

**GLOBE SPECIALTY METALS, INC.
AND SUBSIDIARY COMPANIES**

Consolidated Financial Statements

(Unaudited)

December 31, 2007

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**GLOBE SPECIALTY METALS, INC.
AND SUBSIDIARY COMPANIES**

Consolidated Balance Sheet

December 31, 2007

(In thousands, except share and per share amounts)

(UNAUDITED)

Assets

Current assets:	
Cash and cash equivalents	\$ 59,046
Accounts receivable, net of allowance for doubtful accounts of \$123	40,954
Inventories	51,121
Prepaid expenses and other current assets	13,661
Total current assets	164,782
Property, plant, and equipment, net of accumulated depreciation	152,809
Goodwill	48,655
Other intangible assets	5,540
Investments in affiliates	7,736
Deferred tax assets	10,342
Other assets	13,570
Total assets	\$ 403,434

Liabilities and Stockholders' Equity

Current liabilities:	
Accounts payable	\$ 40,503
Current portion of long-term debt	11,636
Short-term debt	29,906
Accrued expenses and other current liabilities	15,867
Total current liabilities	97,912
Long-term liabilities:	
Long-term debt	37,707
Deferred tax liabilities	20,397
Other long-term liabilities	13,702
Total liabilities	169,718
Commitments and contingences (note 9)	
Stockholders' equity:	
Common stock, \$0.0001 par value. Authorized 150,000,000 shares; issued and outstanding 57,421,759 shares	6
Additional paid-in capital	215,358
Retained earnings	17,851
Accumulated other comprehensive income	501
Total stockholders' equity	233,716
Total liabilities and stockholders' equity	\$ 403,434

See accompanying notes to consolidated financial statements.

**GLOBE SPECIALTY METALS, INC.
AND SUBSIDIARY COMPANIES**

Consolidated Income Statement

Six months ended December 31, 2007

(In thousands, except per share amounts)

(UNAUDITED)

Net sales	\$ 190,836
Cost of goods sold	159,945
Selling, general, and administrative expenses	<u>18,790</u>
Operating income	12,101
Other income (expense):	
Interest income	1,612
Interest expense, net of capitalized interest of \$116	(4,689)
Foreign exchange gain	1,150
Other expense	<u>(238)</u>
Income before provision for income taxes	9,936
Provision for income taxes	<u>2,263</u>
Net income	<u>\$ 7,673</u>
Weighted average shares outstanding:	
Basic	56,795
Diluted	67,173
Earnings per common share:	
Basic	\$ 0.14
Diluted	0.11

See accompanying notes to consolidated financial statements.

**GLOBE SPECIALTY METALS, INC.
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Consolidated Statement of Changes in Stockholders' Equity

Six months ended December 31, 2007

(In thousands)

(UNAUDITED)

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total stockholders' equity
	Shares	Amount				
Balance at June 30, 2007	56,672	\$ 5	211,861	10,178	577	222,621
Warrants exercised	700	1	3,497	—	—	3,498
UPOs exercised	50	—	—	—	—	—
Comprehensive income:						
Unrealized loss on available for sale securities (net of income taxes of \$39)	—	—	—	—	(76)	(76)
Net income	—	—	—	7,673	—	7,673
Total comprehensive income						7,597
Balance at December 31, 2007	<u>57,422</u>	<u>\$ 6</u>	<u>215,358</u>	<u>17,851</u>	<u>501</u>	<u>233,716</u>

See accompanying notes to consolidated financial statements.

**GLOBE SPECIALTY METALS, INC.
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Consolidated Statement of Cash Flows

Six months ended December 31, 2007

(In thousands)

(UNAUDITED)

Cash flows from operating activities:	
Net income	\$ 7,673
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization of intangible assets	9,221
Amortization of customer contract liability	(2,569)
Share-based compensation	2,250
Gain on sale of assets	(5)
Deferred taxes	(831)
Changes in assets and liabilities:	
Increase in accounts receivable, net	(2,862)
Increase in inventories	(12,028)
Increase in prepaid expenses and other current assets	(854)
Increase in accounts payable	8
Increase in accrued expenses and other current liabilities	1,239
Other	(5,303)
	<hr/>
Net cash used in operating activities	(4,061)
	<hr/>
Cash flows from investing activities:	
Capital expenditures	(9,959)
Note receivable from Solsil, Inc.	(1,500)
Other investing activities	(44)
	<hr/>
Net cash used in investing activities	(11,503)
	<hr/>
Cash flows from financing activities:	
Proceeds from warrants exercised	3,498
Net borrowings of long-term debt	(3,084)
Net borrowings of short-term debt	6,455
	<hr/>
Net cash provided by financing activities	6,869
	<hr/>
Net decrease in cash and cash equivalents	(8,695)
Cash and cash equivalents at beginning of year	<hr/> 67,741
Cash and cash equivalents at end of year	\$ <hr/> <hr/> 59,046
Supplemental disclosure of cash flow information:	
Cash paid for interest	\$ 3,914
Cash paid for income taxes	3,088

See accompanying notes to consolidated financial statements.

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(Dollars in thousands)

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(1) Organization and Business Operations

Globe Specialty Metals, Inc. and subsidiary companies (GSM, the Company, we, us, or our) is among the world's largest producers of silicon metal and silicon-based specialty alloys, critical ingredients in a variety of industrial and consumer products. The Company's customers include major silicon chemical, aluminum and steel manufacturers, auto companies and their suppliers, ductile iron foundries, manufacturers of photovoltaic solar cells and computer chips, and concrete producers.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

In the opinion of GSM management, the accompanying consolidated financial statements include all adjustments necessary for a fair presentation in conformity with accounting principles generally accepted in the United States of America (US GAAP) of the results for the interim period presented and such adjustments are of a normal, recurring nature. The accompanying consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of GSM for the year ended June 30, 2007. There have been no material changes to the Company's significant accounting policies during the six months ended December 31, 2007, except as discussed below under recently implemented accounting pronouncements.

(b) Use of Estimates

The preparation of interim financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. Significant estimates and assumptions in these consolidated financial statements include valuation allowances for inventories, the carrying amount of property, plant, and equipment, estimates of fair value associated with accounting for business combinations, goodwill and asset retirement obligations and long-lived asset impairment tests, estimates of fair value of investments, income taxes and deferred tax valuation allowances, valuation of derivative instruments, the determination of discount and other rate assumptions for pension expense and the determination of the fair value of stock-based compensation involving assumptions about forfeiture rates, stock volatility, discount rates, and expected time to exercise. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may be different from these estimates.

(c) Fair Value of Financial Instruments

Management believes that the carrying values of financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses and other current liabilities approximate fair value as a result of the short-term maturities of these instruments. We believe the recorded carrying values of our debt balances approximate fair value given the majority of our debt is at variable rates tied to market indicators or short-term in nature.

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(d) Recently Implemented Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* (SFAS 155). SFAS 155 is effective for all financial instruments acquired or issued after July 1, 2007, and amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. This statement resolves issues addressed in Statement 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. The adoption of SFAS 155 was not material to the Company's consolidated results of operations and financial condition.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes— an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. This interpretation prescribes a 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. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 was not material to the Company's consolidated results of operations and financial condition. See Note 8 (Income Taxes) for further information relating to the implementation of this interpretation.

(e) Accounting Pronouncements to be Implemented

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The statement does not require any new fair value measures. The Company is required to adopt SFAS 157 beginning on July 1, 2008. SFAS 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. The Company is currently evaluating the impact of adopting SFAS 157 on its results of operations and financial position.

In February 2007, the 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 statement permits companies, at their option, to choose to measure many financial instruments and certain other items at fair value. If the option to use fair value is chosen, the statement requires additional disclosures related to the fair value measurements included in the financial statements. This statement is effective on July 1, 2008 for the Company. The Company is currently evaluating the impact of adopting SFAS 159 on its results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. The objective of this statement is to improve the relevance, representational faithfulness, and comparability of the

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information that a reporting entity provides in its financial reports about a business combination and its effects. This statement establishes principles and requirements for how the acquirer (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired entity, (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This statement applies prospectively to business combinations for which the acquisition date is on or after July 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*. The objective of this statement is to improve the relevance, comparability, and transparency of the financial information that a reporting entity provides in its consolidated financial statements by establishing accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This statement is effective for the Company on July 1, 2009. The Company is currently assessing the potential effect of SFAS 160 on its financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*. This statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the potential effect of SFAS 161 on its financial statements.

(3) Inventories

Inventories comprise the following:

Finished goods	\$	18,719
Work in process		552
Raw materials		24,002
Parts and supplies		<u>7,848</u>
Total inventory	\$	<u><u>51,121</u></u>

At December 31, 2007, \$35,827 in inventory is valued using the first-in, first-out method and \$15,294 using the average cost method.

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(4) Property, Plant, and Equipment

Property, plant, and equipment, net of accumulated depreciation, comprises the following:

Land and improvements	\$	11,439
Building and improvements		18,841
Machinery and equipment		34,660
Furnaces		87,861
Other		9,030
Construction in progress		5,544
		167,375
Property, plant, and equipment, gross		167,375
Less accumulated depreciation		(14,566)
		152,809
Property, plant, and equipment, net of accumulated depreciation	\$	152,809

Depreciation expense for the six months ended December 31, 2007 was \$7,156, including \$281 of depreciation associated with land reclamation activities. Depreciation expense of \$6,601 is recorded in cost of goods sold and \$555 is recorded in selling, general, and administrative expenses.

(5) Goodwill and Other Intangibles

Goodwill and other intangible assets presented below have been allocated to the silicon metal and silicon-based specialty alloys operating segment, which is the Company's sole operating segment.

(a) Goodwill

On November 12, 2006, the Company acquired 100% of the outstanding stock of Globe Metallurgical, Inc. (GMI), a manufacturer of silicon metal and silicon-based alloys. On November 20, 2006, the Company acquired 100% of the outstanding stock of Stein Ferroaleaciones S.A. (SFA), an Argentine manufacturer of silicon-based alloys, and SFA's two affiliates, UltraCore Polska Sp.z.o.o., a Polish manufacturer of cored wire alloys, and Ultra Core Corporation, a U.S.-based alloy distributor. SFA has been renamed Globe Metales S.A. On January 31, 2007, the Company acquired 100% of the outstanding stock of Camargo Correa Metais S.A. (CCM), one of Brazil's largest producers of silicon metal and silica fume. CCM has been renamed Globe Metais Indústria e Comércio S.A.

The allocation of the purchase price of the GMI and SFA acquisitions to assets acquired and liabilities assumed was finalized during the six months ended December 31, 2007. A \$128 increase in goodwill resulted from the finalization of the purchase price allocation to trade names classified

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within other intangible assets. There were no other changes in goodwill for the six months ended December 31, 2007.

(b) Other Intangible Assets

The carrying amounts of other intangible assets at December 31, 2007 are as follows:

	<u>Gross</u>	<u>Accumulated amortization</u>	<u>Net</u>
Definite lived intangible assets:			
Electricity contracts	\$ 8,705	(3,771)	4,934
Customer relationships	164	(164)	—
Supplier contracts	337	(207)	130
Software	94	(94)	—
	<u>9,300</u>	<u>(4,236)</u>	<u>5,064</u>
Indefinite lived intangible assets:			
Trade names	476	—	476
	<u>476</u>	<u>—</u>	<u>476</u>
Total	<u>\$ 9,776</u>	<u>(4,236)</u>	<u>5,540</u>

Amortization expense of purchased intangible assets was \$2,065 for the six months ended December 31, 2007 of which \$1,873 is recorded in cost of goods sold and \$192 is recorded in selling, general, and administrative expenses.

(c) Customer Contract Liability

The Company has certain noncancelable executory customer contracts purchased as part of the Company's historical acquisitions with future cash flows below market rates. The related liability is being amortized over the contractual term of the individual contracts. For the six months ended December 31, 2007, \$2,569 of this liability was amortized and included in net sales.

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(6) Debt

(a) Short-Term Debt

Short-term debt comprised the following at December 31, 2007:

	<u>Outstanding balance</u>	<u>Weighted average interest rate</u>	<u>Unused credit line</u>
Type debt:			
Revolving credit	\$ 19,026	9.15%	5,764
Export financing	10,880	6.36	—
Total	<u>\$ 29,906</u>		<u>5,764</u>

Revolving Credit Agreements – A summary of the Company’s revolving credit agreements follows:

	<u>Outstanding balance</u>	<u>Unused commitment</u>	<u>Total commitment</u>
Fortis credit facility:			
GMI (a)	\$ 7,000	—	7,000
GMI (b)	11,400	3,866	20,500
Bank credit facilities – Argentina (c)	626	1,898	2,524
Total	<u>\$ 19,026</u>	<u>5,764</u>	<u>30,024</u>

- (a) This credit facility of the Company’s subsidiary, GMI, expires November 2009. Interest accrues at the London Interbank Offered Rate (LIBOR) or prime, at the Company’s option, plus an applicable margin percentage. At December 31, 2007, the interest rate on this revolver was 7.6%, equal to LIBOR plus 2.75%. The credit facility is secured by substantially all assets of GMI and is subject to certain restrictive and financial covenants which include limits on additional debt, restrictions on capital expenditures, restrictions on dividend and other equity distributions, and certain minimum interest, debt service, and leverage ratios. The Company was in compliance with these loan covenants at December 31, 2007, except that the Company has received a waiver with respect to the timing of delivery of select financial statements, as well as certain financial covenant and lien restrictions.
- (b) This GMI credit facility expires November 2009. Interest accrues at prime plus 1.75%. At December 31, 2007, the interest rate on this revolver was 10.0%. The total commitment on this credit facility includes \$5,234 for letters of credit associated with foreign supplier contracts.

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The credit facility is secured by substantially all assets of GMI and is subject to certain restrictive and financial covenants which include limits on additional debt, restrictions on capital expenditures, restrictions on dividend and other equity distributions, and certain minimum interest, debt service, and leverage ratios. The Company was in compliance with these loan covenants at December 31, 2007, except that the Company has received a waiver with respect to the timing of delivery of select financial statements, as well as certain financial covenant and lien restrictions.

- (c) The Company's Argentine subsidiary maintains three, six-month unsecured revolving credit agreements. Interest accrues at rates ranging from 11.0 to 11.5%.

Export Financing Agreements – The Company's Argentine and Brazilian subsidiaries maintain various short-term export financing arrangements. The terms of these agreements are generally between six and twelve months. Interest accrues at rates ranging from 5.4 to 8.0%. Certain export accounts receivable balances are pledged as collateral against these borrowings.

(b) Long-Term Debt

		Outstanding balance
Senior term loan	\$	23,250
Junior subordinated term loan		8,500
Junior subordinated term loan		8,500
Export financing		7,860
Other		1,233
Total long-term debt		49,343
Less current portion of long-term debt		(11,636)
Long-term debt, net of current portion	\$	37,707

Senior Term Loan – Loan principal and interest payments are due in quarterly installments of \$750 plus interest at LIBOR or prime, at the Company's option, plus an applicable margin percentage. The interest rate on this loan was 9.43%, equal to LIBOR plus 4.0%, at December 31, 2007. The unpaid principal balance is due in full in November 2010. The loan is secured by substantially all assets of GMI and is subject to certain restrictive and financial covenants which include limits on additional debt, restrictions on capital expenditures, restrictions on dividend and other equity distributions, and certain minimum interest, debt service, and leverage ratios. The Company was in compliance with these loan covenants at December 31, 2007, except that the Company has received a waiver with

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respect to the timing of delivery of select financial statements, as well as certain financial covenant and lien restrictions.

The Company has entered into an interest rate swap to fix the LIBOR on 50% of the outstanding balance. The agreement, which expires in March 2011, involves the exchange of the interest obligations relating to an initial \$15,000 notional amount of debt, with the notional amount decreasing by \$375 per quarter consistent with half of the debt amortization on the Senior Term Loan. The remaining notional amount is \$12,375 at December 31, 2007. Under the interest rate swap, the Company receives LIBOR in exchange for a fixed interest rate of 5.23% over the life of the agreement. The agreement provides for a net cash settlement. The Company believes it is not practical to designate the cash-settled interest rate swap agreement as a fair value hedge as defined under SFAS 133. Therefore, in accordance with SFAS 133, the Company adjusts the interest rate swap agreement to current market value through the consolidated income statement based on the fair value of the swap agreement as of each period end. The related increase in interest expense totaled \$477 for the six months ended December 31, 2007. The fair value of this derivative is recorded in accrued expenses and other current liabilities with a balance of \$420 at December 31, 2007.

Junior Subordinated Term Loans – These loans mature in full in November 2011. Interest on one loan accrues quarterly at the prime rate plus 3.25%, with the aggregate rate not to be less than 10.25%. Interest on the other loan accrues monthly at LIBOR plus 8%, with the aggregate rate not to be less than 10.25%. The interest rates on these loans were 10.5% and 12.95%, respectively, at December 31, 2007. Both of these loans are secured by substantially all assets of GMI on a subordinated basis and are subject to certain loan covenant restrictions. The Company was in compliance with the loan covenants at December 31, 2007, except that the Company has received a waiver with respect to the timing of delivery of select financial statements, as well as certain notice requirements, financial covenant and lien restrictions.

Export Financing – The Company's Brazilian subsidiary maintains long-term export financing arrangements with three banks in Brazil. At December 31, 2007, interest on \$3,000 of the balance outstanding accrues quarterly at the rate of LIBOR plus 1.25%. Interest accrues on the remaining balance of \$4,860 at rates ranging from 5.63% to 6.50%.

(7) Pension Plans

The components of net periodic pension benefit for the defined benefit pension plans follow:

Interest cost	\$	591
Expected return on plan assets		(730)
Amortization of net loss		37
Net periodic pension benefit	\$	<u>(102)</u>

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The Company expects to contribute approximately \$610 to the plans for the year ended June 30, 2008, of which \$427 have been made through December 31, 2007.

(8) Income Taxes

The following is a reconciliation, stated in percentage, of the U.S. statutory federal income tax rate to our effective tax rate:

	<u>Six months ended December 31, 2007</u>
Federal statutory rate	35.0
Foreign rate differential	(12.3)
Other items	0.1
Effective tax rate	<u>22.8</u>

During the six months ended December 31, 2007, the Company decreased our valuation allowance by \$869 which was reflected as a reduction in the intangible assets related to our Brazilian operations.

Effective July 1, 2007, the Company adopted FIN 48 which provides a comprehensive model for the recognition, measurement and disclosure in financial statements of uncertain income tax positions that a company has taken or expects to take on a tax return. Under FIN 48, a company can recognize the benefit of an income tax position only if it is more likely than not (greater than 50%) that the tax position will be sustained upon tax examination, based solely on the technical merits of the tax position. Otherwise, no benefit can be recognized. The tax benefits recognized are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures for which reserves have been established consistent with jurisdictional tax laws. The Company has elected to recognize interest expense and penalties related to uncertain tax positions as a component of income tax expense. As a result of the implementation of FIN 48, the Company recognized no change in the liability for unrecognized tax benefits tax expense in the financial statements.

The Company is subject to income taxes in the United States and other foreign jurisdictions. In the ordinary course of business, there are transactions and calculations that involve uncertain tax implications. The Company believes we have adequate support for the positions taken on our tax returns and that adequate provisions have been made for all outstanding issues for all jurisdictions and all open years.

(9) Commitments and Contingencies

(a) Legal Contingencies

The Company's subsidiary, GMI, was sued by Westbrook Resources Limited (Westbrook), an English company, in respect of an alleged failure by GMI to perform under a contract entered into in

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January 2005 to acquire 30,000 tons of manganese ore. There is a counter claim by GMI against Westbrook in respect to the same subject matter whereby we maintain that the quality, quantity and delivery schedules maintained by Westbrook were in breach of the contract. The case went to trial in June 2007, and a judgment was rendered in November 2007 in favor of Westbrook for a sum to be assessed. GMI made required interim payments totaling \$1,372 for estimated damages and Westbrook legal fees during the six months ended December 31, 2007 and has an additional \$2,428 reserved related to this contingency at December 31, 2007. The assessment hearing took place in February 2008, and required GMI to pay total damages of \$1,542, including \$850 in previously made interim payments, Westbrook's legal fees in relation to this litigation, as well as interest on both the damages and Westbrook legal fees. Interest and legal fees payments totaling \$842, including \$522 in previously made interim payments, were required to be made under the judgment by March 4, 2008. Management intends to appeal this judgment but there is no assurance that GMI will be successful in its appeal.

We are subject to various lawsuits, claims and proceedings that arise in the normal course of business, including employment, commercial, environmental, safety and health matters. Although it is not presently possible to determine the outcome of these matters, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or liquidity.

(b) *Environmental Contingencies*

It is our policy to accrue for costs associated with environmental assessments and remedial efforts when it becomes probable that a liability has been incurred and the costs can be reasonably estimated. When a liability for environmental remediation is recorded, such amounts will be recorded without giving effect to any possible future recoveries. At December 31, 2007, there are no liabilities recorded for environmental contingencies. With respect to the cost for ongoing environmental compliance, including maintenance and monitoring, such costs are expensed as incurred.

(10) Stockholders' Equity

In connection with the Company's initial public offering on October 3, 2005, the Company sold 33,500,000 units (individually, Unit), consisting of one share of the Company's common stock and two redeemable common stock purchase warrants. Also in connection with its initial public offering, the Company issued an option to purchase 1,675,000 units (individually, UPO) at an exercise price of \$7.50 per UPO. Each UPO consists of one share of the Company's common stock and two redeemable common stock purchase warrants. All of the Company's outstanding warrants have an exercise price of \$5.00 per common share, and expire on October 3, 2009.

At July 1, 2007, 19,646,088 of the warrants issued in connection with the Company's initial public offering and all 1,675,000 of the UPOs remained outstanding. During the six months ended December 31, 2007, 699,440 of the warrants issued in connection with the Company's initial public

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offering were exercised and an additional 100,262 warrants and 50,131 common shares were issued in connection with a cashless exercise of 67,458 UPOs. As a result of these transactions, 19,046,910 warrants and 1,607,542 UPOs remain outstanding at December 31, 2007.

(11) Earnings Per Share

Basic earnings per common share is based on the weighted average number of common shares outstanding during the six months ended December 31, 2007. Diluted earnings per common share assumes the exercise of stock options, the conversion of warrants, and the exercise of the UPOs, provided in each case the effect is dilutive.

The reconciliation of the amounts used to compute basic and diluted earnings per common share follows:

	Net income	Weighted – average shares	Per common share amount
Basic earnings per common share	\$ 7,673	56,794,861	\$ 0.14
Effect of dilutive securities warrants		10,378,266	
Diluted earnings per common share	\$ 7,673	67,173,127	\$ 0.11

The Company has 980,002 potential common shares associated with outstanding employee stock options which are excluded from the calculation of diluted earnings per common share because their effect would be anti-dilutive.

(12) Share-Based Compensation

The Company's share-based compensation program comprises the Globe Specialty Metals, Inc. 2006 Employee, Director and Consultant Stock Plan (the Stock Plan), which was approved by the Company's stockholders on November 10, 2006. The Stock Plan provides for the issuance of a maximum of 5,000,000 shares of common stock for the granting of incentive stock options, nonqualified options, stock grants and stock-based awards. Any remaining shares available for grant, but not yet granted, will be carried over and used in the following year. During the six months ended December 31, 2007, share-based compensation awards were limited to the issuance of nonqualified stock options. No other share-based compensation awards were issued.

At December 31, 2007, there were 3,680,000 shares available for grant. All option grants to date vest and become exercisable in equal one-third increments on the first, second, and third anniversaries of the date of grant and have maximum contractual terms ranging from 5 to 10 years.

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(Dollars in thousands)

(UNAUDITED)

A summary of the changes in options outstanding under the Stock Plan for the six months ended December 31, 2007 is presented below:

	<u>Number of shares</u>	<u>Weighted- average exercise price</u>	<u>Weighted- average remaining contractual term in years</u>	<u>Aggregate intrinsic value</u>
Outstanding as of July 1, 2007	1,220,000	\$ 7.88		
Granted	100,000	12.30		
Exercised	—	—		
Forfeited and expired	—	—		
Outstanding as of December 31, 2007	<u>1,320,000</u>	<u>\$ 8.22</u>	<u>4.98</u>	<u>\$ 6,024</u>
Exercisable as of December 31, 2007	<u>333,332</u>	<u>\$ 6.25</u>	<u>3.87</u>	<u>\$ 2,177</u>

The weighted average grant date fair value of stock options granted during the six months ended December 31, 2007 was \$5.32.

The Company estimates the fair value of grants using the Black-Scholes option pricing model. The following assumptions were used to estimate the fair value of stock option awards for the six months ended December 31, 2007:

Risk-free interest rate	3.09%-3.74%
Expected dividend yield	—
Expected volatility	43.00
Expected forfeiture rate	—
Expected term (years)	4.0 to 6.5
Weighted average per share fair value of stock option grants at December 31, 2007	\$ 6.56

The risk-free interest rate is based on the yield of zero coupon U.S. Treasury bonds with terms similar to the expected term of the options. The expected dividend yield is zero based on our current expectation to not pay dividends to the Company's common stockholders for the foreseeable future. Since there is limited historical trading data related to the Company's common stock, the expected volatility over the term of the options is estimated using the historical volatilities of similar companies. Given that the options granted are under a new plan and that there is relatively no historical data, the expected forfeiture rate is zero, and the expected term is the average of the vesting period and contractual term.

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For the six months ended December 31, 2007, share-based compensation expense was \$2,250 (\$1,214 after tax). The expense was reported within selling, general, and administrative expenses. The Company has recorded its \$2,761 liability for share-based compensation expense within other long-term liabilities.

As of December 31, 2007, the Company has unearned compensation expense of \$5,896, before income taxes, related to nonvested stock option awards. The unrecognized compensation expense is expected to be recognized over the following periods:

	Six months ended June 30, 2008	Year ended June 30, 2009	Year ended June 30, 2010	Year ended June 30, 2011
Stock-based compensation cost (pre-tax)	\$ 1,443	2,886	1,497	70

It is the Company's policy to issue new shares to satisfy the requirements of its stock-based compensation plans. The Company does not expect to repurchase shares in the future to support our stock-based compensation plans.

(13) Related Party Transactions

From time to time, the Company enters into transactions in the normal course of business with related parties. Management believes that such transactions are at arm's length and for terms that would have been obtained from unaffiliated third parties.

Two members of the Board of Directors, Alan Kestenbaum and Michael Barenholtz, are affiliated with Marco International and Marco Realty. During the six months ended December 31, 2007, the Company:

- Paid Marco Realty \$72 to rent office space for its corporate headquarters in New York City, New York.
- Entered into agreements with Marco International to purchase graphitized carbon electrodes. Marco International billed GMI \$6,450 under these agreements. At December 31, 2007, the Company owed \$291 under the agreements.
- Sold 768 metric tons of calcium silicon powder to Marco International for \$1,152. At December 31, 2007, receivables from Marco International totaled \$108.

Alan Kestenbaum, Chief Executive Officer, and Arden Sims, Chief Operating Officer, are affiliated with Solsil, Inc. (Solsil). During the six months ended December 31, 2007, the Company:

- Earned \$2,117 under an operating and lease agreement in which Solsil is provided administrative and operating support plus facility space. At December 31, 2007, Solsil owed \$1,071 under the agreement.

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- Sold \$1,937 in “S-1” metallurgical grade silicon grade material to Solsil under a supply agreement that ends in December 2026. At December 31, 2007, Solsil owed \$962 under the agreement.
- Purchased \$1,318 in silicon from Solsil. At December 31, 2007, GMI owed \$581 under the agreement.
- Provided a \$1,500 loan to Solsil on October 24, 2007. The note accrues interest at LIBOR plus 3.0%, equal to 8.1% at December 31, 2007, with interest payable in kind and capitalized as principal outstanding at the end of each quarter in lieu of payment in cash. The note, including accrued interest, is repayable in full on October 24, 2008.

The Company is affiliated with Norchem through its 50.0% equity interest. During the six months ended December 31, 2007, the Company sold Norchem product valued at \$2,523. At December 31, 2007, receivables from Norchem totaled \$806.

(14) Operating Segments

We operate in one reportable segment, silicon metal and silicon-based specialty alloys.

(a) Geographic Data

Included in the consolidated financial statements are the following amounts related to geographic data:

	Net sales	Depreciation and amortization	Operating income	Long-lived assets
United States	\$ 127,874	6,001	1,777	144,104
Argentina	17,420	1,009	2,460	35,684
Brazil	42,666	2,170	7,911	26,468
Poland	2,876	41	(47)	748
	\$ 190,836	9,221	12,101	207,004

Net sales are attributed to geographical regions based upon the location of the selling unit. Long-lived assets consist of property, plant, and equipment, net of accumulated depreciation, and goodwill and other intangible assets.

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(b) Major Customer Data

The following is a summary of the Company's major customers and their respective percentages of consolidated sales for the six months ended December 31, 2007:

Dow Corning	13%
All other customers	<u>87</u>
Total	<u><u>100%</u></u>

The Company has two contracts with Dow Corning. The first agreement is a 4-year arrangement in which Dow Corning purchases 30,000 metric tons of silicon metal per year through December 31, 2010. The second arrangement is a 1-year deal for 6,000 metric tons ending December 31, 2007. Under a new contract, effective December 1, 2007 through January 31, 2009, the Company will supply Dow Corning 13,000 metrics tons of silicon metal.

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(15) Subsequent Event

On February 29, 2008, the Company completed the acquisition of approximately 81% of Solsil. Solsil is engaged in the production of high purity silicon manufactured through a proprietary metallurgical process for use in silicon-based solar cells. Solsil supplies its silicon to several leading global manufacturers of photovoltaic cells, ingots and wafers.

Based on the terms of the acquisition agreement, GSM will issue 5,628,657 new shares of common stock to shareholders and optionholders of Solsil in exchange for the approximate 81% interest in Solsil. The estimated purchase price for Solsil is \$72.1 million. The shareholders of Solsil, including certain GSM directors and officers who currently in aggregate own approximately 28% of Solsil, will agree to lock-up 50% of the GSM shares received in the transaction for six months and the remaining 50% of the shares received in the transaction for nine months. Certain institutional stockholders of Solsil, who will retain an approximately 19% interest in Solsil following the transaction, will be entitled to certain preemptive rights on the future sale of equity securities of Solsil. They will also agree to certain “tag-along” rights and “drag-along” obligations in the event of the sale of Solsil.