

GRAFTECH INTERNATIONAL LTD

Form 10-Q

May 10, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended March 31, 2007

OR

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

for the transition period from _____ to _____

Commission file number: 1-13888

GRAFTECH INTERNATIONAL LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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12900 Snow Road

Parma, OH
(Address of principal executive offices)

44130
(Zip code)

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of April 30, 2007, 99,308,209 shares of common stock, par value \$.01 per share, were outstanding.

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

	At December 31, 2006	At March 31, 2007
Current Assets:		
Cash and cash equivalents	\$ 149,517	\$ 26,733
Accounts and notes receivable, net of allowance for doubtful accounts of \$3,186 at December 31, 2006 and \$2,964 at March 31, 2007	166,528	157,420
Inventories	239,129	241,336
Prepaid expenses and other current assets	14,071	12,703
Total current assets	569,245	438,192
Property, plant and equipment	889,389	895,266
Less: accumulated depreciation	599,636	604,473
Net property, plant and equipment	289,753	290,793
Deferred income taxes	6,326	5,529
Goodwill	9,822	9,533
Other assets	29,253	25,760
Assets held for sale	1,802	1,805
Total assets	\$ 906,201	\$ 771,612
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	\$ 62,094	\$ 53,803
Interest payable	18,872	5,150
Short-term debt	458	206
Accrued income and other taxes	41,099	49,055
Other accrued liabilities	98,068	89,347
Total current liabilities	220,591	197,561
Long-term debt:		
Principal value	657,714	523,471
Fair value adjustments for hedge instruments	6,421	4,164
Unamortized bond premium	1,265	822
Total long-term debt	665,400	528,457

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Other long-term obligations	103,408	103,733
Deferred income taxes	27,000	28,043
Minority stockholders' equity in consolidated entities (see Contingencies Note 13)	3,722	3,797
Stockholders' deficit:		
Preferred stock, par value \$.01, 10,000,000 shares authorized, none issued		
Common stock, par value \$.01, 150,000,000 shares authorized, 101,433,949 shares issued at December 31, 2006 and 101,741,813 shares issued at March 31, 2007	1,026	1,026
Additional paid-in capital	950,023	953,445
Accumulated other comprehensive loss	(312,763)	(310,191)
Accumulated deficit	(660,153)	(642,265)
Less: cost of common stock held in treasury, 2,501,201 shares at December 31, 2006 and at March 31, 2007	(85,197)	(85,197)
Less: common stock held in employee benefit and compensation trusts, 472,566 shares at December 31, 2006 and 468,960 shares at March 31, 2007.	(6,856)	(6,797)
Total stockholders' deficit	(113,920)	(89,979)
Total liabilities and stockholders' deficit	\$ 906,201	\$ 771,612

See accompanying Notes to Consolidated Financial Statements

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS***(Dollars in thousands, except per share data)**(Unaudited)*

	For the	
	Three Months Ended March 31,	
	2006	2007
Net sales	\$ 174,192	\$ 228,231
Cost of sales	124,743	151,949
Gross profit	49,449	76,282
Research and development	2,531	2,234
Selling and administrative expenses	24,808	22,308
Restructuring charges	2,946	884
Impairment loss on long-lived assets	8,151	
Other (income) expense, net	(380)	11,104
Interest expense	11,788	11,711
Interest income	(126)	(966)
	49,718	47,275
Income (loss) from continuing operations before provision for income taxes and minority stockholders' share of subsidiaries' income (loss)	(269)	29,007
Provision for income taxes	3,579	10,530
Income (loss) from continuing operations before minority interest	(3,848)	18,477
Minority stockholders' share of subsidiaries' income	3	33
Income (loss) from continuing operations	(3,851)	18,444
Loss from discontinued operations, net of tax	(795)	(589)
Net income (loss)	\$ (4,646)	\$ 17,855
Basic income (loss) per common share:		
Income (loss) per share from continuing operations	\$ (0.04)	\$ 0.19
Loss per share from discontinued operations	(0.01)	(0.01)
Net income (loss) per share	\$ (0.05)	\$ 0.18
Weighted average common shares outstanding	97,912	98,624
Diluted income (loss) per common share:		
Income (loss) per share from continuing operations	\$ (0.04)	\$ 0.17
Loss per share from discontinued operations	(0.01)	

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Net income (loss) per share	\$ (0.05)	\$ 0.17
Weighted average common shares outstanding	97,912	113,606
<i>See accompanying Notes to Consolidated Financial Statements</i>		

Table of Contents**PART I (CONT D)****GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Dollars in thousands)**(Unaudited)*

	For the	
	Three Months Ended	
	March 31,	
	2006	2007
Cash flow from operating activities:		
Net income (loss)	\$ (4,646)	\$ 17,855
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Loss from discontinued operations, net of tax	795	589
Depreciation and amortization	9,246	7,874
Deferred income taxes	146	1,028
Restructuring charges	2,946	884
Impairment loss on long-lived assets	8,151	
Interest expense	797	1,082
Other charges, net	(1,379)	3,958
Increase in working capital *	(40,191)	(11,589)
Benefit obligation changes	(2,666)	(1,578)
Long-term assets and liabilities	(6,566)	(2,079)
Net cash (used in) provided by operating activities	(33,367)	18,024
Cash flow from investing activities:		
Capital expenditures	(10,942)	(7,671)
Patent capitalization	(124)	(236)
Proceeds from sale of assets	128	136
Net cash used in investing activities	(10,938)	(7,771)
Cash flow from financing activities:		
Short-term debt borrowings, net	15,656	158
Revolving Facility borrowings	62,255	45,645
Revolving Facility reductions	(18,347)	(45,052)
Long term debt reductions		(134,867)
Proceeds from exercise of stock options		1,374
Net cash (used in) provided by financing activities	59,564	(132,742)
Net (decrease) increase in cash and cash equivalents	15,259	(122,489)
Effect of exchange rate changes on cash and cash equivalents	74	(295)
Cash and cash equivalents at beginning of period	5,968	149,517
Cash and cash equivalents at end of period	\$ 21,301	\$ 26,733

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

(Increase) decrease in current assets:

Accounts and notes receivable	\$ 23,411	\$ (646)
Effect of factoring on accounts receivable	2,370	10,814
Inventories	(29,323)	(817)
Prepaid expenses and other current assets	6	1,296
Payments for antitrust investigations and related lawsuits and claims	(4,500)	(5,380)
Restructuring payments	(921)	(3,561)
Decrease in accounts payable and accruals	(19,408)	427
Decrease in interest payable	(11,826)	(13,722)
Increase in working capital	\$ (40,191)	\$ (11,589)

See accompanying Notes to Consolidated Financial Statements

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Interim Financial Presentation

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

Certain amounts in the Consolidated Financial Statements for the three months ended March 31, 2006 have been reclassified to conform with current period presentation.

(2) New Accounting Standards

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

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157). This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 requires disclosure of information that enables users of the financial statements to assess the inputs used to develop fair value measurements and, for recurring fair value measurements using significant unobservable inputs, the effects of the measurements on earnings for the period. This statement is effective for fiscal years beginning after November 15, 2007. We are currently in the process of assessing the impact of the adoption of SFAS No. 157 on our consolidated results of operations and financial position.

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PART I (CONT D)

GRAFTECH INTERNATIONAL LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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