



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

Consolidated Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

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

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**KPMG LLP**  
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## **Independent Auditors' Report**

The Board of Directors  
Globe Specialty Metals, Inc.:

We have audited the accompanying consolidated balance sheet of Globe Specialty Metals, Inc. and subsidiaries (the Company) as of June 30, 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Globe Specialty Metals, Inc. and subsidiaries as of June 30, 2007, and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

January 24, 2008

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

Consolidated Balance Sheet

Year ended June 30, 2007

(In thousands, except per share amounts)

**Assets**

Current assets:

Cash and cash equivalents	\$	67,741
Accounts receivable, net of allowance for doubtful accounts of \$116		38,092
Inventories		39,093
Prepaid expenses and other current assets		12,439
		157,365

Property, plant and equipment, net of accumulated depreciation		149,648
Goodwill		48,527
Other intangible assets		8,602
Investments in affiliates		7,552
Deferred tax assets		23,379
Other assets		10,252
		405,325
Total assets	\$	405,325

**Liabilities and Stockholders' Equity**

Current liabilities:

Accounts payable	\$	40,495
Current portion of long-term debt		6,370
Short-term debt		23,450
Accrued expenses and other current liabilities		15,678
		85,993

Long-term liabilities:

Long-term debt		46,057
Deferred tax liabilities		35,216
Other long-term liabilities		15,438
		182,704

Commitments and contingences (note 14)

Stockholders' equity:

Common stock, \$0.0001 par value. Authorized 150,000,000 shares; issued and outstanding 56,672,188 shares		5
Additional paid-in capital		211,861
Retained earnings		10,178
Accumulated other comprehensive income		577
		222,621
Total stockholders' equity		222,621
Total liabilities and stockholders' equity	\$	405,325

See accompanying notes to consolidated financial statements.

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

Consolidated Income Statement

Year ended June 30, 2007

(In thousands, except per share amounts)

Net sales	\$	221,928
Cost of goods sold		184,122
Selling, general and administrative expenses		18,661
		19,145
Operating income		19,145
Other income (expense):		
Interest income		5,851
Interest expense, net of capitalized interest of \$66		(5,228)
Foreign exchange gain		688
Other expense		(807)
		19,649
Income before provision for income taxes and deferred interest attributable to common stock subject to redemption		19,649
Provision for income taxes		7,047
		12,602
Net income before deferred interest attributable to common stock subject to redemption		12,602
Deferred interest attributable to common stock subject to redemption		(768)
		11,834
Net income attributable to common stock	\$	11,834
Weighted average shares outstanding:		
Basic		46,922
Diluted		50,231
Earnings per common share:		
Basic	\$	0.25
Diluted		0.24

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Changes in Stockholders' Equity

Year ended June 30, 2007

(In thousands, except per share amounts)

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Total stockholders' equity
	Shares	Amount				
Balance at June 30, 2006	34,658	\$ 3	149,006	1,601	—	150,610
Shares issued in acquisition of Globe Metallurgical, Inc.	8,642	1	47,960	—	—	47,961
Retirement of shares converted or redeemed	(829)	—	(4,562)	—	—	(4,562)
Cash dividend paid	—	—	—	(3,257)	—	(3,257)
Issuance of shares under warrant tender program	14,201	1	19,457	—	—	19,458
Comprehensive income:						
Pension liability adjustment (net of income taxes of \$316)	—	—	—	—	516	516
Unrealized gain on available for sale securities (net of income taxes of \$32)	—	—	—	—	61	61
Net income attributable to common stock	—	—	—	11,834	—	11,834
Total comprehensive income						12,411
Balance at June 30, 2007	<u>56,672</u>	<u>\$ 5</u>	<u>211,861</u>	<u>10,178</u>	<u>577</u>	<u>222,621</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Cash Flows

Year ended June 30, 2007

(In thousands)

Cash flows from operating activities:	
Net income attributable to common stock	\$ 11,834
Adjustments to reconcile net income attributable to common stock to net cash provided by operating activities:	
Depreciation and amortization of purchased intangible assets	10,641
Amortization of customer contract liability	(3,849)
Share-based compensation	512
Gain on sale of assets	(2)
Deferred taxes	306
Deferred interest attributable to common stock subject to redemption	768
Changes in assets and liabilities:	
Decrease in accounts receivable, net	515
Increase in inventories	(2,650)
Increase in prepaid expenses and other current assets	(2,193)
Increase in accounts payable	1,308
Increase in accrued expenses and other current liabilities	5,416
Other operating cash flows	(3,933)
Net cash provided by operating activities	18,673
Cash flows from investing activities:	
Capital expenditures	(8,629)
Acquisition of businesses, net of cash acquired of \$6,750	(104,894)
Investments in affiliates	(5,963)
Purchase of cash equivalents held in trust	(3,038)
Funds released from trust	190,192
Net cash provided by investing activities	67,668
Cash flows from financing activities:	
Dividends paid	(3,257)
Purchase of redeemed shares	(42,802)
Net borrowings of long-term debt	1,544
Net borrowings of short-term debt	5,431
Proceeds from warrant tender program	19,458
Other financing activities	(970)
Net cash used in financing activities	(20,596)
Net increase in cash and cash equivalents	65,745
Cash and cash equivalents at beginning of year	1,996
Cash and cash equivalents at end of year	\$ 67,741

See accompanying notes to consolidated financial statements.

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

Notes to Consolidated Financial Statements

June 30, 2007

(Dollars in thousands)

**(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 silicone chemical, aluminum and steel manufacturers, auto companies and their suppliers, ductile iron foundries, manufacturers of photovoltaic solar cells and computer chips, and concrete producers.

GSM was incorporated in Delaware on December 23, 2004, under the name International Metal Enterprises, Inc., to serve as a vehicle for the acquisition of operating companies in the metals and mining industry.

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. GMI owns and operates plants in Ohio, West Virginia and Alabama. GMI also owns a currently idle silicon metal and ferroalloy manufacturing plant located in Niagara Falls, New York. GMI's products are sold primarily to the silicone chemical, aluminum, metal casting, and solar cell industries, primarily in the United States, Canada and Mexico. GMI also owns 50% of the outstanding stock of Norchem, Inc. (Norchem). Norchem manufactures and sells additives that enhance the durability of concrete, refractory material and oil well conditioners. GMI sells silica fume (also known as microsilica), a by-product of its ferrosilicon metal and silicon metal production process, to Norchem as well as other companies.

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. (UCP), a Polish manufacturer of cored wire alloys, and Ultra Core Corporation (UCC), a U.S.-based alloy distributor (collectively, Stein). SFA, incorporated in Argentina in 1974, is among Latin America's leading producers of silicon-based specialty alloys. Headquartered in Buenos Aires, Argentina, it operates an alloy manufacturing plant in Mendoza province, Argentina and cored wire packing plants in San Luis province, Argentina and Police, Poland. Stein's products are important ingredients in the manufacturing of steel, ductile iron, machine and auto parts and pipe. SFA has been renamed Globe Metales S.A. (Metales).

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. (Globe Metais). Globe Metais operates a manufacturing facility located in Breu Branco, Para, Brazil. It also operates quartzite mining and forest reserves operations in Para, Brazil. Through our Brazilian operations, we are one of Brazil's largest producers of silicon metal and silica fume, raw materials used in the chemical, metallurgical, electronic, cement and firebrick industries. The silicon metal produced at our Brazilian facility supplies industries worldwide.

See note 4 (Business Combinations) for additional information regarding the GMI, Stein and CCM acquisitions.

**GLOBE SPECIALTY METALS, INC.  
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Notes to Consolidated Financial Statements

June 30, 2007

(Dollars in thousands)

**(2) Summary of Significant Accounting Policies**

**(a) *Basis of Presentation and Principles of Consolidation***

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and include the accounts of Globe Specialty Metals, Inc. and its majority owned subsidiaries. When the Company does not have a controlling interest in an entity, but exerts significant influence over the entity, the Company applies the equity method of accounting. For investments in which the Company owns less than 20% of the voting shares and does not have significant influence, the cost method of accounting is used.

The Company also evaluates the consolidation of entities under Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46). FIN 46 requires management to evaluate whether an entity or interest is a variable interest entity and whether the Company is the primary beneficiary. Consolidation is required if both of these criteria are met. The Company does not have any variable interest entities requiring consolidation.

All significant intercompany balances and transactions have been eliminated in consolidation.

**(b) *Use of Estimates***

The preparation of 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 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 termination 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) *Revenue Recognition***

Revenue is recognized when a firm sales agreement is in place, delivery has occurred and title and risks of ownership have passed to the customer, the sales price is fixed and determinable, and collectability is reasonably assured. Sales of goods do not include multiple product and/or service elements. Shipping and other transportation costs charged to buyers are recorded in both sales and cost of goods sold. Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and, therefore, are excluded from sales in the consolidated income statement.

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(Dollars in thousands)

**(d) Foreign Currency Translation**

The determination of the functional currency for the Company's foreign subsidiaries is made based on appropriate economic factors, including the currency in which the subsidiary sells its products, the sales market in which the subsidiary operates, and the currency in which the subsidiary's financing is denominated. Based on these factors, management has determined that the U.S. dollar is the functional currency for Metales and Globe Metais. Translation gains and losses are recognized on transactions in currencies other than the U.S. dollar and included in income for the period in which the exchange rates changed.

**(e) Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments that are readily convertible into cash. Securities with contractual maturities of three months or less, when purchased, are cash equivalents. The carrying amount of these securities approximates fair value because of the short-term maturity of these instruments.

Supplemental disclosure of cash flow information follows:

Cash paid for interest and income taxes:		
Interest	\$	4,166
Income taxes		4,685

Refer to note 4 (Business Combinations) and note 15 (Stockholders' Equity) for supplemental disclosures of noncash investing and financing activities.

**(f) Inventories**

Inventories are stated at the lower of cost or market value. Cost is determined by the first-in, first-out method or the average cost method.

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**(g) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Depreciation is calculated using the straight-line method based on the estimated useful lives of assets. The estimated useful lives of property, plant and equipment follow:

Asset type:	<u>Range of useful life</u>
Land improvements	20 years
Buildings	35 years
Manufacturing equipment	10 – 20 years
Furnaces	20 years
Other	5 – 13 years

Costs that do not extend the life of an asset, materially add to its value, or adapt the asset to a new or different use are repair and maintenance costs, which are expensed as incurred.

**(h) Acquisitions**

The Company's acquisitions are accounted for using the purchase method. The purchase price is allocated to the assets acquired and the liabilities assumed based on their estimated fair market values. Any excess purchase price over the fair market value of the net assets acquired is recorded as goodwill. For all acquisitions, operating results are included in the consolidated income statement from the date of acquisition.

**(i) Goodwill and Other Intangible Assets**

Goodwill is the excess of cost of an acquired entity over the amounts assigned to assets acquired and liabilities assumed in a business combination. Goodwill is tested for impairment annually at the end of the third quarter, and will be tested for impairment between annual tests if an event occurs or circumstances change that more likely than not would indicate the carrying amount may be impaired. Impairment testing for goodwill is done at a reporting unit level. Reporting units are either one level below the operating segment level or an aggregation of two or more reporting units within the same operating segment if such reporting units share similar economic characteristics. Goodwill relates and is assigned directly to a specific reporting unit. An impairment loss generally would be recognized when the carrying amount of the reporting unit's net assets exceeds the estimated fair value of the reporting unit. Refer to note 4 (Business Combinations) and note 8 (Goodwill and Other Intangibles) for additional information.

Other intangible assets include electricity and other supplier contracts, customer relationships, trade names and other intangible assets acquired from an independent party. Except for trade names, our intangible assets have a definite life and are amortized on a straight-line basis over estimated useful lives: Electricity Contracts – 3 to 11 years; Supplier Contracts – 2 years; Customer Relationships –

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(Dollars in thousands)

1 year; and Software – 1 year. Trade names have indefinite lives and are not amortized but rather tested annually for impairment and written down to fair value as required.

**(j) *Impairment of Long-Lived Assets***

We review the recoverability of our long-lived assets, such as plant and equipment and definite-lived intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset or asset group may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset or asset group from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. We assess the recoverability of the carrying value of long-lived assets at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If these cash flows are less than the carrying value of such asset or asset group, an impairment loss is measured based on the difference between estimated fair value and carrying value. Assets to be disposed are written-down to the greater of their fair value or salvage value. Fair values are based on assumptions concerning the amount and timing of estimated future cash flows and assumed discount rates, reflecting varying degrees of perceived risk.

**(k) *Share-Based Compensation***

Effective July 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123(R)) as no share-based compensation awards were granted prior to July 1, 2006. The Company recognizes compensation expense based on the estimated grant date fair value using the Black-Scholes option-pricing model. As awards are liability-classified given net cash settlement provisions contained in the Company's stock option plan, each award is required to be remeasured to fair value each reporting period. Prior to vesting, cumulative compensation cost equals the proportionate amount of the award earned to date. The Company has elected to treat each award as a single award and recognize compensation cost on a straight-line basis over the requisite service period of the entire award. Refer to note 17 (Share-Based Compensation) for further information on the Company's accounting for share-based compensation.

**(l) *Income Taxes***

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

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(Dollars in thousands)

**(m) *Asset Retirement Obligations***

Asset retirement obligations are initially recorded at fair value, and are capitalized as part of the cost of the related long-lived asset and depreciated in accordance with the Company's depreciation policies for property, plant and equipment. The fair value of the obligation is determined as the discounted value of expected future cash flows. Accretion expense is recorded each month to increase this discounted obligation over time. The Company's asset retirement obligations primarily relate to mine post-closure restoration costs. Asset retirement obligations of \$952 have been recorded within Other Long-Term Liabilities at June 30, 2007.

**(n) *Financial Instruments***

The Company accounts for derivatives and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Certain Hedging Activities*, (SFAS 133), as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their respective fair values. The Company's sole derivative instrument consists of an interest rate swap employed to manage interest rate exposures on half of the Company's Senior Term Loan discussed in note 10 (Debt). 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 \$13,125 at June 30, 2007. Under the interest rate swap, the Company receives the London Interbank Offered Rate (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 income statement based on the fair value of the swap agreement as of each period end. The related reduction to interest expense totaled \$18 for the year ended June 30, 2007. The fair value of this derivative is recorded in Other Assets with a value of \$40 at June 30, 2007.

**(o) *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. See also note 10 regarding the fair value of debt.

**(p) *New Accounting Pronouncements***

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154), which replaces APB Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 changes the requirements of the accounting for, and reporting of, a change in accounting principle. Upon the adoption of SFAS 154 beginning July 1, 2006, the Company has applied the Standard's guidance to changes in accounting

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methods as required. The adoption of SFAS 154 was not material to the Company's consolidated results of operations and financial condition.

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). 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 Company does not expect the adoption of SFAS 155 to have a material impact on its consolidated results of operations and financial condition.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140* (SFAS 156). This Statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, with respect to the accounting for separately recognized servicing assets and servicing liabilities. The impact of adopting SFAS 156 was not material to the Company's consolidated results of operations and financial condition.

In April 2006, the FASB issued FASB Staff Position (FSP) FIN 46R-6, *Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)* (FIN 46R-6). This FSP addresses how a reporting enterprise should determine the variability to be considered in applying FIN 46R and is effective on the first day of the first reporting period beginning after June 15, 2006. The Company adopted FIN 46R-6 effective July 1, 2006. The impact of adopting FIN 46R-6 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is required to adopt the provisions of FIN 48 as of July 1, 2007. The Company is currently evaluating the impact of FIN 48 on its consolidated results of operations and financial condition.

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.

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The Company is currently evaluating the impact of adopting SFAS 157 on its results of operations and financial position.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158). SFAS 158 requires employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position, to recognize changes in that funded status in the year in which the changes occur through accumulated other comprehensive income, and to measure the funded status of a plan as of the date of its yearend statement of financial position. The Company adopted SFAS 158 as required on July 1, 2006. The impact of adopting SFAS 158 was not material to the Company's consolidated results of operations and financial condition.

In September 2006, the FASB issued FSP AUG AIR-1, *Accounting for Planned Major Maintenance Activities* (AUG AIR-1). The FSP prohibits companies from accruing the cost of planned major maintenance in advance of the activities actually occurring. The Company adopted the provisions of AUG AIR-1 beginning July 1, 2006. The impact of adopting FSP AUG AIR-1 was not material to the Company's consolidated results of operations and financial condition.

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 Standard 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 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, (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.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). 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.

**(3) Correction of Immaterial Errors in Previously Issued Financial Statements**

Prior to the Company's acquisition of GMI, the Company inappropriately presented cash and cash equivalents held in trust and related interest income as a contra stockholders' equity account and did not reflect common stock subject to possible redemption and related deferred interest attributable to common stock subject to possible redemption outside of permanent stockholders' equity. In addition, the Company did not account for deferred underwriters fees as a liability and a reduction of stockholders' equity. As a result of the GMI acquisition in November 2006, the common stock subject to possible redemption was no longer redeemable, the deferred underwriters fees were paid and the restriction on the cash and cash equivalents held in trust was removed. The Company corrected these errors by revising the June 30, 2006 balances on the statement of changes in stockholders' equity for the year ended June 30, 2007, as follows:

	<b>June 30, 2006</b>	
	<b>Previously reported</b>	<b>Restated</b>
Assets:		
Cash and cash equivalents held in trust	\$ —	187,105
Liabilities:		
Deferred underwriters fees	\$ —	970
Deferred interest attributable to common stock subject to possible redemption	—	601
Common stock subject to possible redemption	—	36,820
Stockholders' equity:		
Common stock	\$ 4	3
Additional paid-in capital	186,795	149,006
Called up share capital held in trust	(184,100)	—
Retained earnings (accumulated deficit)	(803)	1,601

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(Dollars in thousands)

**(4) Business Combinations**

**(a) *GMI Acquisition***

On November 12, 2006, the Company acquired 100% of the outstanding stock of GMI. The results of GMI are included in the consolidated financial statements from that date. The aggregate purchase price was \$134,064, which comprised 8.6 million shares of GSM common stock valued at \$47,961, cash of \$33,220, direct costs associated with the acquisition of \$3,348, and assumed debt of \$49,535. The value of the common stock issued was determined based on the average market price of GSM's common stock over the two-day period before and after the terms of the acquisition were agreed to and announced. Refer to note 1 (Organization and Business Operations) for a description of GMI's business and operations.

**(b) *Stein Acquisition***

On November 20, 2006, the Company acquired 100% of the outstanding stock of Stein. The aggregate purchase price was \$39,136, which comprised cash consideration of \$34,476, direct costs associated with the acquisition of \$881, and assumed debt of \$3,779. The results of Stein are included in the consolidated financial statements from that date. Refer to note 1 (Organization and Business Operations) for a description of Stein's business and operations.

**(c) *CCM Acquisition***

On January 31, 2007, GSM acquired 100% of the outstanding stock of CCM. The aggregate purchase price was \$56,512, which comprised cash consideration of \$38,635, direct costs associated with the acquisition of \$1,084, debt assumed of \$14,393, and contingent consideration of \$2,400. The results of CCM are included in the consolidated financial statements from that date. The contingent consideration represents 5,000 Brazilian Real relating to certain outstanding tax matters that, when resolved, will be paid. Refer to note 1 (Organization and Business Operations) for a description of CCM's business and operations.

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The Company has engaged third-party appraisal firms to assist in the process of determining the estimated fair values of the assets acquired and liabilities assumed relating to the GMI, Stein and CCM acquisitions. The following table reflects the preliminary purchase price allocation associated with each acquisition:

	<b>Amortization life (in years)</b>	<b>GMI</b>	<b>Stein</b>	<b>CCM</b>
Current assets		\$ 39,884	21,167	31,863
Property, plant, and equipment		108,865	17,741	22,110
Intangible assets:				
Goodwill	N/A	31,355	17,172	—
Customer relationships	1	103	50	11
Software	1	94	—	—
Electricity contracts	3-11	—	2,830	7,026
Supplier contracts	2	—	—	337
Trade names	N/A	316	288	—
Noncurrent assets		<u>3,215</u>	<u>550</u>	<u>16,561</u>
Total assets acquired		<u>183,832</u>	<u>59,798</u>	<u>77,908</u>
Current liabilities		33,680	15,486	27,217
Noncurrent liabilities		<u>65,623</u>	<u>8,955</u>	<u>8,572</u>
Total liabilities assumed		<u>99,303</u>	<u>24,441</u>	<u>35,789</u>
Net assets acquired		84,529	35,357	42,119
Debt assumed		<u>49,535</u>	<u>3,779</u>	<u>14,393</u>
Total purchase price		<u>\$ 134,064</u>	<u>39,136</u>	<u>56,512</u>

N/A = Not applicable

The fair value of net assets acquired relating to the CCM acquisition exceeded the purchase price. As such, the excess cost has been allocated as a pro rata reduction to property, plant and equipment, purchased intangible assets and other noncurrent assets.

The goodwill amount has been assigned to the silicon metal and silicon-based specialty alloys operating segment, which is the Company's only business segment.

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**(d) Unaudited Pro Forma Financial Information**

The unaudited pro forma financial information in the table below summarizes the combined results of operations of GSM and the acquired companies of GMI, Stein and CCM, on a pro forma basis, as though the companies had been combined as of the beginning of the fiscal year presented. The unaudited pro forma financial information for fiscal 2007 combines the historical results of operations of GSM for fiscal 2007, which includes the results of operations of GMI, Stein and CCM subsequent to each company's respective acquisition date, and the historical results of operations of GMI, Stein and CCM for the period from July 1, 2006 to each company's respective acquisition date.

This information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisitions of GMI, Stein and CCM had taken place at the beginning of the fiscal year presented. The unaudited pro forma financial information includes the purchase accounting adjustments on historical GMI, Stein and CCM inventory balances, adjustments to depreciation on acquired property and equipment, adjustments to amortization expense for acquired intangible assets, adjustments to sales for customer contract liabilities, adjustments to interest income, and related tax effects, as well as other adjustments made in purchase accounting.

The following table summarizes the unaudited pro forma financial information as if the GMI, Stein and CCM acquisitions were consummated on July 1, 2007:

		<b>Unaudited 2007</b>
Net sales	\$	350,565
Net income attributable to common stock		8,273
Earnings per common share :		
Basic	\$	0.17
Diluted		0.16

**(5) Inventories**

Inventories comprise the following:

Finished goods	\$	12,563
Work in process		778
Raw materials		18,277
Parts and supplies		7,475
Total Inventory	\$	39,093

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At June 30, 2007, \$26,545 in inventory is valued using the first-in, first-out method and \$12,548 using the average cost method.

**(6) Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets at June 30, 2007 were as follows:

Deferred taxes	\$	4,762
Other		<u>7,677</u>
Total	\$	<u><u>12,439</u></u>

**(7) Property, Plant and Equipment**

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

Land and improvements	\$	11,368
Building and improvements		18,434
Machinery and equipment		32,604
Furnaces		83,546
Other		9,043
Construction in progress		<u>2,351</u>
Property, plant and equipment, gross		157,346
Less accumulated depreciation		<u>(7,698)</u>
Property, plant and equipment, net of accumulated depreciation	\$	<u><u>149,648</u></u>

Depreciation expense for the year ended June 30, 2007 was \$8,470, including \$772 of depreciation associated with land reclamation activities. Depreciation expense of \$7,665 is recorded in Cost of Goods Sold and \$805 is recorded in Selling, General and Administrative Expenses.

**(8) 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.

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**(a) Goodwill**

The changes in goodwill for the year ended June 30, 2007 are as follows:

Balance as of July 1, 2006	\$	—
Acquisition of GMI		31,355
Acquisition of Stein		17,172
Acquisition of CCM		—
Balance as of June 30, 2007	\$	48,527

**(b) Other Intangible Assets**

The carrying amounts of other intangible assets at June 30, 2007 are as follows:

	<b>Gross</b>	<b>Accumulated amortization</b>	<b>Net</b>
Definite lived intangible assets:			
Electricity contracts	\$ 9,574	(1,915)	7,659
Customer relationships	164	(103)	61
Supplier contracts	337	(94)	243
Software	94	(59)	35
Total amortized intangible assets	10,169	(2,171)	7,998
Indefinite lived intangible assets			
Trade names	604	—	604
Total	\$ 10,773	(2,171)	8,602

Amortization expense of purchased intangible assets was \$2,171 for the year ended June 30, 2007 of which \$1,946 is recorded in Cost of Goods Sold and \$225 is recorded in Selling, General and Administrative Expenses.

The estimated future amortization expense of purchased intangible assets as of June 30, 2007 are as follows:

2008	\$	4,022
2009		1,469
2010		711
2011		426
2012		361
Thereafter		1,009

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(c) **Customer Contract Liability**

The Company has certain noncancelable executor customer contracts purchased as part of the GMI and CCM acquisitions with future cash flows below market rates. A \$7,234 liability was included in Other Long-Term Liabilities and is being amortized over the contractual term of the individual contracts. As of June 30, 2007, \$3,849 of this liability has been amortized and included in net sales.

(9) **Investments in Affiliates**

Investments in affiliates comprise the following:

	<b>Ownership interest</b>	<b>Balance at June 30, 2007</b>
Equity method investment:		
Norchem, Inc.	50.00%	\$ 1,589
Other investments		
Inversora Nihuiles S.A (a)	9.75%	3,062
Inversora Diamante S.A. (b)	8.40%	2,901
Total investments in affiliates		\$ 7,552

(a) This entity owns a 51% interest in Hidroelectrica Los Nihuiles S.A., which is a hydroelectric company in Argentina.

(b) This entity owns a 59% interest in Hidroelectrica Diamante S.A., which is a hydroelectric company in Argentina.

Equity loss from our Norchem, Inc. investment was \$(23) for the year ended June 30, 2007.

(10) **Debt**

(a) **Short-Term Debt**

Short-term debt comprised the following at June 30, 2007:

	<b>Outstanding Balance</b>	<b>Weighted Average Interest Rate</b>	<b>Unused Credit Line</b>
Type debt:			
Revolving credit	\$ 11,685	8.98%	\$ 18,465
Export financing	11,185	5.33	—
Other	580	7.18	2,450
Total	\$ 23,450		\$ 20,915

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

	<b>Outstanding balance</b>	<b>Unused commitment</b>	<b>Total commitment</b>
Fortis credit facility:			
GMI (a)	\$ 4,075	17,425	21,500
GMI (b)	6,000	—	6,000
Bank credit facilities – Argentina (c)	1,610	1,040	2,650
Total	\$ 11,685	18,465	30,150

- (a) This GMI credit facility expires November 2009. Interest accrues at LIBOR or prime, at the Company’s option, plus an applicable margin percentage. At June 30, 2007, the interest rate on this revolver was 9.8%. This credit facility is secured by substantially all of the assets of GMI and is subject to certain covenant restrictions.
- (b) This GMI credit facility expires November 2009. Interest accrues at prime plus 1.5%. At June 30, 2007, the interest rate on this revolver was 7.8%. This credit facility is secured by substantially all of the assets of GMI and is subject to certain covenant restrictions.
- (c) The Company’s Argentine subsidiary maintains three, six-month unsecured revolving credit agreements. Interest accrues at 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 4.1 to 7.0%. Certain export accounts receivable balances are pledged as collateral against these borrowings.

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**(b) Long-Term Debt**

		<b>Outstanding balance</b>
Fortis – senior term loan	\$	24,750
SPV Capital Funding, Inc. junior term loan		8,500
SPV Capital Funding, Inc. junior term loan		8,500
Export financing		9,028
Other		1,649
Total long-term debt		52,427
Less current portion of long-term debt		(6,370)
Long-term debt, net of current portion	\$	46,057

*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 9.07% at June 30, 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 June 30, 2007, except that the Company has received a waiver with respect to the timing of delivery of select financial statements and certain lien restrictions.

The Company has entered into an interest rate swap to fix the LIBOR on 50% of the outstanding balance. Refer to the related discussion in note 2 (Summary of Significant Accounting Policies – Financial Instruments).

*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 13.32% and 11.50%, respectively, at June 30, 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 June 30, 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 and lien restrictions.

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*Export Financing* – The Company’s subsidiary, Metais, maintains three long-term export financing arrangements with three banks in Brazil. At June 30, 2007, interest on the \$3,918 and \$1,052 balances outstanding accrues quarterly at the rate of 6.50% and 8.13%, respectively. Interest on the \$4,058 balance outstanding accrues quarterly at LIBOR plus 1.25%.

**(c) Debt Maturities**

The following table shows debt maturities by fiscal year at June 30, 2007:

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
\$	6,370	10,117	3,150	15,790	17,000	52,427

At June 30, 2007, the recorded carrying values of our debt balances approximate fair market value given the majority of our debt is at variable rates or short-term in nature.

**(11) Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities at June 30, 2007 were as follows:

Accrued salaries, wages and benefits	\$	6,139
Deferred taxes		2,280
Accrued income taxes		2,071
Accrued property taxes		1,062
Accrued legal fees		734
Other		3,392
Total	\$	15,678

**(12) Pension and Other Employee Benefit Plans**

**(a) Defined Benefit Pension Plans**

The Company’s subsidiary, GMI, which was acquired on November 12, 2006, sponsors three noncontributory defined benefit pension plans covering certain domestic employees. These plans were frozen in 2003.

The Company’s funding policy has been to contribute, as necessary, an amount in excess of the minimum requirements in order to achieve the Company’s long-term funding targets. In fiscal 2007, the Company made contributions of \$473 to the domestic pension plans.

We use a June 30 measurement date for these defined benefit pension plans.

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*Obligation and Funded Status* – The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans at June 30, 2007:

Change in benefit obligation:	
Benefit obligation at November 13, 2006	\$ 20,081
Interest cost	701
Actuarial gains	(608)
Benefits paid	(662)
Benefit obligation at end of year	<u>\$ 19,512</u>
Change in plan assets:	
Fair value of plan assets at November 13, 2006	\$ 17,518
Actual gain on plan assets	1,061
Employer contributions	473
Benefits paid	(662)
Fair value of plan assets at end of year	<u>\$ 18,390</u>
Funded status at end of year:	
Fair value of plan assets	\$ 18,390
Benefit obligation	(19,512)
Funded status	<u>\$ (1,122)</u>
Amounts recognized in the consolidated balance sheets consist of:	
Noncurrent liability	\$ (1,122)
Amounts recognized in accumulated other comprehensive income at end of year consist of:	
Net actuarial gain	\$ 832

The accumulated benefit obligation for defined benefit pension plans was \$19,512 at June 30, 2007.

The following information is presented for pension plans where the projected benefit obligation and accumulated benefit obligation as of June 30, 2007 exceeded the fair value of plan assets:

Projected benefit obligation / accumulated benefit obligation	\$ 16,715
Fair value of plan assets	15,524

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*Net Periodic Pension Expense* – The components of net periodic pension expense for the defined benefit pension plans follow:

Interest cost	\$	701
Expected return on plan assets		(923)
Amortization of net loss		86
Net periodic benefit expense	\$	(136)

During the year ended June 30, 2008, the Company expects to recognize \$87 pre-tax accumulated other comprehensive loss, relating entirely to net losses, as net pension cost.

*Assumptions and Other Data* – The weighted average assumptions used to determine benefit obligations at June 30, 2007 follow:

Discount rate	6.25%
---------------	-------

The weighted average assumptions used to determine net periodic benefit cost for year ended June 30, 2007 follow:

Discount rate	5.75%
Expected return on plan assets	8.50

Expected return on plan assets is determined based on historical results adjusted for anticipated market movements.

The Company expects to contribute approximately \$1,054 to the plans for the year ended June 30, 2008.

The following reflects the gross benefit payments which are expected to be paid for the domestic pension plans the years ended June 30:

2008	\$	1,071
2009		1,115
2010		1,184
2011		1,199
2012		1,221
Years 2013-2016		6,473

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The Company's overall strategy is to invest in high-grade securities and other assets with a limited risk of market value fluctuation. In general, the Company's goal is to maintain the following allocation ranges:

Equity securities	55-70%
Fixed income securities	30-40%
Real estate	5-10%

The weighted average asset allocation for the pension plans at June 30, 2007 by asset category follows:

Equity Securities	63.3%
Fixed income securities	31.6
Real estate	4.6
Other	0.5
Total	100.0%

**(b) Other Benefit Plans**

The Company administers healthcare benefits for certain retired employees through a separate welfare plan requiring reimbursement from the retirees.

The Company provides two defined contribution plans (401(k) plans) that allow for employee contributions on a pre-tax basis. Employer contributions have been suspended.

Other benefit plans offered by the Company include a Section 125 Cafeteria Plan for the pre-tax payment of healthcare costs and a flexible spending arrangement.

**(13) Income Taxes**

The sources of income before provision for income taxes and deferred interest attributable to common stock subject to redemption for the year ended June 30, 2007 were as follows:

U.S. operations	\$	19,288
Non-U.S. operations		361

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Our tax provision consists of the following:

	<u><b>Year ended June 30, 2007</b></u>
Current:	
Federal	\$ 4,419
State	1,118
Foreign	<u>340</u>
Total current	5,877
Deferred:	
Federal	633
State	348
Foreign	<u>189</u>
Total deferred	<u>1,170</u>
Total tax provision	<u><u>\$ 7,047</u></u>

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

	<u><b>Year ended June 30, 2007</b></u>
Federal statutory rate	35.0
State taxes, net of federal benefit	4.9
Income from tax exempt investments	(5.4)
Foreign rate differential	1.9
Other items	<u>(0.5)</u>
Effective tax rate	<u><u>35.9</u></u>

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Significant components of the Company's deferred tax assets and deferred tax liabilities at June 30, 2007 consist of the following:

	<b>Year ended June 30, 2007</b>
Deferred tax assets:	
Inventory reserves	\$ 998
Accruals	2,983
Net operating losses and other carryforwards	40,748
Intangibles	1,050
Other assets	1,467
Share-based compensation	237
Gross deferred tax assets	47,483
Valuation allowance	(31,830)
Net deferred tax assets	15,653
Deferred tax liabilities:	
Fixed assets	(23,879)
Accounts receivable	(604)
Investments	(525)
Total deferred tax liabilities	(25,008)
Net deferred tax assets (liabilities)	\$ (9,355)

During the year ended June 30, 2007, the Company adopted a policy of permanent reinvestment of earnings from foreign subsidiaries in accordance with APB Opinion No. 23, *Accounting for Income Taxes – Special Areas* (APB 23). As a result, U.S. taxes have not been provided on unremitted earnings of our foreign subsidiaries. Unremitted earnings of foreign subsidiaries are determined to be permanently reinvested in accordance with APB 23.

The Company has tax benefits for net operating loss carryforwards (NOLs) which expire at various dates in the future. The Company's NOLs and expiration dates at June 30, 2007 are as follows:

	<b>Amount</b>	<b>Expires</b>
Federal	\$ 10,987	Various dates through 2026
State	2,076	Various dates
Foreign	26,263	No expiration

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The Company maintains a valuation allowance for the entire amount of our Brazil and Poland NOLs. The Company decreased our valuation allowance during the year by \$282 which was reflected as a reduction in the intangible assets related to Brazil. The total valuation allowance at June 30, 2007 is \$31,830 and consists of the following:

Federal NOLs	\$	3,848
State NOLS		292
Foreign NOLs		26,263
Federal credits		1,336
Capital loss carryover		91

**(14) Commitments and Contingencies**

**(a) Legal Contingencies**

The Company was sued by Westbrook Resources Limited, an English company, in respect of an alleged failure by GSM to perform under a contract entered into in January 2005 to acquire 30,000 tons of manganese ore. There is a counter claim by the Company 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. The assessment hearing will take place early in 2008. Westbrook is seeking damages of approximately \$2,750 and reimbursement of legal costs of approximately £500. Management intends to appeal any such judgment but there is no assurance that the Company will be successful in its appeal. The Company has reserved a total of \$3,800 related to this contingency at June 30, 2007.

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 June 30, 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.

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**(c) Tax Contingencies**

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. Accruals for tax contingencies are provided for in accordance with the requirements of SFAS No. 5, *Accounting for Contingencies*. 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.

**(d) Power Commitments**

Electric power is a major cost of the Company's production process, as large amounts of electricity are required to operate arc furnaces. A summary of electric power purchase commitments follows:

<u>Facility</u>	<u>Supplier</u>	<u>Terms</u>	<u>Price structure</u>	<u>Capacity</u>
Beverly, Ohio	American Electric Power	Annual renewal	Published tariff rate	2.5 MW firm 85 MW interruptible
Breu Branco, Brazil	Electronorte	Through June 30, 2018	Fixed rate until June 2008, afterwards captive regulated price with specified discount	73 MW
Mendoza, Argentina	EDEMSA	Through October 31, 2009	Specified discount from price established by CAMMESA	24 MW
Selma, Alabama	Alabama Power	Evergreen, 1-year termination notice	Published tariff rate	43 MW
Alloy, West Virginia	Appalachian Power	Through December 31, 2007, with option to renew for 1-year	Published tariff rate	75 MW
Alloy, West Virginia	Brookfield Power	Through December 31, 2031	Fixed rate	100 MW

**(e) Operating Lease Commitments**

The Company leases certain machinery and equipment, automobiles and rail cars. For the year ended June 30, 2007, lease expense was \$281.

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Minimum rental commitments under noncancelable leases outstanding at June 30, 2007 are as follows:

	2008	2009	2010	2011	2012	2013 and thereafter
\$	947	1,317	855	191	—	—

**(15) Stockholders' Equity**

**(a) Preferred Stock**

The Company is authorized to issue 1 million shares of preferred stock with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. To date, no preferred stock has been issued by the Company.

**(b) Conversion and Redemption of Common Stock**

Under the provisions of the Company's amended and restated certificate of incorporation, any stockholder who voted against the Company's acquisition of GMI had the option to demand that the Company convert common stock held by the dissenting stockholder to cash. In addition, the Company's Board of Directors opted to permit each stockholder holding offering shares to vote "for" the business combination while at the same time electing to redeem his shares for cash. Approximately 8.4% of stockholders voted against the GMI acquisition and approximately 9.8% voted for the acquisition but elected to redeem their shares. A total of 7,528,857 of common shares were redeemed for cash payments totaling \$42,802. As of June 30, 2006, 6,699,999 of the redeemed shares were recorded outside of permanent equity. The redemption of the additional 828,858 shares was treated as a reduction of stockholders' equity in fiscal 2007.

**(c) Warrants**

In connection with the Company's initial public offering on October 3, 2005, the Company sold 33,500,000 units (individually, Unit) in the offering at a price of \$6.00 per Unit, generating gross offering proceeds of \$201,000. Each Unit consisted of one share of the Company's common stock, having a par value of \$0.0001 per share, and two redeemable common stock purchase warrants. The warrants became exercisable at the later of the completion of a business combination or October 3, 2006. With the acquisition of GMI completed on November 13, 2006, the warrants became exercisable at that date. The warrants have an exercise price of \$5.00 per common share, and expire on October 3, 2009.

During the fiscal year, the Company executed public and private tender offers to repurchase, redeem or convert outstanding warrants. As a result of these tender offers, 47,353,912 of the 67,000,000 warrants issued in connection with the Company's initial public offering were repurchased, redeemed or converted, resulting in remaining outstanding warrants of 19,646,088 at June 30, 2007.

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(Dollars in thousands)

The tender offers resulted in the issuance of additional 14,201,302 shares of common stock and proceeds of \$19,458.

Also in connection with its initial public offering, the Company issued, for minimal consideration, an option to the representative of the underwriters 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, having a par value of \$0.0001 per share, and two redeemable common stock purchase warrants. The warrants became exercisable at the later of the completion of a business combination or October 3, 2006. With the acquisition of GMI completed on November 13, 2006, the warrants became exercisable at that date. The warrants have an exercise price of \$5.00 per common share, and expire on October 3, 2009. At June 30, 2007, all 1,675,000 UPOs remain outstanding.

The Company has accounted for all warrant transactions as a component of stockholders' equity.

**(d) Cash Dividend**

A cash dividend of \$0.07 per share was declared for shareholders of record as of November 17, 2006. The \$3.3 million dividend was distributed on December 8, 2006.

**(16) Earnings Per Share**

Basic earnings per common share is based on the weighted average number of common shares outstanding during the year ended June 30, 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:

	<u>Net income attributable to common stock</u>	<u>Weighted – average shares</u>	<u>Per common share amount</u>
Basic earnings per common share	\$ 11,834	46,922,343	\$ 0.25
Effect of dilutive securities warrants	—	3,308,970	—
Diluted earnings per common share	<u>\$ 11,834</u>	<u>50,231,313</u>	<u>\$ 0.24</u>

The following potential common shares were excluded from the calculation of diluted earnings per common share because their exercise price was greater than the average market price for the period presented:

Stock options	1,220,000
UPOs	5,025,000
Total	<u>6,245,000</u>

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June 30, 2007

(Dollars in thousands)

**(17) 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 year ended June 30, 2007, share-based compensation awards were limited to the issuance of nonqualified stock options. No other share-based compensation awards were issued.

At June 30, 2007, there were 3,780,000 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.

A summary of the changes in options outstanding, all of which are nonvested and not exercisable, under the Stock Plan for the year ended June 30, 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>
As of July 1, 2006	—	\$ —		
Granted	1,220,000	7.88		
Exercised	—	—		
Forfeited and expired	—	—		
As of June 30, 2007	<u>1,220,000</u>	<u>\$ 7.88</u>	5.28	\$ 536

The weighted average grant date fair value of stock options granted during the year was \$1.71.

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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 year ended June 30, 2007:

Risk-free interest rate		4.84%-4.97%
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 June 30, 2007	\$	2.57

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.

For the year ended June 30, 2007, share-based compensation expense was \$512 (\$312 after tax). The expense was reported within Selling, General and Administrative Expenses. The Company has recorded its \$512 liability for share-based compensation expense within Other Long-Term Liabilities.

As of June 30, 2007, the Company has unearned compensation expense of \$2,628, before income taxes, related to nonvested stock option awards. This expense will be recognized over a weighted average period of 3 years. The unrecognized compensation expense is expected to be recognized over the following periods:

	<u>2008</u>	<u>2009</u>	<u>2010</u>
Stock-based compensation cost (pre-tax)	\$ 1,047	1,047	534

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.

**(18) 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.

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Two Board of Directors, Alan Kestenbaum and Michael Barenholtz, are affiliated with Marco International, MI Capital, and Marco Realty. During fiscal 2007, the Company:

- Recognized \$421 in interest expense on an \$8.5 million financing arrangement entered into on November 10, 2005 between MI Capital and GMI. On April 17, 2007, the loan was sold to D.E. Shaw.
- Paid Marco Realty \$105 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 \$4,847 under these agreements.
- Entered into an agreement to sell 1,152 metric tons of calcium silicon powder to Marco International. Marco International agreed to pay 80% of the price in advance in return for interest at LIBOR + 5.0%. Interest was payable until Marco International was paid by its customer. As of June 30, 2007, sales under this agreement totaled \$1,438. Interest paid to Marco International totaled \$45. At June 30, 2007, Metales owed \$111 under the agreement.

Alan Kestenbaum, Chief Executive Officer, and Arden Sims, Chief Operating Officer, are affiliated with Solsil, Inc. (Solsil). During fiscal 2007, the Company:

- Earned \$2,205 under an operating and lease agreement in which Solsil is provided administrative and operating support plus facility space. At June 30, 2007, Solsil owed \$1,186 under the agreement.
- Sold \$1,512 in "S-1" metallurgical grade silicon grade material to Solsil under a supply agreement that ends in December 2026. As of June 30, 2007, Solsil owed \$571 under the agreement.
- Purchased \$954 in silicon from Solsil. At June 30, 2007, GMI owed \$137 under the agreement.

The Company is affiliated with Norchem through its 50.0% equity interest. During the year, the Company sold Norchem product valued at \$2,403. At June 30, 2007, receivables from Norchem totaled \$711.

**(19) Operating Segments**

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

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**(a) Geographic Data**

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

	<u>Net sales</u>	<u>Depreciation and amortization</u>	<u>Operating income</u>	<u>Long-lived assets</u>
United States	\$ 172,158	7,494	16,277	141,673
Argentina	18,633	1,180	756	36,242
Brazil	27,606	1,940	2,361	27,970
Poland	3,531	27	(249)	892
	<u>\$ 221,928</u>	<u>10,641</u>	<u>19,145</u>	<u>206,777</u>

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.

**(b) Major Customer Data**

The following is a summary of the Company's major customers and their respective percentages of consolidated sales for the year ended June 30, 2007:

Dow corning	15%
All other customers	<u>85</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.