Dollars in Thousands)</i>
<b>Balance as of December 31, 2009</b> .....	\$ 9,037
Translation effect .....	957
Business Acquisitions .....	<u>489,244</u>
<b>Balance as of December 31, 2010</b> .....	<u>499,238</u>
Translation effect .....	(1,741)
Business Acquisitions (a) .....	<u>1,184</u>
<b>Balance as of December 31, 2011</b> .....	<u>\$498,681</u>

(a) – Includes adjustment to preliminary assignment of fair value to net assets acquired.

The following table summarizes intangible assets with determinable useful lives by major category as of December 31, 2010 and 2011:

	<u>2010</u>			<u>2011</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
	<i>(Dollars in Thousands)</i>			<i>(Dollars in Thousands)</i>		
Patents .....	\$ 3,520	\$(1,168)	\$ 2,352	\$ 3,520	\$ (1,393)	\$ 2,127
Trade name .....	7,900	(124)	7,776	7,900	(1,598)	6,302
Technology and know-how .....	42,800	(497)	42,303	43,349	(6,526)	36,823
Customer related intangible .....	<u>107,500</u>	<u>(1,258)</u>	<u>106,242</u>	<u>110,798</u>	<u>(16,481)</u>	<u>94,317</u>
Total finite-lived intangible assets .....	<u>\$ 161,720</u>	<u>\$(3,047)</u>	<u>\$158,673</u>	<u>\$165,567</u>	<u>\$(25,998)</u>	<u>\$139,569</u>

Amortization expense of intangible assets in 2009, 2010 and 2011 was \$0.2 million, \$2.1 million and \$23.0 million, respectively. Estimated annual amortization expense for the next five years will approximate \$22.1 million in 2012, \$20.5 million in 2013, \$19.0 million in 2014, \$17.3 million in 2015 and \$13.2 million in 2016.

## (6) Long-Term Debt and Liquidity

The following table presents our long-term debt:

	<u>At December 31,</u>	
	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>	
Revolving Facility .....	\$130,000	\$232,000
Senior Subordinated Notes .....	143,404	153,442
Other debt .....	<u>2,395</u>	<u>2,182</u>
Total .....	<u>\$ 275,799</u>	<u>\$387,624</u>



## Revolving Facility

On October 7, 2011, GrafTech and certain of its subsidiaries, entered into an Amended and Restated Credit Agreement that provides for, among other things, an increase in the line of credit, an extension of the maturity date, a decrease in the cost of borrowings, and changes in financial covenants under our principal revolving credit facility ("Revolving Facility"). The following comparison highlights the principal changes to the Revolving Facility effected by the amendment and restatement:

	<u>Amended and Restated Facility</u>	<u>Facility-September 30, 2011</u>
Availability	\$570 million	\$260 million
Maturity date	October 7, 2016	April 29, 2013
Interest rate <sup>a</sup>	Either LIBOR plus a margin ranging from 1.50% to 2.25% or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 0.50% to 1.25%.	Either LIBOR plus a margin ranging from 2.50% to 3.50% or, in the case of dollar denominated loans, the alternate base rate plus a margin ranging from 1.50% to 2.50%.
Commitment fee	Per annum fee ranging from 0.25% to 0.40% on the undrawn portion of the commitments under the Revolving Facility.	Per annum fee ranging from 0.375% to 0.750% on the undrawn portion of the commitments under the Revolving Facility.
Financial Covenants	Maximum senior secured leverage ratio of 2.25 to 1.00; Minimum cash interest coverage of 3.00 to 1.00.	Maximum net senior secured leverage ratio of 2.25 to 1.00; Minimum cash interest coverage of 1.75 to 1.00.

- <sup>a</sup> The interest rate applicable to the Revolving Facility is at GrafTech's option. The alternate base rate is the highest of (i) the prime rate announced by JP Morgan Chase Bank, N.A., (ii) the federal effective fund rate plus ½ of 1% and (iii) the London interbank offering rate (as adjusted) for a one-month interest period plus 1%.

Under the Revolving Facility we now have additional flexibility for investments, capital expenditures, acquisitions and restricted payments. We are permitted to pay dividends and repurchase our common stock in an aggregate amount (cumulative from October 2011) up to \$75 million (or \$500 million, if certain leverage ratio requirements are satisfied), plus, each year, an aggregate amount equal to 50% of the consolidated net income in the prior year and issue letters of credit under the Revolving Facility in an amount not to exceed \$50 million. At December 31, 2011, we had outstanding letters of credit of \$8.4 million under the Revolving Facility.

We were in compliance with all financial and other covenants contained in the Revolving Facility, as applicable.

## Senior Subordinated Notes

On November 30, 2010, in connection with the Acquisitions, we issued Senior Subordinated Notes for an aggregate total face amount of \$200 million. These Senior Subordinated Notes are non-interest bearing and mature in 2015, see Note 2 "Acquisitions". Because the promissory 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 promissory notes and their present value is recorded as debt discount. The debt discount will be amortized to income using the interest method, over the life of the promissory notes. The loan balance, net of unamortized discount, was \$153.4 million at December 31, 2011.

## Senior Notes

On February 15, 2002, GrafTech Finance issued \$400.0 million aggregate principal amount of Senior Notes. Interest on the Senior Notes was payable semi-annually on February 15 and August 15 of each year, commencing August 15, 2002, at the rate of 10.25% per annum.

On May 6, 2002, GrafTech Finance issued \$150.0 million aggregate principal amount of additional Senior Notes at a purchase price of 104.5% of principal amount, plus accrued interest from February 15, 2002, under the Senior Note Indenture. All of the Senior Notes constituted one class of debt securities under the Senior Note Indenture. The additional Senior Notes paid interest at the same rate and were scheduled to mature on the same date as the Senior Notes issued in February 2002. The \$7.0 million premium received upon issuance of the additional Senior Notes was added to the principal amount of the Senior Notes and amortized as a reduction of interest expense over the term of the additional Senior Notes. As a result of our receipt of such premium, the effective annual interest rate on the additional Senior Notes approximated 9.5%.

During 2003 and 2004, we purchased \$115.0 million of the outstanding principal of the Senior Notes through a series of exchanges for equity and cash repurchases. During 2007 and 2008, we redeemed \$415.0 million of the outstanding principal of the Senior Notes.

On September 28, 2009, we redeemed all of the remaining outstanding balance of the Senior Notes, \$19.9 million, at 101.708% plus accrued interest. Total cash to redeem the remaining outstanding balance of the Senior Notes approximated \$20.2 million. We incurred a \$0.4 million loss on the extinguishment of the debt.

## (7) Fair Value Measurements and Derivative Instruments

### Fair Market Value Measurements

Depending on the inputs, we classify each fair value measurement as follows:

- Level 1 – based upon quoted prices for *identical* instruments in active markets,
- Level 2 – based upon quoted prices for *similar* instruments, prices for identical or similar instruments in markets that are not active, or model-derived valuations of all of whose significant inputs are observable, and
- Level 3 – based upon one or more significant unobservable inputs.

The following section describes key inputs and assumptions used in valuation methodologies of our assets and liabilities measured at fair value on a recurring basis:

*Cash and cash equivalents, short-term notes and accounts receivable, accounts payable and other current payables* – The carrying amount approximates fair value because of the short maturity of these instruments.

*Long-term debt* – Fair value of long-term debt at December 31, 2010 and 2011, which was determined using Level 2 inputs, approximated the book value of \$275.8 million and \$387.6 million, respectively.

*Foreign currency derivatives* – Foreign currency derivatives are carried at market value using Level 2 inputs. The outstanding contracts at December 31, 2010 and 2011 represented unrealized gains of \$0.8 million and \$2.4 million, respectively.

*Commodity derivative contracts* – Commodity derivative contracts are carried at fair value. We determine the fair value using observable, quoted natural gas and refined oil product prices that are determined by active markets and therefore classify the commodity derivative contracts as Level 2. The outstanding commodity derivative contracts at December 31, 2010 and 2011 represented unrealized gains of \$0.6 million and unrealized losses of \$0.5 million, respectively.

### ***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 during the twelve months ended December 31, 2011.

In 2010 and 2011, we entered into foreign forward currency derivatives as hedges of anticipated cash flows denominated in the Mexican peso, Brazilian real, euro and Japanese yen. These derivatives

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 December 31, 2010, we had outstanding Mexican peso, Brazilian real, euro, and Japanese yen currency contracts, with aggregate notional amounts of \$92.1 million. As of December 31, 2011, we had outstanding Brazilian real, euro, and Japanese yen currency contracts, with aggregate notional amounts of \$131.9 million. The foreign currency derivatives outstanding as of December 31, 2011 have several maturity dates ranging from January 2012 to November 2012.

### ***Commodity derivative contracts***

We periodically enter into derivative contracts for natural gas and certain refined oil products. These contracts are entered into to protect against the risk that eventual cash flows related to these products will be adversely affected by future changes in prices. There was no ineffectiveness on these contracts during the twelve months ended December 31, 2011. As of December 31, 2011, we had outstanding derivative swap contracts for refined oil products and natural gas with aggregate notional amounts of \$87.9 million and \$0.8 million, respectively. These contracts have maturity dates ranging from January 2012 to December 2012.

The fair value of all derivatives is recorded as assets or liabilities on a gross basis in our Consolidated Balance Sheets. At December 31, 2010 and 2011, 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>				
<b>As of December 31, 2010</b>				
Derivatives designated as cash flow hedges:				
Foreign currency derivatives	Other receivables	\$1,226	Other payables	\$ 390
Commodity derivative contracts	Other current assets	803	Other current liabilities	225
Total fair value		<u>\$2,029</u>		<u>\$ 615</u>

<b>As of December 31, 2011</b>				
Derivatives designated as cash flow hedges:				
Foreign currency derivatives	Other receivables	\$4,412	Other payables	\$1,834
Commodity derivative contracts	Other current assets	1,104	Other current liabilities	1,557
Total fair value		<u>\$5,516</u>		<u>\$3,391</u>

	Asset Derivatives		Liability Derivatives	
	Location	Fair Value	Location	Fair Value
<i>(Dollars in Thousands)</i>				
<b>As of December 31, 2010</b>				
Derivatives designated as fair value hedges:				
Foreign currency derivatives	Other receivables	\$0	Other payables	\$ 0
Total fair value		<u>\$0</u>		<u>\$ 0</u>

<b>As of December 31, 2011</b>				
Derivatives designated as fair value hedges:				
Foreign currency derivatives	Other receivables	\$0	Other payables	\$195
Total fair value		<u>\$0</u>		<u>\$195</u>

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 years ended December 31, 2010 and 2011:

	Location of (Gain)/Loss Reclassified from Other Comprehensive Income	Amount of (Gain)/Loss Recognized	
		(Dollars in Thousands)	
		2010	2011
Derivatives designated as cash flow hedges:			
Foreign currency derivatives	Cost of goods sold/ Other (income) expense / Revenue	\$179	\$ 368
Commodity derivative contracts	Cost of goods sold / Revenue	721	(7,287)

	Location of (Gain)/Loss Reclassified from Other Comprehensive Income	Amount of (Gain)/Loss Recognized	
		(Dollars in Thousands)	
		2010	2011
Derivatives designated as fair value hedges:			
Foreign currency derivatives . . . . .	Cost of goods sold/ Other (income) expense / Revenue	\$0	\$(1,491)

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".

### (8) Interest Expense

The following table presents an analysis of interest expense:

	For the year Ended December 31,		
	2009	2010	2011
	(Dollars in thousands)		
Interest incurred on debt . . . . .	\$ 3,571	\$ 930	\$ 5,705
Amortization of discount on Senior Subordinated Notes . . . . .	0	806	10,039
Amortization of debt issuance costs . . . . .	1,363	1,761	1,521
Supply Chain Financing mark-up . . . . .	487	1,524	1,002
Other . . . . .	188	55	40
Total interest expense . . . . .	<u>\$5,609</u>	<u>\$5,076</u>	<u>\$18,307</u>

### Interest rates

At December 31, 2011, the Revolving Facility had an effective interest rate of 2.05% and the Senior Subordinated Notes had an implied rate of 7%.

### (9) Other (Income) Expense, Net

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

	For the year Ended December 31,		
	2009	2010	2011
	(Dollars in thousands)		
Currency losses/(gains) . . . . .	\$ 466	\$(6,235)	\$2,551
Bank and other financing fees . . . . .	1,949	2,085	1,998
Other . . . . .	(547)	(618)	286
Total other expense (income), net . . . . .	<u>\$1,868</u>	<u>\$(4,768)</u>	<u>\$4,835</u>

We have had intercompany term loans between GrafTech Finance and some of our foreign subsidiaries. We had no such term loans at December 31, 2010 or 2011. These loans were subject to remeasurement gains and losses due to changes in currency exchange rates.

Certain of these loans had been deemed to be essentially permanent prior to settlement and, as a result, remeasurement gains and losses on these loans were recorded as a component of accumulated other comprehensive loss in the stockholders' equity section of

the Consolidated Balance Sheets. The remaining balance of these loans was deemed to be temporary and, as a result, remeasurement gains and losses on these loans were recorded as currency gains / losses in other income (expense), net, on the Consolidated Statements of Income.

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 Income.

We had net total currency losses of \$0.5 million in 2009, a net currency gain of \$6.2 million in 2010, and a net total currency loss of \$2.6 million in 2011, mainly due to the remeasurement of intercompany loans and the effect of transaction gains and losses on intercompany activities.

## (10) Supplementary Balance Sheet Detail

The following tables present supplementary balance sheet details:

	<u>At December 31,</u>	
	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>	
Accounts and notes receivable, net:		
Trade .....	\$ 168,323	\$ 224,907
Other .....	15,324	32,397
	<u>183,647</u>	<u>257,304</u>
Allowance for doubtful accounts .....	(3,892)	(4,153)
	<u>\$ 179,755</u>	<u>\$ 253,151</u>
Inventories:		
Raw materials and supplies .....	\$ 118,691	\$ 168,982
Work in process .....	160,368	205,968
Finished goods .....	64,075	73,821
	<u>343,134</u>	<u>448,771</u>
Reserves .....	(2,716)	(4,709)
	<u>\$ 340,418</u>	<u>\$ 444,062</u>
Property, plant and equipment:		
Land and improvements .....	\$ 33,484	\$ 34,896
Buildings .....	167,949	175,588
Machinery and equipment and other .....	1,053,197	1,105,440
Construction in progress .....	73,374	115,508
	<u>\$1,328,004</u>	<u>\$1,431,432</u>
Other accrued liabilities:		
Accrued vendors payable .....	\$ 38,802	\$ 74,370
Payrolls (including incentive programs) .....	20,050	7,624
Customer prepayments .....	12,347	8,478
Employee compensation and benefits .....	11,211	11,680
Other .....	13,170	12,393
	<u>\$ 95,580</u>	<u>\$ 114,545</u>
Other long term obligations:		
Postretirement benefits .....	\$ 29,567	\$ 29,630
Pension and related benefits .....	60,158	75,840
Other .....	25,003	25,830
	<u>\$ 114,728</u>	<u>\$ 131,300</u>

The following table presents an analysis of the allowance for doubtful accounts:

	<u>At December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>		
Balance at beginning of year .....	\$ 4,110	\$ 4,545	\$ 3,892
Additions .....	4,436	1,004	1,438
Deductions .....	<u>(4,001)</u>	<u>(1,657)</u>	<u>(1,177)</u>
Balance at end of year .....	<u>\$ 4,545</u>	<u>\$ 3,892</u>	<u>\$ 4,153</u>

### **Inventories**

We allocate fixed production overheads to the costs of conversion based on normal capacity of the production facilities. It also requires that we recognize abnormal amounts of idle facility expense, freight,

handling costs, and wasted materials (spoilage) as current period charges. Costs in excess of normal absorption at December 31, 2010 were \$1.4 million. At December 31, 2011 we had no costs in excess of normal absorption.

The following table presents an analysis of our inventory reserves:

	<u>At December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>		
Balance at beginning of year .....	\$ 2,108	\$ 2,518	\$ 2,716
Additions .....	3,286	2,844	4,154
Deductions .....	<u>(2,876)</u>	<u>(2,646)</u>	<u>(2,161)</u>
Balance at end of year .....	<u>\$ 2,518</u>	<u>\$ 2,716</u>	<u>\$ 4,709</u>

### **(11) Commitments**

Lease commitments under non-cancelable operating leases extending for one year or more will require the following future payments:

	<i>(Dollars in thousands)</i>
2012 .....	\$2,276
2013 .....	1,723
2014 .....	1,524
2015 .....	257
2016 .....	119
After 2016 .....	0

Total lease and rental expenses under non-cancelable operating leases extending one year or more approximated \$2.5 million in 2009, \$2.6 million in 2010 and \$2.4 million in 2011.

We are parties to contracts with ConocoPhillips through December 2013 for the supply of petroleum

needle coke, our primary raw material used in the manufacture of graphite electrodes. The agreements provide for quantities of needle coke which we believe, together with needle coke that we source from Seadrift and other sources, are sufficient for our requirements as currently forecast. These supply agreements also contain customary terms and conditions including annual price negotiations, dispute resolution and termination provisions. In July 2011, ConocoPhillips announced that its board approved separating its refining and marketing and exploration and production businesses by spinning off the refining and marketing segment to shareholders. We do not believe that such separation will have an adverse impact on these needle coke supply agreements.

We have supply agreements that require us to purchase electricity and natural gas from January 1, 2012 through December 31, 2013. The total obligation under these contracts is \$23.3 million.



## **(12) Retirement Plans and Postretirement Benefits**

### ***Retirement Plans***

On February 26, 1991, we formed our own retirement plan covering substantially all our U.S. employees. Under our plan, covered employees earned benefit payments based primarily on their service credits and wages subsequent to February 26, 1991.

Prior to that date, substantially all our U.S. employees were participants in the U.S. retirement plan of Union Carbide Corporation ("Union Carbide"). While service credit was frozen, covered employees continued to earn benefits under the Union Carbide plan based on their final average wages through February 26, 1991, adjusted for salary increases (not to exceed six percent per annum) through January 26, 1995, the date Union Carbide ceased to own a minimum 50% of the equity of GTI. The Union Carbide plan is responsible for paying retirement and death benefits earned as of February 26, 1991.

Effective January 1, 2002, we established a defined contribution plan for U.S. employees. Certain employees had the option to remain in our defined

benefit plan for an additional period of up to five years. Employees not covered by this option had their benefits under our defined benefit plan frozen as of December 31, 2001, and began participating in the defined contribution plan.

Effective March 31, 2003, we curtailed our qualified benefit plan and the benefits were frozen as of that date for the U.S. employees who had the option to remain in our defined benefit plan. We also closed our non-qualified U.S. defined benefit plan for the participating salaried workforce. The employees began participating in the defined contribution plan as of April 1, 2003.

We make quarterly contributions equal to 1% of each employee's total eligible pay. The expense recorded for contributions to this plan was \$0.5 million in 2009 and 2010, and \$0.8 million in 2011. All such contributions were made using company stock.

Pension coverage for employees of foreign subsidiaries is provided, to the extent deemed appropriate, through separate plans. Obligations under such plans are systematically provided for by depositing funds with trustees, under insurance policies or by book reserves.

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

	For the Year Ended December 31,					
	2009		2010		2011	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	<i>(Dollars in thousands)</i>					
Service cost	\$ 372	\$ 230	\$ 400	\$ 257	\$ 525	\$ 343
Interest cost	7,374	2,573	7,114	2,668	6,759	2,501
Expected return on assets	(5,649)	(2,381)	(6,385)	(2,166)	(6,688)	(2,225)
Amortization of prior service cost	0	40	0	53	0	26
Settlement (gain) loss	0	(8)	0	49	0	0
Curtailment (gain) loss	0	(49)	0	0	0	0
Mark-to-market loss (gain)	(6,275)	6,248	5,304	4,107	19,775	1,190
	<u>\$ (4,178)</u>	<u>\$ 6,653</u>	<u>\$ 6,433</u>	<u>\$ 4,968</u>	<u>\$ 20,371</u>	<u>\$ 1,835</u>

The primary driver of the mark-to-market loss in 2011 was a decrease in the discount rate due to lower interest rates.

Amounts recognized in other comprehensive income:

	For the Year Ended December 31,					
	2009		2010		2011	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	<i>(Dollars in thousands)</i>					
Prior service cost	\$ 0	361	0	0	0	0
Amortization of initial net asset	0	0	0	0	0	0
Amortization of prior service cost	0	(40)	0	(53)	0	(26)
Effect of exchange rates	0	12	0	(28)	0	(8)
Total recognized in other comprehensive loss	<u>\$ 0</u>	<u>\$ 333</u>	<u>\$ 0</u>	<u>\$ (81)</u>	<u>\$ 0</u>	<u>\$ (34)</u>
<b>Total recognized in pension costs and other comprehensive loss</b>	<u>\$ (4,178)</u>	<u>\$ 6,986</u>	<u>\$ 6,433</u>	<u>\$ 4,887</u>	<u>\$ 20,371</u>	<u>\$ 1,801</u>

The reconciliation of the beginning and ending balances of our pension plans' benefit obligations, fair value of assets, and funded status at December 31, 2010 and 2011 are:

	<b>At December 31,</b>			
	<b>2010</b>		<b>2011</b>	
	<b>U.S.</b>	<b>Foreign</b>	<b>U.S.</b>	<b>Foreign</b>
	<i>(Dollars in thousands)</i>			
<b>Changes in Benefit Obligation:</b>				
Net benefit obligation at beginning of year	\$ 127,310	\$50,812	\$134,691	\$54,875
Service cost	400	257	525	343
Interest cost	7,114	2,668	6,759	2,501
Participant contributions	0	105	0	124
Plan amendments / curtailments	0	0	0	0
Foreign currency exchange changes	0	(1,730)	0	(598)
Actuarial (gain) loss	9,128	5,579	11,871	18,940
Settlement	0	(189)	0	0
Benefits paid	(9,261)	(2,627)	(9,037)	(2,968)
Net benefit obligation at end of year	<u>\$134,691</u>	<u>\$54,875</u>	<u>\$144,809</u>	<u>\$73,217</u>
<b>Changes in Plan Assets:</b>				
Fair value of plan assets at beginning of year	\$ 83,634	\$47,835	\$ 85,896	\$48,774
Actual return on plan assets	10,207	4,864	(1,215)	13,398
Foreign currency exchange rate changes	0	(1,511)	0	(448)
Employer contributions	1,316	297	5,291	542
Participant contributions	0	105	0	124
Actuarial (gain) loss	0	0	0	6,538
Settlement	0	(189)	0	0
Benefits paid	(9,261)	(2,627)	(9,037)	(2,968)
Fair value of plan assets at end of year	<u>\$ 85,896</u>	<u>\$48,774</u>	<u>\$ 80,935</u>	<u>\$65,960</u>
<b>Funded status overfunded (underfunded):</b>	<u>\$ (48,795)</u>	<u>\$ (6,101)</u>	<u>\$ (63,874)</u>	<u>\$ (7,257)</u>
<b>Amounts recognized in accumulated other comprehensive loss:</b>				
Prior service credit	\$ 0	\$ (321)	\$ 0	\$ (287)
<b>Amounts recognized in the statement of financial position:</b>				
Non-current assets	\$ 0	\$ 49	\$ 0	\$ 0
Current liabilities	(559)	(8)	(558)	(208)
Non-current liabilities	(48,236)	(6,142)	(63,316)	(7,048)
Net amount recognized	<u>\$ (48,795)</u>	<u>\$ (6,101)</u>	<u>\$ (63,874)</u>	<u>\$ (7,256)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$189.6 million and \$218.0 million at December 31, 2010 and 2011, respectively.

## Plan Assets

The accounting guidance on fair value measurements specifies a hierarchy based on the observability of inputs used in valuation techniques (Level 1, 2 and 3). See Note 7, "Fair Value Measurements and Derivative Instruments," for a discussion of the fair value hierarchy.

The following describes the methods and significant assumptions used to estimate the fair value of the investments:

*Cash and cash equivalents* – Valued at cost. Cash equivalents are valued at net asset value as provided by the administrator of the fund.

*Foreign government bonds* – Valued by the trustees using various pricing services of financial institutions.

*Debt securities* – Valued by the trustee at year-end using various pricing services of

financial institutions, including Interactive Data Corporation, Standard & Poor's and Telekurs.

*Equity securities* – Valued at the closing price reported on the active market on which the security is traded.

*Fixed insurance contract* – Valued at the present value of the guaranteed payment streams.

*Investment contracts* – Valued at the total cost of annuity contracts purchased, adjusted for market differences from the date of purchase to year-end.

*Collective trusts* – Valued at the net asset value provided by the administrator of the fund. The net asset value is based on the value of the underlying assets owned by the fund, minus its liabilities, divided by the number of units outstanding.

The fair value of the plan assets by category is summarized below (dollars in thousands):

	December 31, 2010				December 31, 2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>U.S. Plan Assets</b>								
Cash and cash equivalents	\$ 719	0	0	\$ 719	\$1,001	0	0	\$ 1,001
Debt securities	25,684	0	0	25,684	0	0	0	0
Equity securities	59,493	0	0	59,493	0	0	0	0
Collective trusts	0	0	0	0	0	\$79,934	0	79,934
Total	\$85,896	0	0	\$85,896	\$1,001	\$79,934	0	\$80,935
<b>International Plan Assets</b>								
Cash and cash equivalents	\$ 772	0	0	\$ 772	\$ 96	0	0	\$ 96
Foreign government bonds	0	\$1,165	0	1,165	0	1,022	0	1,022
Investment contracts	0	0	\$45,094	45,094	0	0	\$56,114	56,114
Fixed insurance contracts	0	0	1,743	1,743	0	0	8,728	8,728
Total	\$ 772	\$1,165	\$46,837	\$48,774	\$ 96	\$ 1,022	\$64,842	\$65,960

The following table presents the changes for those financial instruments classified within Level 3 of the valuation hierarchy for international plan pension assets for the years ended December 31, 2010 and 2011 (dollars in thousands):

	<u>Investment Contracts</u>	<u>Fixed Insurance Contracts</u>
Balance at January 1, 2010 .....	\$ 42,954	\$ 1,519
Unrealized gains .....	2,509	203
Purchases .....	2,099	210
Distributions .....	(2,468)	(189)
<b>Balance at December 31, 2010</b> .....	<b>45,094</b>	<b>1,743</b>
Gain / currency impact .....	13,110	6,985
Distributions .....	(2,090)	0
<b>Balance at December 31, 2011</b> .....	<b>\$56,114</b>	<b>\$8,728</b>

We annually re-evaluate assumptions and estimates used in projecting pension assets, liabilities and expenses. These assumptions and estimates may affect the carrying value of pension assets, liabilities and expenses in our Consolidated Financial Statements. Assumptions used to determine net pension costs and projected benefit obligations are:

	<u>Pension Benefit Obligations At December 31,</u>	
	<u>2010</u>	<u>2011</u>
Weighted average assumptions to determine benefit obligations:		
Discount rate .....	4.98%	4.06%
Rate of compensation increase ..	3.02%	2.44%

	<u>Pension Benefit Obligations At December 31,</u>	
	<u>2010</u>	<u>2011</u>
Weighted average assumptions to determine net cost:		
Discount rate .....	5.67%	4.98%
Expected return on plan assets .....	7.17%	6.74%
Rate of compensation increase .....	3.62%	3.02%

We adjust our discount rate annually in relation to the rate at which the benefits could be effectively

settled. Discount rates are set for each plan in reference to the yields available on AA-rated corporate bonds of appropriate currency and duration. The appropriate discount rate is derived by developing an AA-rated corporate bond yield curve in each currency. The discount rate for a given plan is the rate implied by the yield curve for the duration of that plan's liabilities. In certain countries, where little public information is available on which to base discount rate assumptions, the discount rate is based on government bond yields or other indices and approximate adjustments to allow for the differences in weighted durations for the specific plans and/or allowance for assumed credit spreads between government and AA rated corporate bonds.

The expected return on assets assumption represents our best estimate of the long-term return on plan assets and generally was estimated by computing a weighted average return of the underlying long-term expected returns on the different asset classes, based on the target asset allocations. The expected return on assets assumption is a long-term assumption that is expected to remain the same from one year to the next unless there is a significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions. However, we have adjusted this estimate downward as a result of the recent decline in global market conditions.

The rate of compensation increase assumption is generally based on salary increases.

*Plan Assets.* The following table presents our retirement plan weighted average asset allocations at December 31, 2011, by asset category:

	Percentage of Plan Assets at December 31, 2011	
	US	Foreign
Equity securities . . . . .	61%	0%
Fixed income, debt securities, or cash . . . . .	39%	100%
Total . . . . .	100%	100%

*Investment Policy and Strategy.* The investment policy and strategy of the U.S. plan is to invest approximately 62% in equities and approximately 38% in fixed income securities. The plan can be invested up to 80% in equities, including shares of our common stock. Rebalancing is undertaken monthly. To the extent we maintain plans in other countries, target asset allocation is 100% fixed income investments. For each plan, the investment policy is set within both asset return and local statutory requirements.

The following table presents our retirement plan weighted average target asset allocations at December 31, 2011, by asset category:

	Percentage of Plan Assets at December 31, 2011	
	US	Foreign
Equity securities . . . . .	62%	0%
Fixed Income . . . . .	38%	100%
Total . . . . .	100%	100%

Information for our pension plans with an accumulated benefit obligation in excess of plan assets at December 31, 2010 and 2011 follows:

	2010		2011	
	U.S.	Foreign	U.S.	Foreign
Accumulated benefit obligation . . . . .	\$134,691	\$51,213	\$144,809	\$72,075
Fair value of plan assets . . . . .	85,896	45,866	80,935	64,938

Information for our pension plans with a projected benefit obligation in excess of plan assets at December 31, 2010 and 2011 follows:

	2010		2011	
	U.S.	Foreign	U.S.	Foreign
Projected benefit obligation . . . . .	\$134,691	\$53,181	\$144,809	\$73,217
Fair value of plan assets . . . . .	85,896	47,031	80,935	65,960

Following is our projected future pension plan cash flow by year:

	U.S.	Foreign
<b>Expected contributions in 2012:</b>		
Expected employer contributions . . . . .	\$ 11,137	\$ 2,087
Expected employee contributions . . . . .	0	0
<b>Estimated future benefit payments reflecting expected future service for the years ending December 31:</b>		
2012 . . . . .	9,418	3,102
2013 . . . . .	9,527	3,086
2014 . . . . .	9,430	3,783
2015 . . . . .	9,329	3,294
2016 . . . . .	9,344	3,833
2017-2021 . . . . .	47,184	19,696

**Postretirement Benefit Plans**

We provide life insurance benefits for eligible retired employees. These benefits are provided through various insurance companies and health care providers. We accrue the estimated net postretirement benefit costs during the employees' credited service periods.

In July 2002, we amended our U.S. postretirement medical coverage. In 2003 and 2004, we discontinued the Medicare Supplement Plan (for retirees 65 years or older or those eligible for Medicare benefits). This change applied to all U.S. active employees and retirees. In June 2003, we announced the termination of

the existing early retiree medical plan for retirees under age 65, effective December 31, 2005. In addition, we limited the amount of retiree's life insurance after December 31, 2004. These modifications are accounted for prospectively. The impact of these changes is being amortized over the average remaining period to full eligibility of the related postretirement benefits.

During 2009, we amended one of our U.S. plans to eliminate the life insurance benefit for certain non-pooled participants. As a result, we recorded a \$0.6 million curtailment gain in 2009.

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

	For the Year Ended December 31,					
	2009		2010		2011	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	<i>(Dollars in thousands)</i>					
Service cost	\$ 10	\$ 179	\$ 0	\$ 163	0	\$ 178
Interest cost	1,032	981	685	1,074	583	1,064
Amortization of prior service (credit) cost	0	(175)	0	(193)	0	(201)
Curtailment gain	(644)	0	0	0	0	0
Mark-to-market loss (gain)	1,570	117	(3,163)	1,121	(219)	1,538
	<u>\$1,968</u>	<u>\$1,102</u>	<u>\$(2,478)</u>	<u>\$2,165</u>	<u>\$364</u>	<u>\$2,579</u>

The primary driver of the mark-to-market loss in 2011 was a decrease in the discount rate due to lower interest rates.

Amounts recognized in other comprehensive income are:

	For the Year Ended December 31,					
	2009		2010		2011	
	U.S.	Foreign	U.S.	Foreign	U.S.	Foreign
	<i>(Dollars in thousands)</i>					
Amortization of prior service cost	\$ 0	\$ 175	\$ 0	\$ 193	\$ 0	\$ 201
Amortization of initial net asset	0	0	0	0	0	0
Effect of exchange rates	0	(414)	0	(131)	0	49
Total recognized in other comprehensive income	<u>\$ 0</u>	<u>\$(239)</u>	<u>\$ 0</u>	<u>\$ 62</u>	<u>\$ 0</u>	<u>\$ 250</u>
<b>Total recognized in net post retirement cost (benefit) and other comprehensive income</b>	<u>\$1,968</u>	<u>\$ 863</u>	<u>\$(2,478)</u>	<u>\$2,227</u>	<u>\$364</u>	<u>\$2,829</u>

We estimate that in 2012 our postretirement costs will include amortization of \$0.2 million of prior service credit from stockholders' equity.

The reconciliation of beginning and ending balances of benefit obligations under, fair value of assets of, and the funded status of, our postretirement plans is set forth in the following table:

	Postretirement Benefits at December 31,			
	2010		2011	
	U.S.	Foreign	U.S.	Foreign
	<i>(Dollars in thousands)</i>			
<b>Changes in Benefit Obligation:</b>				
Net benefit obligation at beginning of year	\$ 17,493	\$ 15,291	\$ 14,475	\$ 17,773
Service cost	0	163	0	178
Interest cost	685	1,074	583	1,064
Foreign currency exchange rates	0	1,275	0	(1,791)
Actuarial loss (gain)	(3,164)	1,051	(219)	1,625
Gross benefits paid	(539)	(1,081)	(523)	(1,257)
Net benefit obligation at end of year	<u>\$ 14,475</u>	<u>\$ 17,773</u>	<u>\$ 14,316</u>	<u>\$ 17,592</u>
<b>Changes in Plan Assets:</b>				
Fair value of plan assets at beginning of year	\$ 0	\$ 0	\$ 0	\$ 0
Employer contributions	539	1,081	523	1,257
Gross benefits paid	(539)	(1,081)	(523)	(1,257)
Fair value of plan assets at end of year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Funded status:	<u>\$(14,475)</u>	<u>\$(17,773)</u>	<u>\$(14,316)</u>	<u>\$(17,592)</u>
<b>Amounts recognized in accumulated other comprehensive loss:</b>				
Prior service credit	\$ 0	\$ 2,604	\$ 0	\$ 2,354
<b>Amounts recognized in the statement of financial position:</b>				
Current liabilities	\$ (1,548)	\$ (1,145)	\$ (1,512)	\$ (1,077)
Non-current liabilities	(12,927)	(16,628)	(12,803)	(16,515)
Net amount recognized	<u>\$(14,475)</u>	<u>\$(17,773)</u>	<u>\$(14,315)</u>	<u>\$(17,592)</u>



We annually re-evaluate assumptions and estimates used in projecting the postretirement liabilities and expenses. These assumptions and estimates may affect the carrying value of postretirement plan liabilities and expenses in our Consolidated Financial Statements. Assumptions used to determine net postretirement benefit costs and postretirement projected benefit obligation are set forth in the following table:

	<b>Postretirement Benefit Obligations At December 31,</b>	
	<b>2010</b>	<b>2011</b>
Weighted average assumptions to determine benefit obligations:		
Discount rate .....	5.52%	4.94%
Health care cost trend on covered charges:		
Initial .....	6.68%	7.68%
Ultimate .....	5.66%	5.71%
Years to ultimate .....	7	4
	<b>Postretirement Benefit Costs At December 31,</b>	
	<b>2010</b>	<b>2011</b>
Weighted average assumptions to determine net cost:		
Discount rate .....	5.96%	5.52%
Health care cost trend on covered charges:		
Initial .....	6.68%	6.68%
Ultimate .....	5.61%	5.66%
Years to ultimate .....	1	1

Assumed health care cost trend rates have a significant effect on the amounts reported for our postretirement benefits. A one-percentage point change in assumed health care cost trend rates would have the following effects at December 31, 2011:

	<b>One Percentage Point Increase</b>		<b>One Percentage Point Decrease</b>	
	<b>U.S.</b>	<b>Foreign</b>	<b>U.S.</b>	<b>Foreign</b>
	<i>(Dollars in thousands)</i>			
Effect on total service cost and interest cost components ..	\$ 8	\$ 146	\$ (7)	\$ (117)
Effect on benefit obligations ...	\$196	\$1,240	\$(159)	\$(1,017)

Discount rates are set for each plan in reference to the yields available on AA-rated corporate bonds of appropriate currency and duration. The appropriate discount rate is derived by developing an AA-rated corporate bond yield curve in each currency. The discount rate for a given plan is the rate implied by the yield curve for the duration of that plan's liabilities. In certain countries, where little public information is available on which to base discount rate assumptions, the discount rate is based on government bond yields or other indices and approximate adjustments to allow for the differences in weighted durations for the specific plans and/or allowance for assumed credit spreads between government and AA-rated corporate bonds.

The following table represents projected future postretirement cash flow by year:

	<b>U.S.</b>	<b>Foreign</b>
	<i>(Dollars in thousands)</i>	
<b>Expected contributions in 2012:</b>		
Expected employer contributions .....	\$1,512	\$ 1,104
Expected employee contributions .....	0	0
<b>Estimated future benefit payments reflecting expected future service for the years ending December 31:</b>		
2012 .....	1,512	1,104
2013 .....	1,500	1,111
2014 .....	1,464	1,119
2015 .....	1,392	1,123
2016 .....	1,317	1,119
2017-2021 .....	4,971	15,811

### **Other Non-Qualified Benefit Plans**

Since January 1, 1995, we have established various unfunded, non-qualified supplemental retirement and deferred compensation plans for certain eligible employees. We established benefits protection trusts (collectively, the "Trust") to partially provide for the benefits of employees participating in these plans. At December 31, 2010 and December 31, 2011, the Trust had assets of approximately \$4.3 million and \$4.2 million, respectively, which are included in other assets on the

Consolidated Balance Sheets. These assets include 75,807 shares of common stock that we contributed to the Trust. These shares, if later sold, could be used for partial funding of our future obligations under certain of our compensation and benefit plans. The shares held in Trust are not considered outstanding for purposes of calculating earnings per share until they are committed to be sold or otherwise used for funding purposes.

### **Savings Plan**

Our employee savings plan provides eligible employees the opportunity for long-term savings and investment. The plan allows employees to contribute up to 5% of pay as a basic contribution and an additional 45% of pay as supplemental contribution. For 2009, 2010 and 2011, we contributed on behalf of each participating employee, in units of a fund that invests entirely in our common stock, 100% on the first 3% contributed by the employee and 50% on the next 2% contributed by the employee. We contributed 258,436 shares in 2009, resulting in an expense of \$2.5 million; 175,530 shares in 2010, resulting in an expense of \$2.7 million; and 186,237 shares in 2011, resulting in an expense of \$3.3 million.

## **(13) Management Compensation and Incentive Plans**

### **Stock-Based Compensation**

We have historically maintained several stock incentive plans. The plans permitted the granting of options, restricted stock and other awards. At December 31, 2011, the aggregate number of shares authorized under the plans since their initial adoption was 23,300,000.

### **Stock-Based Compensation**

For the twelve months ended December 31, 2009, 2010 and 2011, we recognized \$3.2 million, \$7.4 million and \$9.0 million, respectively, in stock-based compensation expense. A majority of the expense, \$3.1 million, \$6.8 million and \$7.9 million, respectively, was recorded as selling and administrative expenses in the Consolidated Statements of Income, with the remainder recorded as cost of sales and research and development. We expect our stock-based compensation expense to approximate \$11.1 million in 2012.

As of December 31, 2011, the total compensation expense related to non-vested restricted stock and stock options not yet recognized was \$23.6 million which will be recognized over the weighted average life of 1.7 years.

In December 2011, the 2011 Long-Term Incentive Plan ("2011 LTIP") under our 2005 Equity Incentive Plan was approved. Under 2011 LTIP we granted 386,660 stock options with an exercise price of \$13.89; 193,270 restricted share units; and up to 518,280 performance shares, which represent the right to receive shares contingent upon the achievement of one or more performance measures. The options vest as to one-third of the grant on each of the next three grant date anniversaries and expire ten years from the grant date. The restricted share units vest as to one-third of the grant on each of the next three grant date anniversaries. Performance shares are earned based on our ranking of revenue and EBITDA (earnings before interest, taxes depreciation and amortization) growth compared to a target peer group for a three year period beginning January 1, 2012. Compensation for performance shares can fluctuate based on our relative performance to the peer group as well as how we perform to the targets. Performance shares earned will vest on March 31, 2015, provided the participant is still be employed by us on that date.

### *Accounting for Stock-Based Compensation*

*Restricted Stock and Performance Shares.* Compensation expense for restricted stock and performance share awards is based on the closing price of our common stock on the date of grant, less our assumptions of dividend yield and expected forfeitures or cancellations of awards throughout the vesting period, which generally range between one and three years. The weighted average grant date fair value of restricted stock and performance shares was approximately \$17.80 and \$16.37 per share at December 31, 2010 and 2011, respectively.

Restricted stock and performance share awards activity under the plans for the year ended December 31, 2011, was:

	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Outstanding unvested at		
January 1, 2011 .....	1,338,053	\$15.91
Granted .....	872,021	16.67
Vested .....	(240,485)	17.29
Forfeited/canceled/ expired .....	<u>(244,431)</u>	<u>17.92</u>
Outstanding at December 31, 2011 .....	<u><u>1,725,158</u></u>	\$15.82

During the year ended December 31, 2011, we granted 872,021 shares of restricted stock and performance shares to certain directors, officers and employees at prices ranging from \$13.09 to \$23.69. Of the total shares granted, 300,817 will vest over a three year period, with one-third of the shares vesting on the anniversary date of the grant in each of the next three years. An additional 259,140 shares will vest over a 39

month period, subject to performance multipliers, based on company performance against a peer group. The remaining shares vest over periods ranging from one to three years. Unvested shares granted to each employee also vest upon the occurrence of a change in control, as defined. Unvested shares are forfeited based on the terms of the award.

*Stock Options.* Compensation expense for stock options is based on the estimated fair value of the option on the date of the grant. We calculate the estimated fair value of the option using the Black-Scholes option-pricing model. During 2009, we granted 227,300 options to certain of our directors, officers and employees. The weighted-average fair value of the options granted in 2009 was \$10.35. During 2010, we granted 252,900 options to certain of our directors, officers and employees. The weighted-average fair value of the options granted in 2010 was \$11.57. During 2011, we granted 420,460 options to certain of our officers and employees. The weighted-average fair value of the options granted in 2011 was \$10.71. The weighted average assumptions used in our Black-Scholes option-pricing model for options granted in 2009, 2010 and 2011 are:

	<u>For the Year Ended December 31, 2009</u>	<u>For the Year Ended December 31, 2010</u>	<u>For the Year Ended December 31, 2011</u>
Dividend yield .....	0%	0%	0%
Expected volatility .....	69.72% - 70.61%	64.53% - 69.76%	57.75% - 58.83%
Risk-free interest rate .....	2.57% - 3.25%	1.43% - 3.08%	0.85% - 2.24%
Expected term in years .....	5.5 – 6 years	6 years	6 years

*Dividend Yield.* A dividend assumption of 0% is used for all grants based on our history of not paying dividends.

*Expected Volatility.* We estimate the volatility of our common stock at the date of grant based on the historical volatility of our common stock. The volatility factor we use is based on our historical stock prices over the most recent period commensurate with the estimated expected life of the award.

*Risk-Free Interest Rate.* We base the risk-free interest rate on the implied yield currently

available on U.S. Treasury zero-coupon issues with an equivalent remaining term equal to the expected life of the award.

*Expected Term In Years.* The expected life of awards granted represents the time period that the awards are expected to be outstanding. We determined the expected term of the grants using the "simplified" method as described by the SEC, since we do not have a history of stock option awards to provide a reliable basis for estimating such.

Stock option activity under the plans for the year ended December 31, 2011 was:

	<u>Number of Shares</u>	<u>Weighted- Average Exercise Price</u>
Outstanding unvested at		
January 1, 2011 .....	1,274,107	\$11.96
Granted .....	420,460	14.35
Forfeited/canceled/ expired .....	(50,666)	18.30
Exercised .....	<u>(316,814)</u>	<u>9.14</u>
Outstanding at December 31, 2011 .....	<u><u>1,327,087</u></u>	<u>\$13.15</u>

Options outstanding at December 31, 2011, have a weighted average remaining contractual life of 7.3 years, a weighted average remaining vesting period of 1.7 years, and an aggregate intrinsic value of \$2.8 million. The intrinsic value of options exercised for the year ended December 31, 2011 was \$2.6 million.

Stock options outstanding and exercisable under our plans at December 31, 2011 are:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Weighted Average Remaining Contractual Life in Years</u>	<u>Weighted Average Exercise Prices</u>	<u>Number Exercisable</u>	<u>Weighted Average Exercise Prices</u>
\$2.83 to \$22.57 .....	1,327,087	7.3	\$8.05	700,286	\$10.86

At December 31, 2011, we have 940,427 options vested and expected to vest in the next year. Options exercisable at December 31, 2011, have a weighted-average contractual life of 5.4 years and an aggregate intrinsic value of \$2.8 million.

### *Incentive Compensation Plans*

We have a global incentive program for our worldwide salaried and hourly employees, the Incentive Compensation Program (the "ICP"), which includes a shareholder-approved executive incentive compensation plan. The ICP is based primarily on earnings before income taxes and achieving cash flow targets and, to a lesser extent, strategic targets. The balance of our

accrued liability for ICP was \$16.8 million and \$0.5 at December 31, 2010 and 2011, respectively.

## **(14) 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.

## 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 \$2.7 million at December 31, 2010 and \$1.5 million at December 31, 2011. The following table presents the activity in this accrual for the year ended December 31, 2011:

	<u>(Dollars in Thousands)</u>
<b>Balance at December 31,</b>	
<b>2010</b> .....	\$2,653
Product warranty charges/ adjustments .....	(365)
Payments and settlements ...	<u>(757)</u>
<b>Balance at December 31,</b>	
<b>2011</b> .....	<u>1,531</u>

Income tax expense (benefit) consists of the following:

	<u>For the Year Ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>		
U.S. income taxes:			
Current .....	\$18,373	\$ 6,307	\$ 16,988
Deferred .....	<u>(9,894)</u>	<u>(29,060)</u>	<u>(46,379)</u>
	8,479	(22,753)	(29,391)
Non-U.S. income taxes:			
Current .....	14,617	21,638	18,173
Deferred .....	<u>(394)</u>	<u>20</u>	<u>1,325</u>
	14,223	21,658	19,498
Total income tax expense (benefit) .....	<u>\$ 22,702</u>	<u>\$ (1,095)</u>	<u>\$ (9,893)</u>

## (15) Income Taxes

The following table summarizes the U.S. and non-U.S. components of income (loss) before provision (benefit) for income taxes:

	<u>For the Year Ended December 31,</u>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>		
U.S. ....	\$(50,781)	\$ 32,539	\$ 32,877
Non-U.S. ....	<u>89,191</u>	<u>141,026</u>	<u>110,414</u>
	<u>\$38,410</u>	<u>\$173,565</u>	<u>\$143,291</u>

Income tax expense (benefit) differed from the amounts computed by applying the U.S. federal income tax rate of 35% to income before provision (benefit) for income taxes as set forth in the following table:

	For the Year Ended December 31,		
	2009	2010	2011
	<i>(Dollars in thousands)</i>		
Tax at statutory U.S. federal rate	\$ 13,444	\$ 60,748	\$ 50,152
U.S. valuation allowance, net	20,350	(42,393)	(45,989)
State taxes, net of federal tax benefit	53	337	474
U.S. tax return adjustments to estimated taxes	(2,598)	3,311	(455)
Non-controlling interest gain	0	(3,345)	0
Nondeductible expenses acquisition costs	0	5,324	0
Establishment (resolution) of uncertain tax positions	6,141	(1,151)	1,507
U.S. tax impact of foreign earnings, net of foreign tax credits	4,532	(19,107)	(14,450)
Non-U.S. tax exemptions, holidays and credits	(5,147)	(4,781)	(2,535)
Worthless stock deduction	(14,067)	0	0
Other	(6)	(38)	1,403
Total income tax expense (benefit)	<u>\$ 22,702</u>	<u>\$ (1,095)</u>	<u>\$ (9,893)</u>

The tax effects of temporary differences that give rise to significant components of the deferred tax assets and deferred tax liabilities at December 31, 2010, and December 31, 2011 are set forth in the following table:

	At December 31,	
	2010	2011
	<i>(Dollars in thousands)</i>	
Deferred tax assets:		
Postretirement and other employee benefits	\$ 46,384	\$ 48,209
Foreign tax credit and other carryforwards	85,342	57,428
Capitalized research and experimental costs	2,670	1,712
Environmental reserves	5,021	3,935
Inventory adjustments	5,146	11,202
Capital loss	3,253	3,226
Other	7,899	7,148
Total gross deferred tax assets	155,715	132,860
Less: valuation allowance	(74,945)	(25,509)
Total deferred tax assets	<u>80,770</u>	<u>107,351</u>
Deferred tax liabilities:		
Fixed assets	\$ 87,610	\$ 90,552
Debt discount amortization	15,269	12,563
Inventory	3,950	5,575
Unrealized foreign currency exchange gain	2,227	560
Goodwill and acquired intangibles	32,212	13,240
Other	1,424	730
Total deferred tax liabilities	<u>142,692</u>	<u>123,220</u>
Net deferred tax liability	<u>\$ 61,922</u>	<u>\$ 15,869</u>

Deferred income tax assets and liabilities are classified on a net current and non-current basis within each tax jurisdiction. Net current deferred income tax assets are included in prepaid expenses and other current assets in the amount of \$7.2 million at December 31, 2010 and \$14.7 million at December 31, 2011. Net non-current deferred tax assets are separately stated as deferred income taxes in the amount of \$6.7 million at December 31, 2010 and \$7.9 million at December 31, 2011. Net current deferred tax liabilities are included in accrued income and other taxes in the amount of \$3.5 million at December 31, 2010 and \$6.3 million at December 31, 2011. Net non-current deferred tax liabilities are separately stated as deferred income taxes in the amount of \$72.3 million at December 31, 2010 and \$32.2 million at December 31, 2011.

We have assessed 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. Valuation allowance of \$49.4 million was released in 2011. Of this amount, \$22.9 million of this release was attributable to current year income. An additional amount was released after considering all available evidence in assessing the need for a valuation allowance, including the review of existing level of profitability and recently available projections of future taxable income, which are comparable with current year results. Based on this assessment, we have released an additional \$26.5 million of valuation allowance relating to the associated attributes, primarily foreign tax credit carryforwards, that are expected to be utilized in future years.

Until we determine that it is more likely than not that we will generate sufficient jurisdictional taxable income to realize our other deferred income tax assets, these assets will continue to be fully reserved.

Valuation allowance activity for the years ended December 31, 2009, 2010 and 2011 is as follows:

	For the year ended December 31,		
	2009	2010	2011
	<i>(Dollars in thousands)</i>		
Balance at			
January 1 . . . . .	\$ 42,900	\$106,831	\$ 74,945
(Credited) / charged to			
income . . . . .	20,499	(11,366)	(49,403)
Acquisition			
accounting . . . . .	0	(30,333)	0
Translation			
adjustment . . . . .	1,721	528	(391)
Changes attributable			
to movement in			
underlying assets . . .	41,711	9,397	358
Other . . . . .	0	(112)	0
Balance at			
December 31 . . . . .	<u>\$106,831</u>	<u>\$ 74,945</u>	<u>\$ 25,509</u>

We have total foreign tax credit carryforwards of \$33.2 million at December 31, 2011. Of these tax credit carryforwards, \$3.2 million expires in 2012, \$1.5 million expires in 2013, \$1.1 million expires in 2014, \$3.7 million expires in 2015, and \$23.7 million expires in 2016.

In addition, we have state carryforwards on a gross tax effected basis of \$12.7 million, which can be carried forward from 5 to 20 years. Historically, a full valuation allowance position existed on state net operating loss carryforward deferred tax assets. We have assessed 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, including existing level of profitability and recently available projections of future taxable income, which are comparable with current year results. Based on this assessment, we released valuation allowance of \$1.1 million in 2011, relating to the carryforwards that are expected to be utilized in future years through the generation of future state taxable income.

Based upon the levels of historical state taxable income and projections of future state taxable income over the periods during which the other state carryforwards are utilizable, we do not believe it is more likely than not that we will realize the tax benefits of these deferred tax assets. Until we determine that we will generate sufficient jurisdictional taxable income to realize our other state deferred tax assets, these assets will continue to be fully reserved.

The amount of state net operating loss carryforwards reflected in the table above has been reduced by \$1.3 million as a result of unrealized stock option deductions.

We have non-U.S. loss and tax credit carryforwards on a gross tax effected basis of \$13.0 million, which can be carried forward from 5 years to indefinitely.

As of December 31, 2011, we had unrecognized tax benefits of \$16.2 million, the majority of which, if recognized, would have a favorable impact on our effective tax rate. We have elected to report interest and penalties related to uncertain tax positions as income tax expense. Accrued interest and penalties were \$0.3 million as of December 31, 2009, \$0.3 million as of December 31, 2010 and \$0.6 million as of December 31, 2011. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	<b>December 31,</b>		
	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<i>(Dollars in thousands)</i>		
Balance at January 1 . . . .	\$10,779	\$ 20,656	\$13,719
Additions based on tax positions related to the current year . . . . .	217	0	0
Additions for tax positions of prior years . . . . .	13,882	15,205	3,910
Reductions for tax positions of prior years . . . . .	(3,705)	(20,660)	(165)
Lapse of statutes of limitations . . . . .	(580)	(1,183)	(627)
Foreign currency impact . . . . .	<u>63</u>	<u>(299)</u>	<u>(49)</u>
Balance at December 31 . . . . .	<u>\$20,656</u>	<u>\$ 13,719</u>	<u>\$16,788</u>

We anticipate that \$0.2 million of the amount of unrecognized tax benefits may be reversed within the next twelve months due to settlements and the expiration of statutes of limitation.

We file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. We are currently under federal audit in the U.S. for tax years 2008 and 2009. All U.S. tax years prior to 2008 are closed by statute or have been audited and settled with the domestic tax authorities. We are also under audit in Switzerland for federal, cantonal, and communal taxes for the fiscal years ended 2006 – 2009, and in Italy for our 2006 tax year. All other non-U.S. jurisdictions are still open to examination beginning after 2005.

We have not provided for U.S. income taxes or foreign withholding taxes on the December 31, 2011, undistributed earnings of our foreign subsidiaries which are considered to be permanently reinvested. These earnings would be taxable upon the sale or liquidation of the foreign subsidiaries, or upon the remittance of dividends. The measurement of the unrecognized U.S. income taxes, if any, that may be associated with these undistributed earnings, is not practicable.



## (16) Earnings Per Share

The following table shows the information used in the calculation of our basic and diluted earnings per share as of December 31:

	At December 31,		
	2009	2010	2011
	<i>(Dollars in thousands)</i>		
Weighted average common shares outstanding for basic calculation . . . . .	119,706,641	122,620,950	145,156,045
Add: Effect of stock options and restricted stock . . . . .	1,026,217	831,615	1,246,241
Weighted average common shares outstanding for diluted calculation . . . . .	<u>120,732,858</u>	<u>123,452,565</u>	<u>146,402,286</u>

The weighted average common shares outstanding for the diluted calculation excludes consideration of stock options covering 281,172 shares in 2009, 453,700 shares in 2010 and 226,897 shares in 2011 because the exercise of these options would have been anti-dilutive due to their exercise prices being in excess of the weighted average market price of our common stock for each of the applicable periods.

## (17) Accumulated Other Comprehensive Loss

The balance in our accumulated other comprehensive loss is set forth in the following table:

	For year ended December 31,	
	2010	2011
	<i>(Dollars in thousands)</i>	
Foreign currency translation adjustments . . . . .	\$239,080	\$ 271,282
Unrealized (gains) on securities, net of tax of \$375 and \$1,714, respectively . . . . .	(1,039)	(7,072)
Prior service costs . . . . .	<u>(2,283)</u>	<u>(2,273)</u>
Total accumulated comprehensive loss . . . . .	<u>\$235,758</u>	<u>\$261,937</u>

### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

### Item 9A. Controls and Procedures

#### Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding

required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company carries out a variety of on-going procedures, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that the internal control over financial reporting was effective as of December 31, 2011.

### Changes in Internal Control over Financial Reporting

There has been no change in the Company's internal controls over financial reporting during the Company's most recent fiscal quarter that has materially

<u>Name</u>	<u>Age</u>	<u>Position</u>
Craig S. Shular	59	Chief Executive Officer, President, and Chairman of the Board
Lindon G. Robertson	50	Vice President and Chief Financial Officer
Petrus J. Barnard	62	Vice President and President, Industrial Materials
Joel L. Hawthorne	47	Vice President and President, Engineered Solutions
John D. Moran	53	Vice President and General Counsel, Secretary

### Executive Officers

**Craig S. Shular** was elected Chairman of the Board in February 2007. He became Chief Executive Officer and a director in January 2003 and has served as

affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein.

### Item 9B. Other Information

Not applicable.

## PART III

### Items 10 to 14 (inclusive).

Except as set forth below, the information required by Items 10, 11, 12, 13 and 14 will appear in the GrafTech International Ltd. Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012, which will be filed on April 12, 2012 pursuant to Regulation 14A under the Securities Exchange Act of 1934 and is incorporated by reference in this Report pursuant to General Instruction G(3) of Form 10-K (other than the portions thereof not deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934).

The information set forth below is provided as required by Item 10 and the listing standards of the NYSE.

The following table sets forth information with respect to our current executive officers and directors, including their ages, as of February 15, 2012. There are no family relationships between any of our executive officers.

President since May 2002. From May 2002 through December 2002, he also served as Chief Operating Officer. From August 2001 to May 2002, he served as Executive Vice President of our former Graphite Power

Systems Division. He served as Vice President and Chief Financial Officer from January 1999, with the additional duties of Executive Vice President, Electrode Sales and Marketing from February 2000, to August 2001. From 1976 through 1998, he held various financial, production and business management positions at Union Carbide, including the Carbon Products Division, from 1976 to 1979. We are the successor to the Carbon Products Division of Union Carbide. Mr. Shular serves on the Board of Directors of Junior Achievement of Greater Cleveland and is a director of Brush Engineered Materials Inc. (NYSE-BW).

**Lindon G. Robertson** became Vice President and Chief Financial Officer in July 2011. He joined GrafTech from IBM Corporation (IBM), where he had a twenty-seven year career in finance and international business. During his tenure at IBM, Mr. Robertson held multiple senior financial leadership roles, including responsibility for IBM's hardware business, which exceeds \$20 billion in revenue. He also held international assignments in China and Japan, totaling 10 years. Mr. Robertson has an undergraduate degree in accounting from the University of Texas, an MBA from the University of North Carolina and is a Certified Public Accountant.

**Petrus J. Barnard** became President of Industrial Materials in February 2008, and became a Vice President in April 2005. He was the President of Graphite Electrodes from April 2005 until January 2008. From April 2003 to March 2005 he served as President, Advanced Carbon Materials. He served as Executive Vice President, Graphite Power Systems, from March 2000 to March 2003. He began his career with us in 1972 when he joined our South Africa subsidiary where he served as Managing

Director from 1991 to 1994. From November 1994 to September 1997, he was the Director of Operations for Europe and South Africa, based in France. In 1997 through 2000, he was the Director of Operations for the Americas. He is a graduate of University of Potchefstroom — South Africa with a B.S. Sciences degree and an MBA. He also holds a Ph.D. from Rand Afrikaans University.

**Joel L. Hawthorne** became President, Engineered Solutions in March 2011. Mr. Hawthorne joined GrafTech as Director of Investor Relations in August 1999. In January 2001, he was appointed Director of Electrode Sales & Marketing, Americas and, in October 2005, he was appointed Director Worldwide Marketing and Americas Sales. In January 2009, he was appointed Vice President, Global Marketing & Sales for Industrial Materials with responsibility for all aspects of worldwide marketing and sales for the segment. Mr. Hawthorne holds a Bachelor of Science degree in Accounting and a Master of Science degree in Business Education from the University of Akron.

**John D. Moran** became Vice President and General Counsel, Secretary in April 2009. He joined GrafTech in May 2006 as Deputy General Counsel. From December 1996 to April 2006, he was employed by Corpro Companies, Inc. serving as General Counsel, Senior Vice President & Secretary. He was in-house Counsel and Corporate Secretary for Sealy Corporation between January 1987 and December 1996. From 1984 through 1987 he was a tax accountant with Grant Thornton and became a Certified Public Accountant. He received a Bachelor of Business Administration in 1980 and Juris Doctorate in 1983 from Cleveland State University.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

See Index to Consolidated Financial Statements at page 67 of this Report.

(2) Financial Statement Schedules

None.

(b) Exhibits

The exhibits listed in the following table have been filed with, or incorporated by reference into, this Report.

The exhibits listed in the following table have been filed with this Report.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
2.1.0(1)	Recapitalization and Stock Purchase and Sale Agreement dated as of November 14, 1994 among Union Carbide Corporation, Mitsubishi Corporation, GrafTech International Ltd. and GrafTech International Acquisition Inc. and Guaranty made by Blackstone Capital Partners II Merchant Banking Fund L.P. and Blackstone Offshore Capital Partners II L.P.
2.2.0(1)	Stock Purchase and Sale Agreement dated as of November 9, 1990 among Mitsubishi Corporation, Union Carbide Corporation and UCAR Carbon Company Inc.
2.3.0(1)	Transfer Agreement dated January 1, 1989 between Union Carbide Corporation and UCAR Carbon Company Inc.
2.3.1(1)	Amendment No. 1 to Transfer Agreement dated December 31, 1989.
2.3.2(1)	Amendment No. 2 to Transfer Agreement dated July 2, 1990.
2.3.3(1)	Amendment No. 3 to Transfer Agreement dated as of February 25, 1991.
2.4.0(1)	Amended and Restated Realignment Indemnification Agreement dated as of June 4, 1992 among Union Carbide Corporation, Union Carbide Chemicals and Plastics Company Inc., Union Carbide Industrial Gases Inc., UCAR Carbon Company Inc. and Union Carbide Coatings Service Corporation.
2.5.0(1)	Environmental Management Services and Liabilities Allocation Agreement dated as of January 1, 1990 among Union Carbide Corporation, Union Carbide Chemicals and Plastics Company Inc., UCAR Carbon Company Inc., Union Carbide Industrial Gases Inc. and Union Carbide Coatings Service Corporation.
2.5.1(1)	Amendment No. 1 to Environmental Management Services and Liabilities Allocation Agreement dated as of June 4, 1992.
2.6.0(2)	Trade Name and Trademark License Agreement dated March 1, 1996 between Union Carbide Corporation and UCAR Carbon Technology Corporation.
2.7.0(1)	Employee Benefit Services and Liabilities Agreement dated January 1, 1990 between Union Carbide Corporation and UCAR Carbon Company Inc.
2.7.1(1)	Amendment to Employee Benefit Services and Liabilities Agreement dated January 15, 1991.
2.7.2(1)	Supplemental Agreement to Employee Benefit Services and Liabilities Agreement dated February 25, 1991.
2.8.0(1)	Letter Agreement dated December 31, 1990 among Union Carbide Chemicals and Plastics Company Inc., UCAR Carbon Company Inc., Union Carbide Grafite, Inc. and Union Carbide Corporation.
2.9.0(21)	Agreement and Plan of Merger, dated as of April 28, 2010, among GrafTech International Ltd., GrafTech Holdings Inc., GrafTech Delaware I Inc., GrafTech Delaware II Inc., Seadrift Coke L.P., and certain partners of Seadrift Coke L.P.

Exhibit Number	Description of Exhibit
2.10.0(21)	Agreement and Plan of Merger, dated as of April 28, 2010, by and among GrafTech International Ltd., GrafTech Holdings Inc., GrafTech Delaware III Inc., C/G Electrodes, LLC, and certain members of C/G Electrodes, LLC.
3.1.0(23)	Amended and Restated Certificate of Incorporation of GrafTech International Ltd. Dated November 30, 2010.
3.2.0(23)	Amended and Restated By-Laws of GrafTech International Ltd. dated November 30, 2010.
10.1.0(26)	Amended and Restated Credit Agreement dated as of October 7, 2011 among GrafTech International Ltd., GrafTech Finance Inc., GrafTech Switzerland S.A., the LC Subsidiary from time to time party thereto, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, Collateral Agent and Issuing Bank.
10.1.1(26)	Amendment and Restatement Agreement dated as of October 7, 2011 in respect of the Credit Agreement dated as of April 28, 2010 among GrafTech International Ltd., GrafTech Global Enterprises Inc., GrafTech Finance Inc., GrafTech Switzerland, S.A. the LC Subsidiaries from time to time party thereto, the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent.
10.1.2(26)	Reaffirmation Agreement dated as of October 7, 2011 among GrafTech International Ltd., GrafTech Finance Inc., GrafTech Switzerland, S.A., the Subsidiaries party thereto and JPMorgan Chase Bank, N.A., as the Administrative Agent.
10.1.3(21)	Amended and Restated Guarantee Agreement dated as of April 28, 2010 made by GrafTech International Ltd., GrafTech Global Enterprises Inc., GrafTech Finance Inc., and the other subsidiaries of GrafTech International Ltd. from time to time party thereto, in favor of JP Morgan Chase Bank, N.A., as Collateral Agent for the Secured Parties
10.1.4(21)	Amended and Restated Security Agreement dated as of April 28, 2010 made by GrafTech International Ltd., GrafTech Global Enterprises Inc., GrafTech Finance Inc., and the other subsidiaries of GrafTech International Ltd. from time to time party thereto, in favor of JPMorgan Chase Bank, N.A., as Collateral Agent for the Secured Parties.
10.1.5(21)	Amended and Restated Indemnity, Subrogation and Contribution Agreement dated as of April 28, 2010 among GrafTech International Ltd., GrafTech Global Enterprises Inc., GrafTech Finance Inc., each of the other domestic subsidiaries of GrafTech International Ltd. from time to time party thereto, and JPMorgan Chase Bank, N.A., as Collateral Agent for the Secured Parties.
10.1.6(21)	Amended and Restated Pledge Agreement dated as of April 28, 2010 made by GrafTech International Ltd., GrafTech Global Enterprises Inc., GrafTech Finance Inc., and the other subsidiaries of GrafTech International Ltd. from time to time party thereto, in favor of JPMorgan Chase Bank, N.A., as Collateral Agent for the Secured Parties.
10.1.7(21)	Pledge Agreement dated as of April 28, 2010 made by GrafTech Switzerland S.A., in favor of JPMorgan Chase Bank, N.A., as Collateral Agent for the Secured Parties.
10.1.8(21)	Amended and Restated Intellectual Property Security Agreement dated as of April 28, 2010 made by GrafTech International Ltd., GrafTech Global Enterprises Inc., GrafTech Finance Inc., and the other subsidiaries of GrafTech International Ltd. from time to time party thereto, in favor of JPMorgan Chase Bank, N.A., as Collateral Agent for the Secured Parties.
10.1.9(21)	Swiss Security Agreement dated April 28, 2010 between GrafTech Switzerland S.A., as Assignor, and JPMorgan Chase Bank, N.A., as Assignee.
10.1.10(26)	Confirmation and Amendment Agreement dated 7 October 2011 relating to the Swiss Security Agreement dated April 28, 2010 between Graftech Switzerland SA as Assignor and JPMorgan Chase Bank, N.A. as Assignee.

Exhibit Number	Description of Exhibit
10.1.11(21)	Form of LC Subsidiary Agreement among GrafTech Finance Inc. or GrafTech Switzerland S.A., as the Applicable Borrower, the applicable LC Subsidiary and JPMorgan Chase Bank, N.A., as Administrative Agent.
10.2.0(8)	Form of Restricted Stock Unit Agreement.
10.3.0(14)	Forms of Restricted Stock Agreement (2005 LTIP Version).
10.3.1(16)	Form of Amendment to Restricted Stock Agreements 2005-2007 (2005 LTIP Version).
10.4.0(17)	Form of Performance Share Award Agreement (2008 Version)
10.5.0(19)	Form of Long Term Incentive Plan Award Agreement (2009 Version)
10.5.1(27)	Form of Long Term Incentive Plan Award Agreement (2010 Version)
10.5.2(27)	Form of Long Term Incentive Plan Award Agreement (2011 Version)
10.6.0(9)	GrafTech International Ltd. Management Stock Incentive Plan (Senior Version) as amended and restated through July 31, 2003.
10.7.0(10)	GrafTech International Ltd. Incentive Compensation Plan, effective January 1, 2003.
10.7.1(16)	Amendment No. 1 GrafTech International Ltd. Incentive Compensation Plan dated December 29, 2008.
10.8.0(11)	Form of Restricted Stock Agreement (Standard Form).
10.9.0(16)	GrafTech International Holdings Inc. Compensation Deferral Program as amended and restated (December 29, 2008).
10.10.0(27)	Amended and Restated GrafTech International Ltd. 2005 Equity Incentive Plan.
10.11.0(8)	Form of Severance Compensation Agreement for senior management (U.S. 2.99 Version).
10.11.1(16)	Form of IRS 409A Amendment to Severance Compensation Agreement for senior management (December 2008 U.S. 2.99 Version).
10.11.2(25)	Form of Severance Compensation Agreement for senior management (U.S. 2.99 Version – Revised)
10.12.0(8)	Form of Severance Compensation Agreement for senior management (December 2008 International 2.99 Version).
10.12.1(16)	Form of IRS 409A Amendment to Severance Compensation Agreement for senior management (December 2008 International 2.99 Version).
10.13.0(14)	Form of Non-qualified Stock Option Agreement
10.14.0(24)	Agreement effective as of January 1, 2011 between and among ConocoPhillips Company and GrafTech International Holdings Inc. and Graftech Switzerland S.A. (confidential treatment requested under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC).
10.14.1(24)	Agreement effective as of January 1, 2011 among ConocoPhillips Limited (successor to ConocoPhillips (I.K.) Limited) and Graftech Switzerland S.A. (confidential treatment requested under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC).
10.15.1(14)	Form of Terms and Conditions of Sale to standard contract of sale (2007 revision)
10.16.0(13)	Technology License Agreement, dated as of December 5, 2006, among GrafTech International Ltd., UCAR Carbon Company Inc., Alcan France, and Carbone Savoie (confidential treatment requested under Rule 24b-2 as to certain portions which are omitted and filed separately with the SEC.)
10.17.0(24)	Form of Indemnification Agreement with Directors and Executive Officers.
10.18.0(18)	Executive Incentive Compensation Plan
10.19.0(23)	Form of Senior Subordinated Promissory Note. issued pursuant to April 28, 2010 Agreements and Plans of Merger.
10.20.0(23)	Form of Registration Rights and Stockholders' Agreement, dated as of November 30, 2010, by and among GrafTech International Ltd. and each of the stockholders party thereto entered into pursuant to April 28, 2010 Agreements and Plans of Merger.
21.1.0(27)	List of subsidiaries of GrafTech International Ltd.

Exhibit Number	Description of Exhibit
23.1.0(27)	Consent of PricewaterhouseCoopers LLP.
24.1.0(27)	Powers of Attorney. (Included on Signatures pages)
31.1.0(27)	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Craig S. Shular, Chief Executive Officer and President.
31.2.0(27)	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Lindon G. Robertson, Vice President and Chief Financial Officer.
32.1.0(27)	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Craig S. Shular, Chief Executive Officer and President.
32.2.0(27)	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Lindon G. Robertson, Vice President and Chief Financial Officer.
101	INS XBRL Instance Document
101	SCH XBRL Taxonomy Extension Schema Document
101	CAL XBRL Taxonomy Extension Calculation Linkbase Document
101	DEF XBRL Taxonomy Extension Definition Linkbase Document
101	LAB XBRL Taxonomy Extension Label Linkbase Document
101	PRE XBRL Taxonomy Extension Presentation Linkbase Document
10.19(23)	Form of Senior Subordinated Promissory Note. issued pursuant to April 28, 2010 Agreements and Plans of Merger.

- (1) Incorporated by reference to the Registration Statement of GrafTech International Ltd. and GrafTech Global Enterprises Inc. on Form S-1 (Registration No. 33-84850).
- (2) Incorporated by reference to the Quarterly Report of the registrant on Form 10-Q for the quarter ended March 31, 1996 (File No. 1-13888).
- (3) Incorporated by reference to the Annual Report of the registrant on Form 10-K for the year ended December 31, 1998 (File No. 1-13888).
- (4) Incorporated by reference to the Quarterly Report of the registrant on Form 10-Q for the quarter ended June 30, 2003 (File No. 1-13888).
- (5) Incorporated by reference to the Annual Report of the registrant on Form 10-K for the year ended December 31, 2001 (File No. 1-3888).
- (6) Incorporated by reference to the Annual Report of the registrant on Form 10-K for the year ended December 31, 2004 (File No. 1-13888).
- (7) Incorporated by reference to the Quarterly Report of the registrant on Form 10-Q for the quarter ended September 30, 2005 (File No. 1-13888).
- (8) Incorporated by reference to the Annual Report of the registrant on Form 10-K for the year ended December 31, 2005 (File No. 1-13888).
- (9) Incorporated by reference to the Registration Statement of the registrant on Form S-3 (Registration No. 333-108039).
- (10) Incorporated by reference to the Quarterly Report of the registrant on Form 10-Q for the quarter ended March 31, 2006 (File No. 1-13888).
- (11) Incorporated by reference to the Current Report of the registrant on Form 8-K filed on September 6, 2005 (File No. 1-13888).
- (12) Incorporated by reference to the Quarterly Report of the registrant on Form 10-Q for the quarter ended June 30, 2001 (File No. 1-13888).
- (13) Incorporated by reference to the Annual Report of the registrant on Form 10-K for the year ended December 31, 2006 (File No. 1-13888).

- (14) Incorporated by reference to the Annual Report of the registrant on Form 10-K for the year ended December 31, 2007 (File No. 1-13888).
- (15) Incorporated by reference to the Quarterly Report of the registrant on Form 10-Q for the quarter ended June 30, 2008 (File No. 1-13888).
- (16) Incorporated by reference to the Annual Report of the registrant on Form 10-K for the year ended December 31, 2008 (File No. 1-13888).
- (17) Incorporated by reference to the Quarterly Report of the registrant on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-13888).
- (18) Incorporated by reference to the Definitive Proxy Statement for the 2009 Annual Meeting of Stockholders of the registrant (File No. 1-13888).
- (19) Incorporated by reference to the Annual Report of GrafTech International Ltd. on Form 10-K for the year ended December 31, 2009 (File No. 1-13888).
- (20) Incorporated by reference to Amendment No. 1 to the Annual Report of GrafTech International Ltd. on Amendment No.1 to Form 10-K for the year ended December 31, 2009 (File No. 1-13888).
- (21) Incorporated by reference to the Registration Statement of GrafTech Holdings Inc. on Form S-4 (Registration No. 167446) filed June 10, 2010.
- (22) Incorporated by reference to Amendment No. 1 to the Registration Statement of GrafTech Holdings Inc. on Form S-4 (Registration No. 167446) filed August 19, 2010.
- (23) Incorporated by reference to the Current Report of the registrant on Form 8-K filed on November 30, 2010 (File No. 1-13888).
- (24) Incorporated by reference to the Annual Report of GrafTech International Ltd. on Form 10-K for the year ended December 31, 2010 (File No. 1-13888).
- (25) Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 (File No. 1-13888).
- (26) Incorporated by reference to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (File No. 1-13888).
- (27) Filed herewith.



## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.5.1	Form of Long Term Incentive Plan Award Agreement (2010 Version)
10.5.2	Form of Long Term Incentive Plan Award Agreement (2011 Version)
10.10.0	Amended and Restated GrafTech International Ltd. 2005 Equity Incentive Plan
21.1.0	List of subsidiaries of GrafTech International Ltd.
23.1.0	Consent of PricewaterhouseCoopers LLP
24.1.0	Powers of Attorney (Included on Signatures pages)
31.1.0	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Craig S. Shular, Chief Executive Officer and President.
31.2.0	Certification pursuant to Rule 13a-14(a) under the Exchange Act by Lindon G. Robertson, Vice President and Chief Financial Officer .
32.1.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Craig S. Shular, Chief Executive Officer and President.
32.2.0	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Lindon G. Robertson, Vice President and Chief Financial Officer .
101	INS XBRL Instance Document
101	SCH XBRL Taxonomy Extension Schema Document
101	CAL XBRL Taxonomy Extension Calculation Linkbase Document
101	DEF XBRL Taxonomy Extension Definition Linkbase Document
101	LAB XBRL Taxonomy Extension Label Linkbase Document
101	PRE XBRL Taxonomy Extension Presentation Linkbase Document



<u>Signatures</u>	<u>Title</u>	<u>Date</u>
<u>/s/ FERRELL P. McCLEAN</u> Ferrell P. McClean	Director	February 23, 2012
<u>/s/ NATHAN MILIKOWSKY</u> Nathan Milikowsky	Director	February 23, 2012
<u>/s/ MICHAEL C. NAHL</u> Michael C. Nahl	Director	February 23, 2012
<u>/s/ STEVEN R. SHAWLEY</u> Steven R. Shawley	Director	February 23, 2012

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# CORPORATE AND INVESTOR INFORMATION

## BOARD OF DIRECTORS

**Craig S. Shular**  
Chairman, Chief Executive Officer & President

**Randy W. Carson**  
Organization, Compensation & Pension Committee

**Mary B. Cranston**  
Presiding Director  
Nominating & Governance Committee (Chairperson)  
Organization, Compensation & Pension Committee

**Harold E. Layman**  
Organization, Compensation & Pension Committee  
(Chairperson); Nominating & Governance Committee

**Ferrell P. McClean**  
Audit & Finance Committee  
Nominating & Governance Committee

**Nathan Milikowsky**  
Audit & Finance Committee

**Michael C. Nahl**  
Audit & Finance Committee (Chairperson)  
Organization, Compensation & Pension Committee

**Steven R. Shawley**  
Audit & Finance Committee

## CORPORATE HEADQUARTERS

GrafTech International Ltd.  
12900 Snow Road  
Parma, OH 44130

## E-MAIL ADDRESS

Investor.Relations@graftech.com

## TELEPHONE

216-676-2000

## WEBSITE

www.graftech.com

## STOCK EXCHANGE LISTING

Our common stock is listed on the NYSE under the symbol GTI.

## STOCKHOLDER PROFILE

At December 30, 2011, there were 143,520,160 shares of common stock outstanding.

## DIVIDEND POLICY

It is the current policy of our Board of Directors to retain earnings to finance plans and operations and meet obligations. We periodically review our dividend policy. At the present time there are no plans to declare or pay dividends. Payment of any dividend is subject to restrictions under our principal credit facilities.

## ANNUAL MEETING

The Annual Meeting of Stockholders will be held on May 15, 2012, at 10:00 a.m. (Eastern Time) at the Corporate Headquarters in Parma, Ohio.

## STOCKHOLDER CONTACT AND FORM 10-K

Stockholders, prospective investors and other interested parties are welcome to call or write us with questions. A copy of the annual report filed with the SEC on Form 10-K is available, without charge, upon written request to Kelly Taylor, Director, Investor Relations & Corporate Communications, at the Company's Corporate Headquarters.

## TRANSFER AGENT

Computershare Investor Services LLC  
312-588-4990  
www.computershare.com

## INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP

## RISKS AND UNCERTAINTIES

This annual report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The cautionary disclosure relating to forward-looking statements, the risk factors and the preliminary notes contained in the Form 10-K that accompanies this annual report also apply to and are incorporated in this annual report.

## CEO AND CFO CERTIFICATIONS

In 2011, our Chief Executive Officer (CEO) provided to the New York Stock Exchange the annual CEO's certification regarding compliance with the New York Stock Exchange's corporate governance listing standards. In addition, all required CEO and Chief Financial Officer certifications regarding the quality of our public disclosures in our fiscal 2011 reports were filed with the U.S. Securities and Exchange Commission.

## COMMON STOCK PRICE

Date	Closing Price	Market Cap (in millions)
December 29, 2006	\$ 6.92	\$ 681
December 31, 2007	\$17.75	\$1,814
December 31, 2008	\$ 8.32	\$ 987
December 31, 2009	\$15.55	\$1,866
December 31, 2010	\$19.84	\$2,875
December 30, 2011	\$13.65	\$1,959



**Redefining limits**

**GrafTech International Ltd.**

12900 Snow Road  
Parma, OH 44130

[www.graftech.com](http://www.graftech.com)

