

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

Consolidated Financial Statements

(Unaudited)

September 30, 2008 and 2007

GLOBE SPECIALTY METALS, INC.
AND SUBSIDIARY COMPANIES
Consolidated Balance Sheets
September 30, 2008 and June 30, 2008
(In thousands, except share and per share amounts)

	September 30, 2008	June 30, 2008
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 73,154	73,994
Accounts receivable, net of allowance for doubtful accounts of \$959 and \$1,021 at September 30, 2008 and June 30, 2008, respectively	53,567	53,801
Inventories	70,491	63,568
Prepaid expenses and other current assets	26,417	25,223
Total current assets	223,629	216,586
Property, plant, and equipment, net of accumulated depreciation	192,135	180,659
Goodwill	107,054	107,257
Other intangible assets	16,046	16,884
Investments in affiliates	8,152	7,965
Deferred tax assets	2,091	2,720
Other assets	15,965	16,103
Total assets	\$ 565,072	548,174
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 40,490	40,493
Current portion of long-term debt	20,074	17,045
Short-term debt	15,564	20,140
Accrued expenses and other current liabilities	30,236	26,841
Total current liabilities	106,364	104,519
Long-term liabilities:		
Long-term debt	48,674	52,020
Deferred tax liabilities	22,815	22,756
Other long-term liabilities	21,149	22,642
Total liabilities	199,002	201,937
Commitments and contingences (note 11)		
Minority interest	3,570	3,956
Stockholders' equity:		
Common stock, \$0.0001 par value. Authorized 150,000,000 shares; issued and outstanding 63,217,084 and 63,050,416 shares at September 30, 2008 and June 30, 2008, respectively	6	6
Additional paid-in capital	299,375	296,137
Retained earnings	63,606	46,641
Accumulated other comprehensive loss	(487)	(503)
Total stockholders' equity	362,500	342,281
Total liabilities and stockholders' equity	\$ 565,072	548,174

See accompanying notes to consolidated financial statements.

GLOBE SPECIALTY METALS, INC.
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Consolidated Income Statements
Three Months Ended September 30, 2008 and 2007
(In thousands, except per share amounts)
(UNAUDITED)

	Three Months Ended September 30,	
	2008	2007
Net sales	\$ 149,157	89,286
Cost of goods sold	104,583	75,896
Selling, general, and administrative expenses	16,587	7,931
Research and development	593	75
Operating income	<u>27,394</u>	<u>5,384</u>
Other income (expense):		
Interest income	403	844
Interest expense, net of capitalized interest of \$180 and \$70, respectively	(2,051)	(2,328)
Foreign exchange (loss) gain	(1,309)	242
Other income	844	261
Income before provision for income taxes and minority interest	<u>25,281</u>	<u>4,403</u>
Provision for income taxes	8,702	1,214
Net income before minority interest	<u>16,579</u>	<u>3,189</u>
Losses attributable to minority interest	386	-
Net income attributable to common stock	<u>\$ 16,965</u>	<u>3,189</u>
Weighted average shares outstanding:		
Basic	63,137	56,672
Diluted	83,057	63,807
Earnings per common share:		
Basic	\$ 0.27	0.06
Diluted	0.20	0.05

See accompanying notes to consolidated financial statements.

GLOBE SPECIALTY METALS, INC.
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Consolidated Statement of Changes in Stockholders' Equity
Three Months Ended September 30, 2008
(In thousands)
(UNAUDITED)

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Total stockholders' equity
	Shares	Amount				
Balance at June 30, 2008	63,051	\$ 6	296,137	46,641	(503)	342,281
Warrants exercised	166	—	833	—	—	833
Share-based compensation			2,405	—	—	2,405
Comprehensive income:						
Foreign currency translation adjustment	—	—	—	—	46	46
Unrealized loss on available for sale securities (net of income tax benefit of \$15)	—	—	—	—	(30)	(30)
Net income attributable to common stock	—	—	—	16,965	—	16,965
Total comprehensive income						16,981
Balance at September 30, 2008	<u>63,217</u>	<u>\$ 6</u>	<u>299,375</u>	<u>63,606</u>	<u>(487)</u>	<u>362,500</u>

See accompanying notes to consolidated financial statements.

GLOBE SPECIALTY METALS, INC.
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Consolidated Statements of Cash Flows
Three Months Ended September 30, 2008 and 2007
(In thousands)
(UNAUDITED)

	Three Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income attributable to common stock	\$ 16,965	3,189
Adjustments to reconcile net income attributable to common stock to net cash provided by operating activities:		
Depreciation and amortization of intangible assets	4,943	4,449
Amortization of customer contracts liability	(223)	(1,470)
Share-based compensation	2,405	317
Losses attributable to minority interest	(386)	-
Deferred taxes	583	(224)
Changes in operating assets and liabilities:		
Accounts receivable, net	256	3,064
Inventories	(7,338)	(7,738)
Prepaid expenses and other current assets	(3,814)	(1,607)
Accounts payable	(830)	4,597
Accrued expenses and other current liabilities	3,386	1,141
Other	180	(1,254)
Net cash provided by operating activities	16,127	4,464
Cash flows from investing activities:		
Capital expenditures	(14,217)	(5,436)
Redemption of held-to-maturity treasury securities	2,987	-
Other investing activities	12	-
Net cash used in investing activities	(11,218)	(5,436)
Cash flows from financing activities:		
Proceeds from warrants exercised	833	-
Net payments of long-term debt	(338)	(2,479)
Net payments of short-term debt	(4,600)	(1,572)
Other financing activities	(1,700)	-
Net cash used in financing activities	(5,805)	(4,051)
Effect of exchange rate changes on cash and cash equivalents	56	-
Net decrease in cash and cash equivalents	(840)	(5,023)
Cash and cash equivalents at beginning of period	73,994	67,741
Cash and cash equivalents at end of period	\$ 73,154	62,718
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 3,194	1,662
Cash paid for income taxes	1,127	127

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements
September 30, 2008 and 2007
(Dollars in thousands, except share and per share data)
(UNAUDITED)

(1) Organization and Business Operations

Globe Specialty Metals, Inc. and subsidiary companies (GSM, the Company, we, or our) is among the world's largest producers of silicon metal and silicon-based specialty alloys, important 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 and Principles of Consolidation

In the opinion of the Company's 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 (U.S. GAAP) of the results for the interim periods 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 the Company for the years ended June 30, 2008 and 2007. There have been no material changes to the Company's significant accounting policies during the three months ended September 30, 2008, except as discussed below under recently implemented accounting pronouncements.

b. Use of Estimates

The preparation of financial statements in conformity with U.S. 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, asset retirement obligations, income taxes and deferred tax valuation allowances, valuation of derivative instruments, the determination of the discount rate and the rate of return on plan assets for pension expense (benefit) and the determination of the fair value of share-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. 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 or determinable, and collectability is reasonably assured. 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 statements. When the Company provides a combination of products and services to customers, the arrangement is evaluated under Emerging Issues Task Force Issue (EITF) No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). EITF 00-21 addresses certain aspects of accounting by a vendor for arrangements under which the vendor will perform multiple revenue-generating activities. If the Company cannot objectively determine the fair value of any undelivered elements under an arrangement, the Company defers revenue until all elements are delivered and

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services have been performed, or until fair value can objectively be determined for any remaining undelivered elements.

d. Fair Value of Financial Instruments

Management believes that the carrying values of financial instruments, including cash and cash equivalents, accounts receivable, marketable securities, 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.

e. Recently Implemented Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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. The Company elected to not fair value existing eligible items. Accordingly, the adoption of SFAS 159 had no impact to the consolidated results of operations or financial condition.

f. Accounting Pronouncements to be Implemented

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (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. However, the FASB deferred the effective date of SFAS 157, until July 1, 2009 for the Company, as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis. 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 currently estimates that the impact of adopting SFAS 157 will not be material to its results of operations and financial position.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *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 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 the Company's 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* (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 results of operations and financial position.

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In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). 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, *Accounting for Derivative Instruments and Certain Hedging Activities* (SFAS 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.

In March 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with U.S. GAAP. This statement is effective 60 days following the SEC's September 16, 2008 approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company does not expect the implementation of this statement to have an impact on its results of operations or financial position.

(3) Business Combinations

Solsil Acquisition:

On February 29, 2008, the Company completed the acquisition of approximately 81% of Solsil, Inc. (Solsil). Solsil is engaged in the production of upgraded metallurgical grade 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, and the acquisition will allow the Company to become a significant supplier in the high purity solar-grade silicon market. Solsil's operating results are included in the consolidated income statement from the date of acquisition.

Based on the terms of the acquisition agreement, GSM issued 5,628,657 new shares of common stock to shareholders and optionholders of Solsil in exchange for the approximate 81% interest in Solsil. These shares were valued at \$72,092 based on an average share price of \$12.81 two days before and after the acquisition announcement on January 31, 2008. Related acquisition costs were \$567.

The former shareholders of Solsil, including certain GSM directors and officers who owned approximately 28% of Solsil, agreed 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 shareholders of Solsil, who retained an approximately 19% interest in Solsil following the transaction, are entitled to certain preemptive rights on the future sale of equity securities of Solsil. These pre-emptive rights provide the shareholders of Solsil a right to participate in any issuance by Solsil of any equity securities, or securities convertible or exchangeable into equity securities, on a pro rata basis on terms no less favorable than those received by third party purchasers. They also agreed to certain "tag-along" rights and "drag-along" obligations in the event of the sale of Solsil.

Alan Kestenbaum, Executive Chairman, and Arden Sims, Chief Operating Officer, were previously affiliated with Solsil. In addition, during the three months ended September 30, 2007, the Company:

- Earned \$1,037 under an operating and lease agreement in which Solsil was provided administrative and operating support, plus facility space.

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- Sold \$587 of metallurgical grade silicon grade material to Solsil.
- Purchased \$499 in silicon from Solsil.

The following table reflects the preliminary purchase price allocation associated with the Solsil acquisition:

	Amortization life (in years)	Balance sheet amounts
Current assets		\$ 3,551
Property, plant, and equipment		6,938
Intangible assets:		
Goodwill	Indefinite	57,512
Unpatented technology	10	13,143
Noncurrent assets		3,896
Total assets acquired		85,040
Current liabilities		7,102
Noncurrent liabilities		4,894
Total liabilities assumed		11,996
Minority interest		385
Net assets acquired		72,659
Debt assumed		3,000
Total purchase price		\$ 75,659

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.

Yongvey acquisition:

On May 15, 2008, the Company entered into a business combination pursuant to which it acquired a 58% ownership interest in Ningxia Yongvey Coal Industrial Co., Ltd (Yongvey). Yongvey is engaged in the production of carbon electrodes, an important input in the Company's production process. Yongvey principally supplies its electrodes to our subsidiaries. Yongvey's operating results are included in the consolidated income statement from the date of acquisition.

Based on the terms of the business combination agreement, the Company's total consideration was approximately \$11,172, of which approximately \$6,158 including direct costs of \$458, was paid through June 30, 2008, with the remainder of \$5,014 paid during the three months ended September 30, 2008.

Based on the preliminary purchase price allocation, \$3,744 in goodwill has been assigned to the silicon metal and silicon-based specialty alloys operating segment related to the Yongvey acquisition.

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(4) Treasury Securities

During March 2008, the Company purchased U.S. government treasury securities with a term to maturity of 125 days. The securities were redeemed during the three months ended September 30, 2008. These securities were valued at amortized cost, and the \$2,987 balance of these securities at June 30, 2008 was recorded in prepaid expenses and other current assets.

(5) Inventories

Inventories comprise the following:

	September 30, 2008	June 30, 2008
Finished goods	\$ 23,879	17,830
Work in process	5,895	7,267
Raw materials	32,894	32,068
Parts and supplies	7,823	6,403
Total inventory	\$ 70,491	63,568

At September 30, 2008, \$52,887 in inventory is valued using the first-in, first-out method and \$17,604 using the average cost method. At June 30, 2008, \$48,236 in inventory is valued using the first-in, first-out method and \$15,332 using the average cost method.

(6) Property, Plant, and Equipment

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

	September 30, 2008	June 30, 2008
Land, land improvements, and land use rights	\$ 13,615	13,605
Building and improvements	23,885	23,629
Machinery and equipment	50,502	48,551
Furnaces	96,003	95,925
Other	14,469	14,390
Construction in progress	20,048	6,678
Property, plant, and equipment, gross	218,522	202,778
Less accumulated depreciation	(26,387)	(22,119)
Property, plant, and equipment, net of accumulated depreciation	\$ 192,135	180,659

Depreciation expense for the three months ended September 30, 2008 was \$4,273, of which \$4,159 is recorded in cost of goods sold and \$114 is recorded in selling, general, and administrative expenses. Depreciation expense for the three months ended September 30, 2007 was \$3,397, of which \$3,101 is recorded in cost of goods sold and \$296 is recorded in selling, general, and administrative expenses.

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(7) Goodwill and Other Intangibles

Goodwill and other intangibles 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

Changes in the carrying amount of goodwill during the three months ended September 30, 2008 follow:

	2008
Balance at June 30, 2008	\$ 107,257
Yongvey purchase price allocation adjustments	(203)
Balance at September 30, 2008	\$ 107,054

b. Other Intangible Assets

Changes in the carrying amounts of definite lived intangible assets for three months ended September 30, 2008 follow:

	Electricity contracts	Unpatented technology	Other
Cost:			
Balance at June 30, 2008	\$ 9,368	13,143	323
Tax valuation allowance adjustments	(168)	—	—
Balance at September 30, 2008	9,200	13,143	323
Accumulated amortization:			
Balance at June 30, 2008	5,666	438	323
Amortization expense	341	329	—
Balance at September 30, 2008	6,007	767	323
Net balance at September 30, 2008	\$ 3,193	12,376	—

There were no changes in the value of the Company's indefinite lived intangible assets during the three months ended September 30, 2008. The trade name balance at both September 30, 2008 and June 30, 2008 was \$477.

Amortization expense of purchased intangible assets was \$670 for the three months ended September 30, 2008, which is recorded in cost of goods sold. Amortization expense of purchased intangible assets was \$1,052 for the three months ended September 30, 2007, of which \$943 is recorded in cost of goods sold and \$109 is recorded in selling, general, and administrative expenses.

c. Customer Contracts 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 three months ended September 30, 2008 and 2007, \$223 and \$1,470, respectively, of this liability was amortized and included in net sales. The remaining unamortized

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liability at September 30, 2008 and June 30, 2008 of \$188 and \$411, respectively, is included in other long-term liabilities.

(8) Debt

a. Short-Term Debt

Short-term debt comprised the following:

	<u>Outstanding balance</u>	<u>Weighted average interest rate</u>	<u>Unused credit line</u>
September 30, 2008:			
Type debt:			
Revolving credit	\$ —	—%	\$ 34,560
Export financing	5,899	6.33	2,680
Other	<u>9,665</u>	9.17	<u>—</u>
Total	<u>\$ 15,564</u>		<u>\$ 37,240</u>
June 30, 2008:			
Type debt:			
Revolving credit	\$ 3,750	6.30%	\$ 21,528
Export financing	7,030	6.46	951
Other	<u>9,360</u>	9.62	<u>—</u>
Total	<u>\$ 20,140</u>		<u>\$ 22,479</u>

Revolving Credit Agreements – A summary of the Company's revolving credit agreements at September 30, 2008 follows:

	<u>Outstanding balance</u>	<u>Unused commitment</u>	<u>Total commitment</u>
Senior credit facility	\$ —	<u>34,560</u>	<u>35,000</u>

On September 18, 2008, the Company's subsidiary, Globe Metallurgical, Inc. (GMI), refinanced its revolving credit facility and senior term loan with a new \$75,000 credit facility, comprised of a five-year senior secured term loan in an aggregate principal amount of \$40,000 and a revolving credit facility of \$35,000. The credit facility expires September 2013. Interest on advances under the revolving credit facility accrues at LIBOR plus an applicable margin percentage or, at the Company's option, prime plus an applicable margin percentage. The amount available under the revolving credit facility is subject to a borrowing base calculation, and the total commitment on the revolving credit facility includes \$10,000 for letters of credit associated with foreign supplier contracts. At September 30, 2008, there was no outstanding balance on this revolver. The total commitment on this credit facility includes \$440 outstanding letters of credit associated with foreign supplier contracts. The credit facility is secured by substantially all of the assets of GMI and its principal subsidiary, West Virginia Alloys, 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, a maximum ratio of

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debt to earnings before interest, taxes, depreciation and amortization and minimum net worth and interest coverage requirements. The Company was in compliance with these loan covenants at September 30, 2008.

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 5.0% to 9.0% at September 30, 2008. Certain export accounts receivable balances are pledged as collateral against these borrowings.

Other – The Company’s subsidiary, Yongvey, has \$8,067 in outstanding promissory notes, which mature through April 2009. The notes accrue interest at rates ranging from 8.2% to 12.7%. The promissory notes are secured by certain Yongvey assets. The Company’s subsidiary, Solsil, has \$1,500 in outstanding promissory notes, which mature on October 24, 2008. The notes accrue interest at LIBOR plus 3%, with interest payable in kind and capitalized as outstanding principal at the end of each quarter in lieu of payment in cash. The promissory notes are secured by all property and assets of Solsil. In addition, Solsil is subject to restrictions on issuing dividend payments and securities. At September 30, 2008, the total debt balance was \$1,600.

b. Long-Term Debt

Long-term debt comprised the following:

	September 30, 2008	June 30, 2008
Senior term loan	\$ 40,000	18,640
Junior subordinated term loan	—	8,500
Junior subordinated term loan	—	8,500
Export prepayment financing	20,000	20,000
Export financing	5,000	9,450
Other	3,748	3,975
Total long-term debt	68,748	69,065
Less current portion of long-term debt	(20,074)	(17,045)
Long-term debt, net of current portion	\$ 48,674	52,020

Senior Term Loan – As discussed above, on September 18, 2008, GMI refinanced its revolving credit facility and senior term loan with a new \$75,000 credit facility, comprised of a five-year senior secured term loan in an aggregate principal amount of \$40,000 and a revolving credit facility of \$35,000. Interest on the term loan accrues at LIBOR plus an applicable margin percentage or, at the Company’s option, prime plus an applicable margin percentage. Principal payments are due in quarterly installments of \$2,100, commencing on December 31, 2008, and the unpaid principal balance is due in full in September 2013, subject to certain mandatory prepayments. The interest rate on this loan was 6.18%, equal to LIBOR plus 2.25%, at September 30, 2008. The loan is secured by substantially all of the assets of GMI and its principal subsidiary, West Virginia Alloys, 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, a maximum ratio of

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debt to earnings before interest, taxes, depreciation and amortization and minimum net worth and interest coverage requirements. The Company was in compliance with these loan covenants at September 30, 2008.

In connection with the new \$75,000 credit facility, the Company entered into an interest rate cap arrangement in October 2008 to cap LIBOR on an initial \$20,000 notional amount of debt, with the notional amount decreasing by \$1,053 per quarter through the interest rate cap's expiration on June 30, 2013. Under the interest rate cap, GMI capped LIBOR at a maximum of 4.5% over the life of the agreement

Also in connection with the new \$75,000 credit facility, the Company terminated its then existing interest rate swap. The Company believed it was not practical to designate the cash-settled interest rate swap agreement as a fair value hedge as defined under SFAS 133, as amended by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. Therefore, in accordance with SFAS 133, the Company adjusted 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 \$281 and \$243 for the three months ended September 30, 2008 and 2007, respectively, including \$680 paid in settlement of this agreement during the three months ended September 30, 2008. The fair value of this derivative was recorded in other long-term liabilities with a balance of \$399 at June 30, 2008.

Junior Subordinated Term Loans – In connection with the new \$75,000 credit facility, both of the Company's \$8,500 junior subordinated term loans were paid in full.

Export Prepayment Financing – The Company's Brazilian subsidiary has entered into a \$20,000 export financing arrangement maturing January 31, 2012. The arrangement carries an interest rate of LIBOR plus 2.5%, paid semi-annually. At September 30, 2008, the interest rate on this loan was 5.62%. The principal is payable in seven, semi-annual installments starting in February 2009, with six installments of \$3,000 and one final installment of \$2,000. As collateral, the Brazilian subsidiary has pledged certain third party customers' export receivables, 100% of the subsidiary's property, plant, and equipment, and 2,000 tons of metallic silicon with an approximate value of \$6,134. The loan is subject to certain loan covenant restrictions such as limits on issuing dividends, disposal of pledged assets, and selling of forest areas. In addition, the proceeds from certain cash receipts during the sixty days prior to a loan installment payment date are restricted for payment of the respective installment.

Export Financing – The Company's Brazilian subsidiary maintains long-term export financing arrangements with two banks in Brazil. At September 30, 2008, interest accrues at rates ranging from 5.45% to 6.62%.

(9) Pension Plans

The components of net periodic pension expense (benefit) for the Company's defined benefit pension plans follow for the three months ended September 30, 2008 and 2007:

	Three months ended	
	September 30,	
	2008	2007
Interest cost	\$ 303	295
Expected return on plan assets	(319)	(365)
Amortization of net loss	56	19
Net periodic pension expense (benefit)	\$ 40	(51)

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The Company expects to contribute approximately \$431 to the plans for the year ended June 30, 2009, of which \$83 has been contributed through September 30, 2008.

(10) Income Taxes

The following is a reconciliation, stated in percentage, of the U.S. statutory federal income tax rate to our effective tax rate for the three months ended September 30, 2008 and 2007:

	Three months ended September 30,	
	2008	2007
Federal statutory rate	35.0 %	35.0 %
State taxes, net of federal benefit	2.5	0.7
Foreign tax holiday	(3.3)	(8.2)
Foreign rate differential	(0.1)	(0.6)
Other items	0.3	0.7
Effective tax rate	34.4 %	27.6 %

The Company currently operates under tax holidays in Brazil and Argentina. In Brazil, the Company is operating under a tax holiday, which taxes the Company's manufacturing income at the preferential rate of 15.25% compared to a statutory rate of 34%. The tax holiday in Brazil expires in 2016. In Argentina, the Company's manufacturing income is taxed at a preferential rate, which varies based on production levels from the Company's Argentine facilities. The statutory rate in Argentina is 35%. The tax holiday in Argentina expires in 2012.

The Company maintains valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances are included in our tax provision in the period of change, unless such valuation allowances were established in purchase accounting for a business combination. In determining whether a valuation allowance is warranted, the Company evaluates factors such as prior earnings history, expected future earnings, carry-back and carry-forward periods and tax strategies that could potentially enhance the likelihood of the realization of a deferred tax asset. During the three months ended September 30, 2008, the Company's valuation allowances decreased by \$5,462 due to foreign exchange fluctuations associated with our Brazilian NOLs. In addition, the Company decreased its valuation allowances by \$168 based on the actual usage of NOLs from our Brazilian operations. This decrease was reflected as a reduction in the intangible assets in accordance with SFAS 109 as the valuation allowance was established at the time of the acquisition of our Brazilian operations. There were no other significant changes in the Company's valuation allowances during the three months ended September 30, 2008.

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.

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(11) 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 January 2005 to acquire 30,000 tons of manganese ore. Through September 30, 2008, the Company paid an aggregate amount of \$2,680 pursuant to a judgment, including damages, Westbrook's legal fees, and related interest. In April 2008, the Company appealed this judgment, but there is no assurance that we will be successful in our appeal. A hearing for the appeal is scheduled in January 2009.

The Company is 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 the Company's consolidated financial position, results of operations, or liquidity.

b. Environmental Contingencies

It is the Company's policy to accrue for costs associated with environmental assessments, remedial efforts or other environmental liabilities 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 September 30, 2008, 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 unless there is a long-term monitoring agreement with a governmental agency, in which case a liability is established at the inception of the agreement.

c. Employee Contracts

Certain employees of our Brazilian operations were covered by a collective bargaining agreement, which expired October 31, 2008. These employees have agreed to a new union contract commencing November 1, 2008 and ending October 31, 2009.

d. Guarantees

As of September 30, 2008, the Company's subsidiary, Yongvey, has provided guarantees, either directly or indirectly, of \$4,107 for notes and other contractual obligations for a third party. There are no amounts being carried as liabilities for Yongvey's obligations under these guarantees as management believes the likelihood of performing under these guarantees is remote. These guarantees are provided to allow the third party to secure financing arrangements. Yongvey would be required to perform under the terms of the guarantees should the third party be in default of its contractual obligations, for the full amounts disclosed, as well as any interest and penalties related to these obligations. These guarantees expire on dates ranging from November 2008 to May 2009.

e. Joint Development Supply Agreement

On April 24, 2008, Solsil and GMI entered into a joint development supply agreement with BP Solar International Inc. (BP Solar) for the sale of solar grade silicon. BP Solar and Solsil will also deploy certain existing BP Solar technology at Solsil's facility and the two entities will jointly develop new technology to enhance Solsil's proprietary upgraded solar silicon metallurgical process. Solsil and BP Solar will both contribute towards the costs of the technology development. As part of this agreement, BP Solar paid Solsil

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\$10,000 as an advance for research and development services and facilities construction. A portion of this amount would be refundable to BP Solar if the Company fails to perform under certain terms of the agreement. No revenue associated with this agreement has been recognized in earnings as of September 30, 2008 in accordance with EITF 00-21.

(12) 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 warrants have an exercise price of \$5.00 per common share and expire on October 3, 2009.

During the three months ended September 30, 2008, 166,668 of the warrants issued in connection with the Company's initial public offering were exercised. At September 30, 2008, 18,880,242 warrants and 1,607,542 UPOs remain outstanding.

(13) Earnings Per Share

Basic earnings per common share is based on the weighted average number of common shares outstanding during the three months ended September 30, 2008 and 2007, respectively. 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 for the three months ended September 30, 2008 and 2007 follows:

	Three months ended	
	September 30,	
	2008	2007
Basic earnings per share computation		
Numerator:		
Net income attributable to common stock	\$ 16,965	3,189
Denominator:		
Basic shares outstanding	63,137,373	56,672,188
Basic earnings per common share	\$ 0.27	0.06
Diluted earnings per share computation		
Numerator:		
Net income attributable to common stock	\$ 16,965	3,189
Denominator:		
Basic shares outstanding	63,137,373	56,672,188
Effect of dilutive securities	19,920,042	7,134,461
Diluted shares outstanding	83,057,415	63,806,649
Diluted earnings per common share	\$ 0.20	0.05

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The Company has 361,667 and 1,220,000 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 at September 30, 2008 and 2007, respectively.

(14) 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 share-based awards. Any remaining shares available for grant, but not yet granted, will be carried over and used in the following fiscal years. During the three months ended September 30, 2008, share-based compensation awards were limited to the issuance of nonqualified stock options. No other share-based compensation awards were issued.

At September 30, 2008, there were 3,265,000 shares available for grant. 1,660,000 option grants vest and become exercisable in equal one-third increments on the first, second, and third anniversaries of the date of grant. The remaining 75,000 option grants vest and become exercisable in equal one-fifth increments on the first, second, third, fourth, and fifth anniversaries of the date of grant. All option grants have maximum contractual terms ranging from 5 to 10 years.

A summary of the changes in options outstanding under the Stock Plan for the three months ended September 30, 2008 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 June 30, 2008	1,635,000	\$ 13.46		
Granted	100,000	27.58		
Exercised	—	—		
Forfeited and expired	—	—		
Outstanding as of September 30, 2008	<u>1,735,000</u>	<u>\$ 14.27</u>	<u>5.54</u>	<u>\$ 14,358</u>
Exercisable as of September 30, 2008	<u>406,664</u>	<u>\$ 6.21</u>	<u>4.03</u>	<u>\$ 5,201</u>

The weighted average grant date fair value of stock options granted during the three months ended September 30, 2008 was \$6.27. As of September 30, 2008, there were 1,328,336 nonvested options outstanding with a grant date fair value of \$4.00.

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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 granted during the three months ended September 30, 2008:

Risk-free interest rate		3.01 %
Expected dividend yield		—
Expected volatility		43.00
Expected forfeiture rate		—
Expected term (years)		6
Weighted average per share fair value of stock option grants	\$	6.27

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 three months ended September 30, 2008 and 2007, share-based compensation expense was \$2,405 (\$1,295 after tax) and \$317 (\$171 after tax), respectively. The expense is reported within selling, general, and administrative expenses.

As of September 30, 2008, the Company has unearned compensation expense of \$10,818, before income taxes, related to nonvested stock option awards. The unrecognized compensation expense is expected to be recognized over the following periods:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Share-based compensation (pre-tax) \$	5,223	4,081	1,147	209	158

No option awards vested during the three months ended September 30, 2008.

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

(15) 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.

A current and former member of the Board of Directors are affiliated with Marco International, Marco Realty, and MI Capital. During the three months ended September 30, 2008 and 2007, the Company:

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- Paid Marco Realty \$83 and \$34, respectively, 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 \$0 and \$2,855, respectively, under these agreements.
- Entered into agreements to sell calcium silicon powder to Marco International. Under certain agreements, Marco International agreed to pay 80% of the price in advance in return for interest at LIBOR plus 5.0%. Interest was payable until Marco International was paid by its customer. During the three months ended September 30, 2008 and 2007, sales under these agreements totaled \$0 and \$988, respectively.

The Company is affiliated with Norchem, Inc. (Norchem) through its 50.0% equity interest. During the three months ended September 30, 2008 and 2007, the Company sold Norchem product valued at \$1,143 and \$908, respectively. At September 30, 2008 and June 30, 2008, receivables from Norchem totaled \$356 and \$117, respectively.

Certain entities of the D.E. Shaw group are shareholders of the Company. The Company had outstanding financing arrangements totaling \$17,000 with certain entities of the D.E. Shaw group at June 30, 2008. The notes were paid in full in September 2008. Interest expense on these financing arrangements totaled \$389 and \$489 during the three months ended September 30, 2008 and 2007, respectively.

Solsil has outstanding loans with D.E. Shaw and Plainfield Direct, Inc., stockholders of the Company, totaling \$1,500, with interest payable at LIBOR plus 3.0% and due on October 24, 2008. These notes also mature on October 24, 2008.

Prior to the Yongvey business combination, Yongvey's predecessor had entered into borrowing and lending agreements with affiliates of former and remaining minority shareholders. At September 30, 2008, \$426 in loans and related interest was payable to these parties. At September 30, 2008, \$880 remained payable to Yongvey from a related party.

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(16) Operating Segments

The Company operates in one reportable segment, silicon metal and silicon-based specialty alloys.

a. Geographic Data

Included in the consolidated income statements are the following amounts related to geographic data for the three months ended September 30, 2008 and 2007:

<u>Three months ended September 30, 2008</u>			
	<u>Net sales</u>	<u>Depreciation and amortization</u>	<u>Operating income</u>
United States	\$ 110,173	3,436	15,830
Argentina	16,921	605	6,693
Brazil	18,181	585	5,493
China	1,755	306	(793)
Poland	2,127	11	171
	<u>\$ 149,157</u>	<u>4,943</u>	<u>27,394</u>
<u>Three months ended September 30, 2007</u>			
	<u>Net sales</u>	<u>Depreciation and amortization</u>	<u>Operating income</u>
United States	\$ 71,305	2,878	409
Argentina	8,805	484	1,870
Brazil	7,695	1,076	3,185
Poland	1,481	11	(80)
	<u>\$ 89,286</u>	<u>4,449</u>	<u>5,384</u>

Net sales are attributed to geographical regions based upon the location of the selling unit.

Long-lived assets by geographical region at September 30, 2008 and June 30, 2008 consist of the following:

	<u>September 30, 2008</u>	<u>June 30, 2008</u>
United States	\$ 231,652	221,854
Argentina	33,921	34,435
Brazil	29,878	29,679
China	18,920	17,996
Poland	864	836
	<u>\$ 315,235</u>	<u>304,800</u>

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 net sales for the three months ended September 30, 2008 and 2007:

	Three months ended	
	September 30,	
	2008	2007
Dow Corning	15%	13%
All other customers	85	87
Total	100%	100%

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

(17) Subsequent Events

During October 2008, the Company's subsidiary, Solsil, issued an additional 315,75394 shares of common stock at a price of \$53,839.39 per share to existing Solsil shareholders. Total proceeds of the offering were \$17,000, including the conversion of \$3,207 of existing debt. The portion funded by minority shareholders totaled \$3,174, including the conversion of \$1,604 of existing debt. There was no change in the Company's percentage ownership in Solsil as a result of this share issuance. The subscription agreement allows Solsil to require Solsil shareholders to purchase up to an additional \$8,000 of common shares at the same price per share as this offering for a period of up to 120 days after the initial closing.

In October 2008, the Company entered into a series of non deliverable forward exchange rate contracts to hedge a portion of its net foreign currency exposure to the Brazilian Real. The contracts, covering approximately 16,000 Reais, run through December 2009 and hedge approximately 50% of the Company's projected net exposure to the Real over that time period at an average exchange rate of approximately 2.40 Real to \$1.00 US dollar.

To reduce our exposure to interest rate fluctuations associated with GMI's new \$75,000 credit facility, the Company entered into an interest rate swap agreement in November 2008. The agreement, which expires in June 2013, involves the exchange of the interest obligations relating to an initial \$13,333 notional amount of debt, with the notional amount decreasing by \$702 per quarter. Under the interest rate swap, the Company receives LIBOR in exchange for a fixed interest rate of 2.85% over the life of the agreement.