



**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarter Ended September 30, 2010

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 333-150749

**AGY HOLDING CORP.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or organization)

**20-0420637**

(I.R.S. Employer Identification No.)

**2556 Wagener Road**

**Aiken, South Carolina 29801**

(Address of principal executive offices) (Zip Code)

**(888) 434-0945**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

There is no established trading market for the Common Stock of the registrant. As of November 13, 2010, there were 1,291,667 shares of common stock outstanding.



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PART I – FINANCIAL INFORMATION

ITEM 1. – Consolidated Financial Statements

AGY Holding Corp. and Subsidiaries  
Consolidated Balance Sheets  
(Dollars in thousands except share and per share data)

| <u>Assets</u>   | September 30,<br>2010<br>(Unaudited) | December 31,<br>2009 |
|---|--------------------------------------|----------------------|
| <b>Current assets:</b>  |                                      |                      |
| Cash  | \$ 5,179                             | \$ 3,439             |
| Trade accounts receivable, less allowances of \$3,157 and \$2,558 at September 30, 2010 and December 31, 2009, respectively | 20,932                               | 18,682               |
| Inventories, net  | 29,501                               | 29,734               |
| Deferred tax assets   | 5,960                                | 6,382                |
| Other current assets  | 2,596                                | 2,560                |
| Total current assets  | 64,168                               | 60,797               |
| Property, plant and equipment, and alloy metals, net  | 224,481                              | 249,096              |
| Intangible assets, net  | 18,381                               | 19,667               |
| Other assets  | 1,009                                | 1,306                |
| <b>TOTAL</b>  | <b>\$ 308,039</b>                    | <b>\$ 330,866</b>    |
| <b>Liabilities, Obligation Under Put/Call for Noncontrolling Interest and Shareholder's Equity</b>                          |                                      |                      |
| <b>Current liabilities:</b>   |                                      |                      |
| Accounts payable  | \$ 12,386                            | \$ 13,718            |
| Accrued liabilities   | 17,758                               | 17,563               |
| Short-term borrowings   | 8,827                                | 5,661                |
| Current portion of long-term debt   | 6,796                                | 5,142                |
| Total current liabilities   | 45,767                               | 42,084               |
| Long-term debt  | 216,633                              | 221,666              |
| Pension and other employee benefit plans  | 12,591                               | 12,052               |
| Other liabilities   | 4,874                                | 4,465                |
| Deferred tax liabilities  | 8,046                                | 13,768               |
| Total liabilities   | 287,911                              | 294,035              |
| Commitments and contingencies   |                                      |                      |
| Obligation under put/call for noncontrolling interest   | 6,042                                | 11,320               |
| <b>Shareholder's equity:</b>  |                                      |                      |
| Common stock, \$.0001 par value per share; 5,000,000 shares authorized; 1,291,667 shares issued and outstanding             | —                                    | —                    |
| Additional paid-in capital  | 122,180                              | 122,144              |
| Accumulated deficit   | (113,678)                            | (96,440)             |
| Accumulated other comprehensive deficit   | 527                                  | (193)                |
| Total AGY Holding Corp. shareholder's equity  | 9,029                                | 25,511               |
| Noncontrolling interest   | 5,057                                | —                    |
| Total shareholder's equity  | 14,086                               | 25,511               |
| <b>TOTAL</b>  | <b>\$ 308,039</b>                    | <b>\$ 330,866</b>    |

The accompanying notes are an integral part of the unaudited consolidated financial statements.



**AGY Holding Corp. and Subsidiaries**  
**Consolidated Statements of Operations**  
**(Dollars in thousands, unless otherwise noted)**

|   | (Unaudited)        |                   |                    |                    |
|---|--------------------|-------------------|--------------------|--------------------|
|   | Three Months Ended |                   | Nine Months Ended  |                    |
|   | September 30,      |                   | September 30,      |                    |
|   | 2010               | 2009              | 2010               | 2009               |
| Net sales   | \$ 45,565          | \$ 41,738         | \$ 140,446         | \$ 114,178         |
| Cost of goods sold  | (42,625)           | (43,873)          | (130,314)          | (117,013)          |
| <b>Gross profit (loss)</b>  | <b>2,940</b>       | <b>(2,135)</b>    | <b>10,132</b>      | <b>(2,835)</b>     |
| Selling, general and administrative expenses                        | (3,902)            | (3,981)           | (11,926)           | (12,029)           |
| Restructuring charges   | (948)              | (27)              | (1,978)            | (752)              |
| Amortization of intangible assets                                   | (250)              | (250)             | (752)              | (752)              |
| Goodwill impairment charge  | —                  | —                 | —                  | (44,466)           |
| Other operating income (expense)                                    | 1,302              | 98                | (1,093)            | (1,769)            |
| <b>Loss from operations</b>   | <b>(858)</b>       | <b>(6,295)</b>    | <b>(5,617)</b>     | <b>(62,603)</b>    |
| Other non-operating (expense) income:                               |                    |                   |                    |                    |
| Interest expense  | (5,900)            | (5,717)           | (17,686)           | (16,101)           |
| Gain on bargain purchase  | —                  | —                 | —                  | 22,540             |
| Other income, net   | 120                | 285               | 183                | 1,413              |
| Loss before income tax benefit                                      | (6,638)            | (11,727)          | (23,120)           | (54,751)           |
| Income tax (expense) benefit  | (71)               | 3,980             | 5,478              | 11,635             |
| <b>Net loss</b>   | <b>(6,709)</b>     | <b>(7,747)</b>    | <b>(17,642)</b>    | <b>(43,116)</b>    |
| Less: Net (income) loss attributable to the noncontrolling interest | (19)               | 229               | 406                | 426                |
| <b>Net loss attributable to AGY Holding Corp.</b>                   | <b>\$ (6,728)</b>  | <b>\$ (7,518)</b> | <b>\$ (17,236)</b> | <b>\$ (42,690)</b> |

The accompanying notes are an integral part of the unaudited consolidated financial statements.



**AGY Holding Corp. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(Dollars in thousands, unless otherwise noted)**

|  | (Unaudited)                        |                  |
|--|------------------------------------|------------------|
|  | Nine Months Ended<br>September 30, |                  |
|  | 2010                               | 2009             |
| <b>Cash flow from operating activities:</b>  |                                    |                  |
| Net loss   | \$(17,642)                         | \$(43,116)       |
| Adjustments to reconcile net loss to net cash used in operating activities:                                  |                                    |                  |
| Goodwill impairment charge   | —                                  | 44,466           |
| Depreciation   | 14,829                             | 8,858            |
| Alloy metals depletion, net  | 6,779                              | 4,830            |
| Amortization of debt issuance costs  | 533                                | 535              |
| Amortization of intangibles with definite lives  | 752                                | 752              |
| Loss (gain) on sale, disposal or exchange of property and equipment and alloy metals                         | 1,552                              | (450)            |
| Gain on early extinguishment of debt   | —                                  | (1,138)          |
| Effect of adopting ASC 805 for acquisition-related costs   | —                                  | 1,098            |
| Stock compensation   | 36                                 | 607              |
| Gain on bargain purchase for majority interest business combination  | —                                  | (22,540)         |
| Deferred income tax benefit  | (5,521)                            | (11,633)         |
| Changes in assets and liabilities (net of effect of assets acquired and liabilities assumed in acquisition): |                                    |                  |
| Trade accounts receivable  | (2,251)                            | (4,347)          |
| Inventories  | 232                                | 13,292           |
| Other assets   | 968                                | 637              |
| Accounts payable   | (1,447)                            | 248              |
| Accrued liabilities  | 218                                | (1,242)          |
| Pension and other employee benefit plans   | 392                                | (357)            |
| Net cash used in operating activities  | <u>(570)</u>                       | <u>(9,500)</u>   |
| <b>Cash flows from investing activities:</b>   |                                    |                  |
| Purchases of property and equipment and alloy metals   | (7,569)                            | (10,074)         |
| Proceeds from the sale of property and equipment and alloy metals  | 10,717                             | 11,074           |
| Payment for majority interest business acquisition, net of cash acquired                                     | —                                  | (18,153)         |
| Decrease in restricted cash  | —                                  | 13,056           |
| Net cash provided by (used in) investing activities  | <u>3,148</u>                       | <u>(4,097)</u>   |
| <b>Cash flows from financing activities:</b>   |                                    |                  |
| Proceeds from Revolving Credit Facility borrowings   | 48,850                             | 46,825           |
| Payments on Revolving Credit Facility borrowings   | (52,950)                           | (45,475)         |
| Purchases of Senior Secured Notes  | —                                  | (1,793)          |
| Proceeds from AGY Asia Credit Facility borrowings  | 5,196                              | 3,635            |
| Payments on AGY Asia Credit Facility borrowings  | (1,959)                            | —                |
| Payments on Shanghai Grace Fabric Corporation loan   | —                                  | (12,309)         |
| Capital contribution   | —                                  | 20,000           |
| Net cash provided by financing activities  | <u>(863)</u>                       | <u>10,883</u>    |
| <b>Effect of exchange rate changes on cash</b>   | <u>25</u>                          | <u>35</u>        |
| <b>Net increase (decrease) in cash</b>   | <u>1,740</u>                       | <u>(2,679)</u>   |
| <b>Cash, beginning of period</b>   | <u>3,439</u>                       | <u>4,760</u>     |
| <b>Cash, end of period</b>   | <u>\$ 5,179</u>                    | <u>\$ 2,081</u>  |
| <b>Supplemental disclosures of cash flow information:</b>  |                                    |                  |
| Cash paid for interest   | <u>\$ 11,762</u>                   | <u>\$ 11,156</u> |
| Cash paid for income taxes   | <u>\$ 45</u>                       | <u>\$ 146</u>    |
| <b>Supplemental disclosures of non cash financing/investing activities:</b>                                  |                                    |                  |
| Increase in minimum pension liability adjustment   | <u>\$ 99</u>                       | <u>\$ —</u>      |
| Construction in-progress included in accounts payable  | <u>\$ 772</u>                      | <u>\$ 1,010</u>  |
| Adjustment of obligation under put /call for noncontrolling interest   | <u>\$ 5,057</u>                    | <u>—</u>         |

The accompanying notes are an integral part of the unaudited consolidated financial statements.



**AGY HOLDING CORP.**  
**FORM 10-Q**

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**AGY HOLDING CORP. AND SUBSIDIARIES**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands, unless otherwise noted)**

**1. General**

As used in this Form 10-Q and in these notes, the terms “AGY”, the “Company”, “we,” “us,” or “our” mean AGY Holding Corp. and subsidiary companies. The accompanying unaudited interim consolidated financial statements are those of AGY Holding Corp. and subsidiary companies. Refer to Note 2 to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2009 (the “2009 Form 10-K”) for a discussion of our significant accounting policies.

AGY Holding Corp. is a Delaware corporation with its headquarters in South Carolina. KAGY Holding Company, Inc. (“Holdings”) is the sole shareholder of the Company. AGY is a leading manufacturer of advanced glass fibers that are used as reinforcing materials in numerous diverse, high-value applications, including aircraft laminates, ballistic armor, pressure vessels, roofing membranes, insect screening, architectural fabrics, and specialty electronics. AGY is focused on serving end-markets that require glass fibers for applications with demanding performance criteria, such as the aerospace, defense, construction, electronics, automotive, and industrial end-markets.

On June 10, 2009, the Company acquired a 70% interest in a foreign company, whose results of operations since the acquisition date are included in the accompanying consolidated financial statements. Since this acquisition, the Company operates as two reportable segments (each a single operating segment) consisting of AGY U.S. manufacturing operations (“AGY US”) and AGY Asian manufacturing operations (“AGY Asia”).

***Basis of Consolidation and Presentation***

The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of items of a normal recurring nature) considered necessary for a fair statement of financial condition and results of operations have been included. Interim operating results are not necessarily indicative of the results to be expected for any other interim period or for the full year.

The Company’s business is conducted through AGY Holding Corp., its two wholly owned domestic subsidiaries, AGY Aiken LLC and AGY Huntingdon LLC and its wholly owned foreign subsidiaries, AGY Europe SARL (France) and AGY Cayman LLC (Cayman Islands). AGY Cayman LLC (Cayman Islands) is the holding company of the 70% controlling ownership in AGY Hong Kong Ltd. (formerly Main Union Industrial Ltd.) and its subsidiaries since June 10, 2009. All significant intercompany accounts and transactions have been eliminated in consolidation.

The information included in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in our 2009 Form 10-K. The December 31, 2009 balances are derived from the audited financial statements in the 2009 Form 10-K.

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and are subject to risks and uncertainties, including those identified in the “Risk Factors” section of our 2009 Form 10-K. Changes in facts and circumstances may have a significant impact on the resulting financial statements.



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

2. 2009 Chinese Business Combination

On June 10, 2009, pursuant to the terms of the Sale and Purchase Agreement dated March 12, 2009 (the “AGY Asia Purchase Agreement”), by and among AGY Cayman, Grace Technology Investment Co., Ltd. and Grace THW Holding Limited (together with Grace Technology Investment Co., Ltd., “Grace”), AGY Cayman, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Company, completed its acquisition of 70% of the outstanding shares of Main Union Industrial Ltd. (renamed AGY Hong Kong Ltd.), a company incorporated in Hong Kong and a previously wholly-owned subsidiary of Grace Technology Investment Co., Ltd., a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Grace THW Holding Limited. AGY Hong Kong Ltd. owns 100% controlling interest in Shanghai Grace Technology Co., Ltd (renamed AGY Shanghai Technology Co., Ltd. (“AGY Shanghai”)), a company incorporated in China, which is also a glassfiber yarns manufacturer. This acquisition expanded AGY’s geographic, manufacturing, and servicing capabilities in the Asia-Pacific region relative to the electronics and industrial end-markets.

In connection with the execution of the AGY Asia Purchase Agreement, the parties entered into several other agreements, including: (1) an option agreement, pursuant to which Grace granted AGY Cayman a call option, and AGY Cayman granted Grace a put option, in respect to the 30% interest held by Grace in AGY Hong Kong Ltd., (2) a supply agreement, pursuant to which Grace purchases certain fiberglass yarn products from AGY, which will have an initial term through December 31, 2013, (3) an intellectual property license agreement pursuant to which AGY Holding Corp. grants to AGY Hong Kong Ltd. a non exclusive, royalty-free, non-transferable know-how and trademarks license for the production and the sale of certain products for specific territories, and (4) a technical service agreement pursuant to which AGY provides certain technical and manufacturing support services to AGY Shanghai.

The Company expensed \$188 and \$1,627 of incremental advisory, legal and accounting fees that it incurred during the three months ended September 30, 2009 and during the year ended December 31, 2009, respectively in connection with this transaction and expensed (classified as “other operating expense” in the statement of operations) \$1,098 of acquisition-related costs in the nine months ended September 30, 2009 that had been incurred in 2008.

3. Inventories, net

Inventories, net of reserves for excess, obsolete, and write-downs to lower of cost or market adjustments of \$1,698 and \$2,618 as of September 30, 2010 and December 31, 2009, respectively, consist of the following:

|                                    | September 30,<br>2010 | December 31,<br>2009 |
|------------------------------------|-----------------------|----------------------|
| Finished goods and work in process | \$ 19,359             | \$ 20,544            |
| Materials and supplies             | 10,142                | 9,190                |
|                                    | <u>\$ 29,501</u>      | <u>\$ 29,734</u>     |

4. Property, Plant and Equipment and Alloy Metals

Property, plant and equipment and alloy metals consist of the following:

|                                      | September 30,<br>2010 | December 31,<br>2009 |
|--------------------------------------|-----------------------|----------------------|
| Land and land use rights             | \$ 11,764             | \$ 11,561            |
| Buildings and leasehold improvements | 37,890                | 37,492               |
| Machinery and equipment              | 132,731               | 131,596              |
| Alloy metals (net of depletion)      | 89,922                | 107,601              |
|                                      | <u>272,307</u>        | <u>288,250</u>       |
| Less – Accumulated depreciation      | <u>(60,741)</u>       | <u>(45,525)</u>      |
|                                      | 211,566               | 242,725              |
| Construction-in-progress             | 12,915                | 6,371                |
|                                      | <u>\$ 224,481</u>     | <u>\$ 249,096</u>    |



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

Depreciation expense was \$14,829 and \$8,858 in the nine months ended September 30, 2010 and 2009, respectively.

As discussed in Note 7, the Company recognized \$1,372 and \$4,115 of accelerated depreciation related to its North American manufacturing footprint optimization during the three and nine months ended September 30, 2010.

Depletion of alloy metals was \$6,779 and \$4,830 (net of recoveries and excluding expense to process such recoveries), in the nine months ended September 30, 2010 and 2009, respectively.

During the first nine months of 2010 and 2009, the Company sold alloy metals for net proceeds of \$10,717 and \$11,074, respectively, and recognized a loss of \$1,552 and a gain of \$450 respectively, classified as “other operating expense”.

5. Intangible Assets

Intangible assets subject to amortization and trademarks, which are not amortized, consist of the following:

|  | September 30,<br>2010 | December 31,<br>2009 | Estimated Useful<br>Lives |
|--|-----------------------|----------------------|---------------------------|
| Intangible assets subject to amortization: |                       |                      |                           |
| Customer relationships – U.S.              | \$ 4,800              | \$ 4,800             | 11 years                  |
| Process technology                         | 10,200                | 10,200               | 18 years                  |
| Deferred financing fees                    | <u>5,075</u>          | <u>5,075</u>         | 5 to 8 years              |
| Sub-Total                                  | 20,075                | 20,075               |                           |
| Less – Accumulated amortization            | <u>(7,307)</u>        | <u>(6,021)</u>       |                           |
|  | 12,768                | 14,054               |                           |
| Trademarks – not amortized                 | <u>5,613</u>          | <u>5,613</u>         |                           |
| Net intangible assets                      | <u>\$ 18,381</u>      | <u>\$ 19,667</u>     |                           |

Deferred financing fees are amortized by the straight-line method, which approximates the effective interest method.

The Company’s process technology consists of several patents that relate to the design, application or manufacturing for key products, and its estimated useful life is based on the average legal life of the patents and the Company’s estimated economic life of the processes.

During the first quarter of 2009, the Company purchased \$3,000 (face amount) of its 11% senior secured second lien notes (“Notes”) (see Note 9). The allocable portion of debt issuance costs related to these Notes of \$70 was netted against the gain on the repurchase of the Notes in “other non-operating income”.

6. Goodwill Impairment Charge

As of June 30, 2009, lower than expected operating profit and cash flows and short-to-mid-term business outlook associated with the global economic environment triggered management to reassess the recoverability of the goodwill associated with the purchase of AGY Holding Corp. by Holdings in April 2006. As a result, management concluded, with the assistance of independent third-party valuation specialists, that as of June 30, 2009, the goodwill associated with the AGY US segment was partially impaired. The Company recognized a non-cash, pre-tax goodwill impairment charge of \$44,466, classified as a charge against “loss from operations” in the second quarter of 2009.

The Company performed its annual impairment testing of goodwill during the fourth quarter of 2009 after the annual budgeting process. Future earnings and cash flows projections for the next two years were revised to reflect, among other assumptions, the improvement in 2010 compared to the fourth quarter of 2009 in the primary markets the Company serves. The Company utilized the valuation hierarchy provided in ASC 820-10 to measure at fair value this goodwill. Management concluded from this review, with the assistance of independent third-party valuation specialists, that as of October 31, 2009 the goodwill associated with the AGY US segment was fully impaired and the Company recognized an additional non-cash, pre-tax goodwill impairment charge of \$40,526, classified as a “loss from operations” in the fourth quarter of 2009.



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

7. Restructuring Initiatives

2010 Cost Reduction Actions

As part of the Company’s continuing review and improvement of its cost structure, actions were taken in the first nine months of 2010 to further optimize the AGY US segment manufacturing footprint. The Company is downsizing and flexing certain underutilized manufacturing facilities in the U.S. to improve profitability and better adjust its production capacity to projected future worldwide market demand. In conjunction with these actions, during the first nine months of 2010 the Company recorded \$6,092 in charges, of which \$1,978 is related primarily to the relocation of certain manufacturing equipment and is included in “Restructuring charges” and \$4,114 is related to accelerated depreciation expense and is included in “Cost of goods sold.” Most of the cash costs related to these actions were incurred and paid during the same period.

The following table summarizes the status of unpaid liabilities from the Company’s 2010 restructuring initiatives:

|                                  | Employee<br>Related Costs | Relocation of<br>Manufacturing<br>Equipment | Others | Total   |
|----------------------------------|---------------------------|---|--------|---------|
| Balance as of January 1, 2010    | \$ —                      | \$ —  | \$ —   | \$ —    |
| Restructuring costs incurred     | 420                       | 1,052                                       | 506    | 1,978   |
| Payments                         | (147)                     | (1,052)                                     | (506)  | (1,705) |
| Balance as of September 30, 2010 | \$ 273                    | \$ —  | \$ —   | \$ 273  |

The Company continues to evaluate its global manufacturing footprint to ensure the optimization of its production capacity and its overhead cost structure. As a result of this evaluation, similar activities are anticipated to continue throughout 2010 and into 2011 and could result in additional cash payments and accelerated depreciation expense.

2009 Cost Reduction Actions

During the nine months ended September 30, 2009, the Company recorded \$752 of restructuring charges that related primarily to severance and outplacement cost for salaried positions that the Company eliminated within the AGY US segment.

These 2009 cost reduction actions and their payment were completed in 2009.

8. Accrued Liabilities

Accrued liabilities consist of the following:

|  | September 30,<br>2010 | December 31,<br>2009 |
|--|-----------------------|----------------------|
| Vacation   | \$ 2,039              | \$ 2,057             |
| Real and personal property taxes                       | 2,399                 | 5,382                |
| Payroll and benefits                                   | 1,542                 | 1,302                |
| Interest   | 7,184                 | 2,470                |
| AGY Asia supply agreement                              | 1,950                 | 3,810                |
| Current portion of pension and other employee benefits | 1,012                 | 1,012                |
| Accrued non refundable PRC value added tax             | 594                   | 937                  |
| Other  | 1,038                 | 593                  |
| Total accrued liabilities                              | \$ 17,758             | \$ 17,563            |



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

9. Debt

Principal amounts of indebtedness outstanding under the Company’s financing arrangements consist of the following:

|   | September 30,<br>2010 | December 31,<br>2009 |
|---|-----------------------|----------------------|
| Senior secured notes  | \$ 172,000            | \$ 172,000           |
| Senior secured revolving credit facility                                | 15,150                | 19,250               |
| AGY Asia credit facility – non-recourse                                 | 45,106                | 41,219               |
| Total debt  | 232,256               | 232,469              |
| Less – Short-term debt and current portion of long-term debt - AGY Asia | 15,623                | 10,803               |
| Total long-term debt  | <u>\$ 216,633</u>     | <u>\$ 221,666</u>    |

*Senior Secured Revolving Credit Facility*

The Company’s \$40,000 Senior Secured Revolving Credit Facility (“Credit Facility”) matures in October 2011 and includes a \$20,000 sublimit for the issuance of letters of credit and a \$5,000 sublimit for swing line loans. The borrowing base for the Credit Facility is equal to the sum of: (i) an advance rate against eligible accounts receivable of up to 90%, plus (ii) the lesser of (A) 65% of the book value of eligible inventory (valued at the lower of cost or market) and (B) 85% of the net orderly liquidation value for eligible inventory, plus (iii) up to \$32,500 of eligible alloy inventory, minus (iv) 100% of market-to-market risk on certain interest hedging arrangements, minus (v) a reserve of \$7,500. As amended in connection with the Company’s acquisition of a 70% interest in AGY Asia, certain provisions of the credit agreement were modified or added, including the following: the availability reserve in the borrowing base calculation increased from \$7,500 to \$10,000; the foreign subsidiary indebtedness of AGY Asia or its subsidiaries is permitted provided that it is non-recourse indebtedness; the investment associated with the purchase of the remaining 30% is permitted provided that the Company’s excess availability under the facility is at least \$10,000 for 60 days prior to the consummation date and \$12,500 immediately following such consummation; and it is an event of default under the credit agreement if the Company defaults under its obligations regarding the acquisition of the remaining 30% of AGY Asia. In addition, the applicable margin for any utilization of the revolver in excess of \$25,000 increased from 1.75% to 3.0% for Eurodollar loans and from 0.75% to 2.0% for base rate loans. No other material terms of the credit agreement were modified under the amendment.

At the Company’s option, loans under the Credit Facility bear interest based on either the eurodollar rate or base rate (a rate equal to the greater of the corporate base rate of interest established by the administrative agent under the Credit Facility from time to time, and the federal funds effective rate plus 0.50%) plus, in each case, an applicable margin of 1.75% in the case of eurodollar rate loans and 0.75% in the case of base rate loans.

In addition, there are customary commitment and letter of credit fees under the Credit Facility. All obligations under the Credit Facility are guaranteed by the Company and all of its existing and future direct and indirect domestic subsidiaries. The Company’s obligations under the Credit Facility are secured, subject to permitted liens and other agreed upon exceptions, by a first-priority security interest in substantially all of the Company’s assets.

At September 30, 2010 and December 31, 2009, we had borrowings of \$15,150 and \$19,250, respectively, outstanding under the Credit Facility. The weighted average interest rate for cash borrowings outstanding as of September 30, 2010, was 2.16%. At September 30, 2010, we also had issued approximately \$2,360 of standby letters of credit primarily for collateral required for utilities, fixed-rate natural gas purchases and workers’ compensation obligations. Borrowing availability after giving effect to the borrowing base at September 30, 2010 and December 31, 2009, was approximately \$20,900 and \$18,450, respectively.

The Credit Facility does not contain any financial maintenance covenants. Under certain events of default and other conditions, including failure to pay indebtedness under the senior secured second lien notes, payment of the outstanding principal and interest could be accelerated.



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
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The Credit Facility contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers and consolidations, dividends and other payments in respect to capital stock, transactions with affiliates, and optional payments and modifications of subordinated and other debt instruments. The Credit Facility also includes customary events of default, including a default upon a change of control. The Company was in compliance with all such covenants at September 30, 2010 and December 31, 2009.

*Senior Secured Notes*

Interest on our Senior Secured Notes due in 2014 (the “Notes”) is payable semi-annually on May 15 and November 15 of each year beginning May 15, 2007. Our obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on a second-priority basis, by each of our existing and future domestic subsidiaries, other than immaterial subsidiaries, that guarantee the indebtedness of the Company, including the Credit Facility, or the indebtedness of any restricted subsidiaries.

In February 2009, we repurchased \$3,000 face amount of Notes for \$1,792 plus accrued interest of \$92 and commission of \$8, resulting in a net gain on extinguishment of debt of \$1,138 (net of \$70 of deferred financing fees written off), classified as “other non-operating income”.

At any time prior to November 15, 2010, we may redeem all or a part of the Notes at a redemption price equal to 100% of the principal amount of Notes redeemed plus an applicable make-whole payment. Currently, we do not expect to utilize the remaining optional redemption provision.

As of September 30, 2010 and December 31, 2009, the estimated fair value of the Notes was \$147,060 and \$140,610, respectively, compared to a recorded book value of \$172,000 for both periods. The fair value of the Notes is estimated on the basis of quoted market prices; however, trading in these securities is limited and may not reflect fair value. The fair value is subject to fluctuations based on, among other things, the Company’s performance, its credit rating and changes in interest rates for debt securities with similar terms.

The indenture governing the notes contains a Fixed Charge Coverage Ratio (calculated based on “Consolidated Cash Flow” (as defined therein)), which is used to determine our ability to make restricted payments, incur additional indebtedness, issue preferred stock and enter into mergers or consolidations or sales of substantially all assets. The indenture does not allow us to pay dividends or distributions on our outstanding capital stock (including to our parent) and limits or restricts our ability to incur debt, repurchase securities, make certain prohibited investments, create liens, transfer or sell assets, enter into transactions with affiliates, issue or sell stock of a subsidiary or merge or consolidate. The indenture does not contain any financial maintenance covenants.

Under certain events of default, including defaults under the Credit Facility, payment of the outstanding principal and interest could be accelerated.

*AGY Asia Credit Facility- Non-recourse*

The indebtedness of \$38,967 assumed in the acquisition of AGY Asia was refinanced as discussed below. On July 10, 2009, AGY Asia entered into a financing arrangement with the Bank of Shanghai (“AGY Asia Credit Facility”). On June 8, 2010, a portion of the USD loan commitment was exchanged for RMB commitment under both the project loan and the working capital loan. The arrangement now consists of a five-year term loan in the aggregate amount of approximately \$41,200 (consisting of a loan denominated in local currency of RMB 222,200, or approximately \$33,200 converted at an exchange rate of RMB 6.70 to 1 U.S. dollar, and a U.S.-dollar-denominated loan of \$8,000), a one-year working capital loan in the aggregate amount of approximately \$11,900 (consisting of a local currency loan of RMB 59,500, or approximately \$8,900 converted at an exchange rate of RMB 6.7 to 1 U.S. dollar, and a U.S.-dollar-denominated loan of \$3,000), and a one-year letter of credit facility in the amount of \$2,000. As discussed above, proceeds from the loans were used principally to repay the \$37,568 outstanding at the time of the refinancing under AGY Asia’s prior credit agreements.

The term loan is secured by AGY Asia’s building, alloy metals and equipment and bears interest annually at the rate of either the five-year lending rate as published by the People’s Bank of China, plus a margin, or six-month LIBOR plus 3.0%. Term loan borrowings may be made in both local currency and US dollars, up to certain limits. At September 30, 2010 and December 31, 2009, AGY Shanghai had approximately \$36,279 and \$35,558 of borrowings outstanding under the term loan, respectively, consisting of a local currency loan of RMB 198,500 and RMB 195,000, respectively, or approximately \$29,622 and \$28,715, respectively, converted at an exchange rate of RMB 6.7 to 1 U.S. dollar, and a U.S.-dollar-denominated loan of \$6,657 and \$7,000, respectively. The weighted average interest rate for cash borrowings outstanding as of September 30, 2010, was 5.81%.



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Principal on the term loan is due semi-annually beginning April 2010, in accordance with the following amortization schedule (when the term loan is fully drawn):

|      |                 |
|------|-----------------|
| 2010 | \$ 5,200        |
| 2011 | 8,300           |
| 2012 | 10,100          |
| 2013 | 10,900          |
| 2014 | 6,700           |
|      | <u>\$41,200</u> |

The working capital loan facility is secured by future equipment and assets acquired by AGY Shanghai and bears interest annually at the rate of either the one-year lending rate as published by the People’s Bank of China, or three-month LIBOR plus 3.0%. On June 8, 2010, the working capital loan and letter of credit facility were renewed for a one-year term to June 2011.

At September 30, 2010 and December 31, 2009, AGY Asia had approximately \$8,827 and \$5,661 borrowings, respectively, outstanding under the working capital loan consisting of a local currency loan of RMB 45,750 and RMB 25,000, respectively, or approximately \$6,827 and \$3,681, respectively, converted at an exchange rate of RMB 6.7 to 1 U.S. dollar, and a U.S.-dollar-denominated loan of \$2,000 at the end of each period. The weighted average interest rate for cash borrowings outstanding as of September 30, 2010, was 5.26%.

The letter of credit facility is a one-year facility for the issuance of documentary letters of credit up to a maximum term of 120 days. A 15% deposit is required upon issuance with the balance due upon settlement of the underlying obligation.

The loan agreements contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, interest coverage, debt-to-assets ratio, restrictions on indebtedness, liens, investments, mergers and consolidations, dividends and other payments in respect to capital stock, and transactions with affiliates. The loan agreements also include customary events of default, including a default upon a change of control. AGY Shanghai was in compliance with all such covenants at September 30, 2010.

All amounts borrowed under the AGY Asia Credit Facility are non-recourse to AGY Holding Corp. or any other domestic subsidiary of AGY Holding Corp.

**Maturities of Long-Term Debt**

Maturities of long-term debt at September 30, 2010 consist of the following:

|      | North America    | China – Non-recourse | Total            |
|------|------------------|----------------------|------------------|
| 2011 | \$ 15,150        | \$ 4,710             | \$ 19,860        |
| 2012 | —                | 10,058               | 10,058           |
| 2013 | —                | 10,611               | 10,611           |
| 2014 | 172,000          | 4,104                | 176,104          |
|      | <u>\$187,150</u> | <u>\$ 29,483</u>     | <u>\$216,633</u> |

**10. Capital Stock and Equity**

The authorized capital consists of a total of 5,000,000 shares of common stock with a par value of \$0.0001 per share. All 1,291,667 outstanding shares of the Company have been owned by Holdings since the Acquisition on April 7, 2006. The holder of each share has the right to one vote for each share of common stock held and no shareholder has special voting rights other than those afforded all shareholders generally under Delaware law. Shareholders will share ratably, based on the number of shares held, in any and all dividends the Company may declare. As indicated in Note 9, the payment of dividends is restricted by the Credit Facility and no dividends were paid in either the nine months ended September 30, 2010 or in 2009.



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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

11. Employee Benefits

*Pension and Other Post-retirement Benefits*

*Pension Benefits* - As described more fully in our 2009 Form 10-K, we have a reimbursement obligation to Owens Corning (“OC”) under OC’s defined benefit pension plan covering certain of our employees. Our obligation to OC is unfunded. We do not have a defined benefit pension plan.

*Other Post-retirement Benefits* - We have a post-retirement benefit plan that covers substantially all of our domestic employees. Upon the attainment of age sixty-two and the completion of ten years of continuous service, an employee may elect to retire. Employees eligible to retire may receive limited postretirement health and life insurance benefits. We also have an unfunded reimbursement obligation to OC for certain of our retirees who retired under OC’s retiree medical plan.

Net periodic benefit costs for the three and nine months ended September 30, 2010 and 2009, are as follows:

|  | For the Three Months Ended<br>September 30, |              |                             |               | For the Nine Months Ended<br>September 30, |              |                             |               |
|--|---|--------------|-----------------------------|---------------|--|--------------|-----------------------------|---------------|
|  | Pension<br>Benefits                         |              | Post-Retirement<br>Benefits |               | Pension<br>Benefits                        |              | Post-Retirement<br>Benefits |               |
|  | 2010  | 2009         | 2010                        | 2009          | 2010                                       | 2009         | 2010                        | 2009          |
| Service cost                           | \$—   | \$—          | \$ 112                      | \$ 112        | \$—  | \$—          | \$ 336                      | \$ 336        |
| Interest cost                          | 63  | 68           | 109                         | 109           | 190  | 205          | 327                         | 327           |
| Settlement                             | 25  | —            | —                           | —             | 113  | —            | —                           | —             |
| Amortization of unrecognized gains     | —   | —            | (3)                         | (3)           | —  | —            | (9)                         | (9)           |
| <b>Total net periodic benefit cost</b> | <b>\$ 88</b>                                | <b>\$ 68</b> | <b>\$ 218</b>               | <b>\$ 218</b> | <b>\$303</b>                               | <b>\$205</b> | <b>\$ 654</b>               | <b>\$ 654</b> |

Expected net employer contributions for the defined benefit plan for the year ending December 31, 2010 are \$544. Expected net employer contributions for the postretirement benefit plan for the year ending December 31, 2010 are \$468.

*Defined Contribution Plan*

The Company has a defined contribution 401(k) plan that allows qualifying employees to contribute up to 30% of their annual pretax or after-tax compensation subject to Internal Revenue Service (IRS) limitations. Effective January 1, 2007, AGY may provide a voluntary matching employer contribution of 50% on up to 6% of each participant’s before-tax salary deferral. In addition, AGY may make an employer contribution to the plan based on the Company’s annual financial performance. For the nine months ended September 30, 2010 and 2009, the Company contributed \$493 and \$448 respectively.

12. Stock-based Compensation

Our stock-based compensation includes stock options and restricted stock as described in our 2009 Form 10-K. Total stock-based compensation was \$36 and \$607 for the nine months ended September 30, 2010 and 2009, respectively. During 2010, options for 70,000 shares of common stock were granted with a fair value of \$2.36 for each option. Assumptions used in the Company’s Black Scholes valuation model to estimate the grant date fair value were expected volatility of 41%, expected dividends of 0%, expected term of 4.4 years and a risk free interest rate of 1.78%.



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

The following table summarizes the Company’s activity in stock options: The outstanding options at September 30, 2010 had no intrinsic value.

|                                  | Number of options | Weighted-Average<br>Remaining<br>Contractual Life<br>(In Years) | Weighted-Average<br>Remaining Exercise<br>Price |
|----------------------------------|-------------------|---|---|
| Outstanding – January 1, 2010    | 1,205,000         | 6.4   | \$ 10.00  |
| Granted                          | 70,000            |   | 6.55  |
| Exercised                        | —                 |   |   |
| Expired or forfeited             | (125,000)         |   | 10.00   |
| Outstanding – September 30, 2010 | <u>1,150,000</u>  | <u>5.5</u>  | <u>9.79</u>                                     |
| Exercisable – September 30, 2010 | <u>720,000</u>    | <u>5.5</u>  | <u>\$ 10.00</u>                                 |

13. Comprehensive Loss

Comprehensive loss represents net loss and all changes in equity during the period except those resulting from investments by owners and distributions to owners. The components of comprehensive loss were as follows:

|   | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                   |
|---|-------------------------------------|------------------|------------------------------------|-------------------|
|   | 2010                                | 2009             | 2010                               | 2009              |
| Net loss attributable to AGY Holding Corp.                                    | \$(6,728)                           | \$(7,518)        | \$(17,236)                         | \$(42,690)        |
| Pension & Other OPEB Adjustments  | (13)                                | —                | (99)                               | —                 |
| Currency translation adjustments  | 584                                 | 11               | 817                                | 5                 |
| Comprehensive (loss) income attributable to AGY Holding Corp.                 | <u>\$(6,157)</u>                    | <u>\$(7,507)</u> | <u>\$(16,518)</u>                  | <u>\$(42,685)</u> |
| Net income (loss) attributable to noncontrolling interest                     | \$ 19                               | \$ (229)         | \$ (406)                           | \$ (426)          |
| Currency translation adjustments  | 131                                 | 6                | 185                                | 7                 |
| Comprehensive loss attributable to noncontrolling interest                    | <u>\$ 150</u>                       | <u>\$ (223)</u>  | <u>\$ (221)</u>                    | <u>\$ (419)</u>   |
| Net (loss) income   | \$(6,709)                           | \$(7,747)        | \$(17,642)                         | \$(43,116)        |
| Pension and Other OPEB Adjustments  | (13)                                | —                | (99)                               | —                 |
| Currency translation adjustments  | 715                                 | 17               | 1,002                              | (12)              |
| Comprehensive loss, including portion attributable to noncontrolling interest | <u>\$(6,007)</u>                    | <u>\$(7,730)</u> | <u>\$(16,739)</u>                  | <u>\$(43,104)</u> |

14. Derivative Instruments and Hedging Activities

We periodically enter into fixed-price agreements for the natural gas commodity requirements of our AGY US segment to reduce the variability of the cash flows associated with forecasted purchases of natural gas. Although these contracts are considered derivative instruments, they typically meet the normal purchases exclusion contained in ASC 815, and are therefore exempted from the related accounting requirements. At September 30, 2010, we had existing contracts for physical delivery of natural gas at our Aiken, SC facility that fix the commodity cost of natural gas for approximately 70% of our 2010 requirements and 50% of our January through August 2011 requirements for AGY US segment estimated natural gas purchases.

We also use, on occasion, foreign currency derivatives to manage the risk associated with fluctuations in foreign exchange rates. At September 30, 2010 and December 31, 2009, we had no foreign currency hedging agreements in effect.



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

**15. Alloy Metals Leases**

Significant portions of the alloy metals needed to support our manufacturing operations are leased under short term operating facilities (generally with lease terms from one to twelve months). During the nine months ended September 30, 2010 and 2009, total lease costs of alloy metals were approximately \$2,775 and \$2,736, respectively, and were classified as a component of cost of goods sold.

During the nine months ended September 30, 2010 and in 2009, we have leased alloy metals under the following two agreements:

**Metal Consignment Facility** — From May 2005 to October 2009, AGY had a consignment agreement in place with Bank of Nova Scotia, as assignee of Bank of America, N.A., which was assignee of Fleet Precious Metals Inc., to lease platinum, one of the alloy metals used in our manufacturing operations. In March 2008, as a result of the increase in platinum market prices, the prior consignment limit was amended to provide up to the lesser of: a) \$69,600; b) the value of 32,000 ounces of platinum; or c) \$42,000 plus two times the then-available undrawn face amount of letters of credit securing the agreement. Lease payments were payable monthly and, at the Company's election, based on either (i) a floating fee calculated and specified by Bank of Nova Scotia from time to time and initially set at 7.5% per annum or (ii) a fixed fee equal to the precious metals rate, which was the fixed market-based lease rate for the applicable lease period, plus a 2.0% margin. At September 30, 2009, we leased 26,400 ounces of platinum under the facility, with a notional value of approximately \$34,000 as calculated under the facility. Unused availability at September 30, 2009, was approximately 5,600 ounces of platinum with a notional value of \$35,600. If the market value of the leased platinum exceeded \$69,600 or 32,000 ounces, the Company was required to purchase or otherwise provide sufficient platinum to reduce the lease balance. At September 30, 2009, there were no outstanding letters of credit securing the agreement. Effective October 7, 2009, the Company terminated the Metal Consignment Facility with Bank of Nova Scotia and entered into a new master lease agreement with Deutsche Bank as discussed below.

**Deutsche Bank Master Lease Agreement** — Simultaneously with the termination of the OC master lease agreement in October 2008, we entered into a new master lease agreement (the "Master Lease Agreement") with DB Energy Trading LLC ("DB") for the purpose of leasing precious metals. The Master Lease Agreement described the lease terms and conditions enabling AGY to lease up to 19,057 ounces of platinum and 3,308 ounces of rhodium. The Master Lease Agreement had a three-year term and allowed AGY to enter into leases of alloy metals with terms of one to twelve months. Lease costs were determined by the quantity of metal leased, multiplied by a benchmark value of the applicable precious metal and a margin above the lease rate index based on DB's daily precious metal rates.

At September 30, 2009, we leased approximately 12,700 ounces of platinum and 2,200 ounces of rhodium under the Master Lease Agreement, with a notional value of approximately \$15,800.

In connection with the termination of the Metal Consignment Facility with Bank of Nova Scotia on October 7, 2009, the Master Lease Agreement was also terminated and we entered into a new master lease agreement (the "New Master Lease Agreement") with DB. The New Master Lease Agreement has a three-year term and allows AGY to enter into leases of alloy metals, up to 51,057 ounces of platinum and up to 3,308 ounces of rhodium, with terms of one to twelve months. Lease costs are determined by the quantity of metal leased, multiplied by a benchmark value of the applicable precious metal and a margin above the lease rate index based on DB's daily precious metal rates. The New Master Lease Agreement is secured by a security interest in rhodium up to a value that is the lesser of 35% of the leased platinum or \$24,400. The New Master Lease Agreement contains customary events of default, including, without limitation, nonpayment of lease payments, inaccuracy of representations and warranties in any material respect and a cross-default provision with any credit facility or leasing facility greater than \$0.5 million, including the Credit Facility and the Notes. There are no financial maintenance covenants included in the New Master Lease Agreement.

At September 30, 2010, we leased approximately 41,300 ounces of platinum and 2,600 ounces of rhodium under the New Master Lease Agreement, with a notional value of approximately \$60,300 and \$6,100, respectively. All of the leases outstanding at September 30, 2010 had initial terms of two to twelve months, maturing no later than October 10, 2011 (with future minimum rentals of approximately \$2,100 until maturity in October 2011).



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NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

16. Fair Value Measurements

The Company utilized the valuation hierarchy provided in ASC 820-10 to determine the fair value of assets measured on a non-recurring basis in periods subsequent to the initial adoption of ASC 820-10:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

At September 30, 2010, there were no assets or liabilities required to be measured at fair value in periods subsequent to their initial recognition.

17. Noncontrolling Interest

As discussed in Note 2, on June 10, 2009 the Company purchased a 70% controlling interest in AGY Asia. The 30% noncontrolling interest (“NCI”) was recorded at the acquisition date at a fair value of \$12,431, which was derived from an option agreement, pursuant to which the Company has the right to purchase the remaining 30% NCI at a stipulated multiple of earnings before interest, taxes, depreciation and amortization if certain financial performances are achieved. Grace has the right to put their remaining 30% ownership to the Company after the one-year anniversary of the execution of the AGY Asia Purchase Agreement at a stipulated multiple of earnings before interest, taxes, depreciation and amortization. The put option became exercisable upon the first anniversary of the completion date of the AGY Asia acquisition, June 10, 2010.

We assessed the option agreement under the guidance of ASC 815 and ASC 480-10 and considered it was not a freestanding financial instrument but a redeemable equity interest, which is not solely within the control of the Company. Therefore, at the acquisition date, the fair value of the redeemable portion of the NCI was reclassified as temporary, or mezzanine, equity presented in the accompanying consolidated balance sheet between total liabilities and shareholder’s equity.

At September 30, 2010 and December 31, 2009, the Company recorded the attribution of the NCI net loss and other comprehensive income according to ASC 810-10-65 and performed a subsequent measurement of the probable redemption amount per ASC 480-10-S99. As the present value of the probable redemption price was below the initial carrying value of the NCI and as the redemption was still probable, we concluded that the mezzanine classification was still appropriate as of December 31, 2009. As of September 30, 2010 the equity instrument became redeemable but remains below its initial carrying value. Therefore, only the redemption amount assessed as of September 30, 2010 is classified in mezzanine equity and any NCI above this amount is presented in permanent equity.

Changes in noncontrolling interest are set forth below:

|   | Mezzanine<br>Equity | Permanent<br>Equity | Total NCI |
|---|---------------------|---------------------|-----------|
| Balance as of January 1, 2009                             | \$ —                | \$ —                | \$ —      |
| Noncontrolling interest in AGY Asia on June 10, 2009      | 12,431              | —                   | 12,431    |
| Net (loss) attributable to NCI – AGY Asia                 | (1,119)             | —                   | (1,119)   |
| Other comprehensive income attributable to NCI – AGY Asia | 8                   | —                   | 8         |
| Balance as of December 31, 2009                           | 11,320              | —                   | 11,320    |
| Net (loss) attributable to NCI – AGY Asia                 | (406)               | —                   | (406)     |
| Other comprehensive income attributable to NCI – AGY Asia | 185                 | —                   | 185       |
| Adjustment to NCI Redemption amount assessment            | (5,057)             | 5,057               | —         |
| Balance as of September 30, 2010                          | \$ 6,042            | \$ 5,057            | \$ 11,099 |



## AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)**18. Income Taxes**

During the three and nine months ended September 30, 2010, the Company's effective tax was an expense of 1.1% and a benefit of 23.7%, respectively. These rates varied from the statutory rate of 34% due primarily to establishment of valuation allowance during the third quarter for domestic deferred tax assets which are not more-likely-than-not to be realized, change in foreign valuation allowance, losses on domestic and foreign subsidiaries with no tax benefit, and foreign rate differential, which benefits were partially offset by state taxes. Generally, the Company can recognize deferred tax assets for the losses incurred until such time that the aggregate deferred tax assets exceed aggregate deferred tax liabilities that do not relate to assets with an indefinite useful life.

During the three and nine months ended September 30, 2009, the Company's effective tax was a benefit of 33.9% and 21.3%, respectively. The rate for the nine months ended September 30, 2009 varied from the statutory rate of 34% due primarily to higher pre-tax losses recognized during this period, a goodwill impairment charge not deductible for tax, a nontaxable gain in connection with the bargain purchase related to the AGY Asia acquisition, and transactional costs that were expensed during 2009 but not deductible for tax, which benefits were partially offset by state taxes.

**19. Commitments and Contingencies**

We are not a party to any significant litigation or claims, other than routine matters incidental to the operation of the Company. We do not expect that the outcome of any pending claims will have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

There may be insignificant levels of asbestos in certain manufacturing facilities, however, the Company does not expect to incur costs (which are undeterminable) in the foreseeable future to remediate any such asbestos. Accordingly, management did not record a conditional asset retirement obligation related to such asbestos remediation because, in accordance with the guidance of ASC 410, the Company does not have sufficient information to estimate the fair value of the asset retirement obligation.

In addition to the alloy metal leases discussed in Note 15, we also lease other equipment and property under operating leases. Total rent expense for the nine months ended September 30, 2010 and 2009, was approximately \$1,250 and \$1,500, respectively. We are obligated to make approximately \$800 minimum purchases of marbles from Chinese marble producers during the remainder of 2010.

**20. Segment Information**

Since the acquisition of AGY Asia on June 10, 2009, the Company has two reportable segments, each a separate operating segment. The AGY US segment includes the US manufacturing operations and its sales of advanced glass fibers that are used worldwide as reinforcing materials in numerous high-value applications and end-markets through AGY Holding Corp., its wholly owned domestic and French subsidiaries. The AGY Asia segment includes the manufacturing operations of the Company's 70% controlling interest in AGY Hong Kong Ltd. and its sales of advanced glass fibers that are used primarily in the Asian electronics markets. The Company's operating segments are managed separately based on differences in their manufacturing and technology capabilities, products and services and their end-markets as well as their distinct financing agreements. The financial results for our operating segments are prepared using a management approach, which is consistent with the basis and manner in which we internally segregate financial information for the purpose of making internal operating decisions. We evaluate the performance of our operating segments based on operating profit. Corporate and certain other expenses are not allocated to the operating segments, except to the extent that the expense can be directly attributable to the operating segment.

| Three Months Ended September 30, 2010 | AGY US   | AGY Asia | Corporate and Other | Total    |
|---------------------------------------|----------|----------|---------------------|----------|
| Total net sales                       | \$38,873 | \$ 7,718 | \$ (1,026)          | \$45,565 |
| Operating (loss) income (i)           | (367)    | 877      | (1,369)             | (859)    |
| Depreciation and amortization         | 2,353    | 1,372    | 1,371               | 5,096    |
| Alloy metals depletion, net           | 1,991    | (54)     | —                   | 1,937    |

- (i) Operating loss for the three months ended September 30, 2010 within the corporate and other segment primarily includes \$948 of restructuring expense and \$1,372 of accelerated depreciation expense (discussed in Note 7), stock compensation expense, the management fees payable to our sponsor, and \$1,144 of gain recorded on the sale of assets.



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

| Nine Months Ended September 30, 2010                 | AGY US    | AGY Asia  | Corporate and Other | Total     |
|--|-----------|-----------|---------------------|-----------|
| Total net sales                                      | \$122,627 | \$ 20,573 | \$ (2,754)          | \$140,446 |
| Operating income (loss) (i)                          | 1,643     | 911       | (8,171)             | (5,617)   |
| Depreciation and amortization                        | 7,375     | 4,092     | 4,114               | 15,581    |
| Alloy metals depletion, net                          | 6,479     | 300       | —                   | 6,779     |
| Property, plant and equipment, and alloy metals, net | 134,387   | 90,094    | —                   | 224,481   |
| Carrying amount of intangible assets                 | 18,381    | —         | —                   | 18,381    |
| Total assets   | \$201,531 | \$106,508 | \$ —                | \$308,039 |

- (i) Operating loss for the nine months ended September 30, 2010 within the corporate and other segment includes primarily, \$1,978 of restructuring expense and \$4,114 of accelerated depreciation expense (discussed in Note 7), stock compensation expense, the management fees payable to our sponsor, and \$1,552 of loss recorded on the sale of assets.

Because the Company operated as one business segment until June 10, 2009, the operating results by business segment and other financial data are only presented below for the nine months ended September 30, 2009:

| Nine Months Ended September 30, 2009                 | AGY US    | AGY Asia  | Corporate and Other | Total     |
|--|-----------|-----------|---------------------|-----------|
| Total net sales                                      | \$106,559 | \$ 7,741  | \$ (122)            | \$114,178 |
| Operating loss (i)                                   | (13,090)  | (1,112)   | (48,401)            | (62,603)  |
| Depreciation and amortization                        | 7,979     | 1,631     | —                   | 9,610     |
| Alloy metals depletion, net                          | 4,708     | 122       | —                   | 4,830     |
| Property, plant and equipment, and alloy metals, net | 165,427   | 90,350    | —                   | 255,777   |
| Carrying amount of goodwill                          | 40,526    | —         | —                   | 40,526    |
| Carrying amount of intangible assets                 | 20,095    | —         | —                   | 20,095    |
| Total assets   | \$278,570 | \$104,782 | \$ —                | \$383,352 |

- (i) Operating loss for the nine months ended September 30, 2009 within the corporate and other segment primarily includes \$44,466 of goodwill impairment charge related to the AGY US segment (discussed in Note 6), \$2,628 of acquisition-related costs (discussed in Note 2), \$752 of restructuring expense (discussed in Note 7), stock compensation expense, the management fees payable to our sponsor, partially offset by the gain recorded on the sale of assets.



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

21. Condensed Consolidating Financial Statements

As described in Note 10 to the accompanying Consolidated Financial Statements for the year ended December 31, 2009 on Form 10-K, in 2006 the Company issued \$175,000 aggregate principal amount of the Old Notes, which were exchanged for the Notes through a registration statement in 2008. As of September 30, 2010, \$172,000 of Notes remain outstanding. The Notes are guaranteed, fully, unconditionally and jointly and severally, by each of AGY Holding Corp.'s existing and future wholly-owned domestic subsidiaries, other than immaterial subsidiaries (collectively, the "Combined Guarantor Subsidiaries").

For the purpose of this footnote:

- AGY Holding Corp. is referred to as "Parent";
- The Combined Guarantor Subsidiaries represent all subsidiaries other than the Combined Nonguarantor subsidiaries defined below; and
- The "Combined Non-Guarantor Subsidiaries" as of September 30, 2010 include only the subsidiaries forming AGY Asia: AGY Cayman LLC, AGY Hong Kong Ltd and AGY Shanghai.

All of the Parent's subsidiaries were domestic guarantors of the Notes through June 10, 2009, when the Company acquired the entities comprising AGY Asia, which became the only Non-Guarantor Subsidiaries. The following supplemental condensed consolidating financial information is presented on the equity method and reflects the Parent's separate accounts, the accounts of the Combined Guarantor Subsidiaries, the accounts of the Non-Guarantor Subsidiaries, the consolidating adjustments and eliminations and the total consolidated accounts for the dates and periods indicated. The required condensed consolidating information for the period ended September 30, 2009 is not presented as such information is not deemed material to the consolidated financial statements.

Condensed Consolidating Balance Sheet

|  | As of September 30, 2010 |                                 |                                     |                    |                   |
|--|--------------------------|---------------------------------|-------------------------------------|--------------------|-------------------|
|  | Parent                   | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations       | Consolidated      |
| <b>ASSETS</b>  |                          |                                 |                                     |                    |                   |
| Total current assets   | \$ 3,559                 | \$ 44,949                       | \$ 15,660                           | \$ —               | \$ 64,168         |
| Due from (to) affiliates   | (27,639)                 | 29,021                          | (1,382)                             | —                  | —                 |
| Property, plant and equipment, net   | 79,971                   | 54,416                          | 90,094                              | —                  | 224,481           |
| Intangible assets, net   | 2,261                    | 16,120                          | —                                   | —                  | 18,381            |
| Investment in unconsolidated entities  | 149,074                  | —                               | —                                   | (149,074)          | —                 |
| Other assets   | 35                       | 221                             | 753                                 | —                  | 1,009             |
| Total  | <u>\$207,261</u>         | <u>\$ 144,727</u>               | <u>\$ 105,125</u>                   | <u>\$(149,074)</u> | <u>\$ 308,039</u> |
| <b>LIABILITIES, OBLIGATION UNDER PUT/CALL FOR NONCONTROLLING INTEREST AND SHAREHOLDER'S EQUITY</b> |                          |                                 |                                     |                    |                   |
| Total current liabilities  | \$ 11,082                | \$ 13,178                       | \$ 21,507                           | \$ —               | \$ 45,767         |
| Long-term debt   | 187,150                  | —                               | 29,483                              | —                  | 216,633           |
| Other long-term liabilities  | —                        | 20,173                          | 5,339                               | —                  | 25,512            |
| Obligation under put/call for noncontrolling interest  | —                        | —                               | 6,041                               | —                  | 6,041             |
| Parent's shareholder's equity  | 9,029                    | 111,376                         | 37,698                              | (149,074)          | 9,029             |
| Noncontrolling interest equity   | —                        | —                               | 5,057                               | —                  | 5,057             |
| Total  | <u>\$207,261</u>         | <u>\$ 144,727</u>               | <u>\$ 105,125</u>                   | <u>\$(149,074)</u> | <u>\$ 308,039</u> |



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

Condensed Consolidating Statements of Operations

|   | Three Months Ended September 30, 2010 |                                 |                                     |                 |                   |
|---|---------------------------------------|---------------------------------|-------------------------------------|-----------------|-------------------|
|   | Parent                                | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations    | Consolidated      |
| Net sales   | \$ —                                  | \$ 38,873                       | \$ 7,718                            | \$ (1,026)      | \$ 45,565         |
| Cost of goods sold  | —                                     | (37,741)                        | (5,910)                             | 1,026           | (42,625)          |
| Gross profit  | —                                     | 1,132                           | 1,808                               | —               | 2,940             |
| Selling, general and administrative expenses                        | (193)                                 | (2,867)                         | (931)                               | 89              | (3,902)           |
| Restructuring charges   | —                                     | (948)                           | —                                   | —               | (948)             |
| Amortization of intangible assets                                   | —                                     | (250)                           | —                                   | —               | (250)             |
| Other operating income (expense)                                    | 1,144                                 | 247                             | —                                   | (89)            | 1,302             |
| Income (Loss) from operations                                       | 951                                   | (2,686)                         | 877                                 | —               | (858)             |
| Interest expense  | (5,074)                               | —                               | (826)                               | —               | (5,900)           |
| Equity losses (earnings) in unconsolidated entities                 | (1,916)                               | —                               | —                                   | 1,916           | —                 |
| Other income, net   | —                                     | 104                             | 16                                  | —               | 120               |
| Loss) Income before income tax benefit (expense)                    | (6,039)                               | (2,582)                         | 67                                  | 1,916           | (6,638)           |
| Income tax benefit (expense)  | (670)                                 | 599                             | —                                   | —               | (71)              |
| Net (loss) income   | (6,709)                               | (1,983)                         | 67                                  | 1,916           | (6,709)           |
| Less: Net (income) loss attributable to the noncontrolling interest | (19)                                  | —                               | (19)                                | 19              | (19)              |
| Net (loss) income attributable to AGY Holding Corp.                 | <u>\$(6,728)</u>                      | <u>\$ (1,983)</u>               | <u>\$ 48</u>                        | <u>\$ 1,935</u> | <u>\$ (6,728)</u> |



AGY HOLDING CORP. AND SUBSIDIARIES  
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

|  | Nine Months Ended September 30, 2010 |                                 |                                     |                 |                    |
|--|--------------------------------------|---------------------------------|-------------------------------------|-----------------|--------------------|
|  | Parent                               | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations    | Consolidated       |
| Net sales  | \$ —                                 | \$ 122,627                      | \$ 20,573                           | \$ (2,754)      | \$ 140,446         |
| Cost of goods sold   | —                                    | (115,557)                       | (17,511)                            | 2,754           | (130,314)          |
| Gross profit   | —                                    | 7,070                           | 3,062                               | —               | 10,132             |
| Selling, general and administrative expenses               | (599)                                | (9,408)                         | (2,116)                             | 197             | (11,926)           |
| Restructuring charges                                      | —                                    | (1,978)                         | —                                   | —               | (1,978)            |
| Amortization of intangible assets                          | —                                    | (752)                           | —                                   | —               | (752)              |
| Other operating (expense) income                           | (1,552)                              | 656                             | —                                   | (197)           | (1,093)            |
| (Loss) Income from operations                              | (2,151)                              | (4,412)                         | 946                                 | —               | (5,617)            |
| Interest expense   | (15,271)                             | —                               | (2,415)                             | —               | (17,686)           |
| Equity losses (earnings) in unconsolidated entities        | (4,604)                              | —                               | —                                   | 4,604           | —                  |
| Other income, net  | —                                    | 65                              | 118                                 | —               | 183                |
| (Loss) income before income tax benefit (expense)          | (22,026)                             | (4,347)                         | (1,351)                             | 4,604           | (23,120)           |
| Income tax benefit   | 4,384                                | 1,094                           | —                                   | —               | 5,478              |
| Net (loss) income  | (17,642)                             | (3,253)                         | (1,351)                             | 4,604           | (17,642)           |
| Less: Net loss attributable to the noncontrolling interest | 406                                  | —                               | 406                                 | (406)           | 406                |
| Net (loss) income attributable to AGY Holding Corp.        | <u>\$(17,236)</u>                    | <u>\$ (3,253)</u>               | <u>\$ (945)</u>                     | <u>\$ 4,198</u> | <u>\$ (17,236)</u> |



AGY HOLDING CORP. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Dollars in thousands, unless otherwise noted)

Condensed Consolidating Statements of Cash Flows

|  | Nine Months Ended September 30, 2010 |                                 |                                     |              |                 |
|--|--------------------------------------|---------------------------------|-------------------------------------|--------------|-----------------|
|  | Parent                               | Combined Guarantor Subsidiaries | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated    |
| <b>Cash flows from operating activities:</b>   |                                      |                                 |                                     |              |                 |
| Net (loss) income  | \$(17,642)                           | \$ (3,253)                      | \$ (1,351)                          | \$ 4,604     | \$ (17,642)     |
| Equity (earnings) losses in unconsolidated entities  | 4,604                                | —                               | —                                   | (4,604)      | —               |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: |                                      |                                 |                                     |              |                 |
| Depreciation, alloy metals depletion and amortization  | 533                                  | 17,968                          | 4,392                               | —            | 22,893          |
| Loss on sale, disposal of assets or exchange of property and equipment and alloy metals            | 1,552                                | —                               | —                                   | —            | 1,552           |
| Stock compensation   | 36                                   | —                               | —                                   | —            | 36              |
| Deferred income tax (benefit) expense  | (4,384)                              | (1,137)                         | —                                   | —            | (5,521)         |
| Change in assets and liabilities   | 3,126                                | (2,170)                         | (2,844)                             | —            | (1,888)         |
| Parents loans and advances   | 6,393                                | (7,116)                         | 723                                 | —            | —               |
| Net cash (used in) provided by operating activities  | <u>(5,782)</u>                       | <u>4,292</u>                    | <u>920</u>                          | <u>—</u>     | <u>(570)</u>    |
| <b>Cash flows from investing activities:</b>   |                                      |                                 |                                     |              |                 |
| Purchase of property, plant and equipment and alloy metals   | —                                    | (4,292)                         | (3,277)                             | —            | (7,569)         |
| Proceeds from the sale of property and equipment and alloy metals                                  | 10,717                               | —                               | —                                   | —            | 10,717          |
| Net cash (used in) provided by investing activities  | <u>10,717</u>                        | <u>(4,292)</u>                  | <u>(3,277)</u>                      | <u>—</u>     | <u>3,148</u>    |
| <b>Cash flows from financing activities:</b>   |                                      |                                 |                                     |              |                 |
| Net payments on Revolving Credit Facility  | (4,100)                              | —                               | —                                   | —            | (4,100)         |
| Net proceeds from AGY Asia Credit Facility   | —                                    | —                               | 3,237                               | —            | 3,237           |
| Net cash (used) provided by financing activities   | <u>(4,100)</u>                       | <u>—</u>                        | <u>3,237</u>                        | <u>—</u>     | <u>(863)</u>    |
| Effect of exchange rate changes on cash  | 2                                    | —                               | 23                                  | —            | 25              |
| Net (decrease) increase in cash  | 837                                  | —                               | 903                                 | —            | 1,740           |
| Cash, beginning of period  | 783                                  | —                               | 2,656                               | —            | 3,439           |
| Cash, end of period  | <u>\$ 1,620</u>                      | <u>\$ —</u>                     | <u>\$ 3,559</u>                     | <u>\$ —</u>  | <u>\$ 5,179</u> |



## ITEM 2. – Management’s Discussion and Analysis of Financial Condition and Results of Operations

This Quarterly Report contains forward-looking statements with respect to our operations, industry, financial condition and liquidity. These statements reflect our management’s assessment of a number of risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors identified in this Quarterly Report. An additional statement made pursuant to the Private Securities Litigation Reform Act of 1995 and summarizing certain of the principal risks and uncertainties inherent in our business is included herein under the caption “Disclosure Regarding Forward-Looking Statements.” You are encouraged to read this statement carefully.

You should read the following discussion and analysis in conjunction with the accompanying financial statements and related notes, and with the consolidated financial statements and notes thereto included in our 2009 Annual Report on Form 10-K (the “2009 Form 10-K”) filed with the Securities and Exchange Commission.

Unless the context requires otherwise, the terms “AGY”, the “Company”, “we” and “our” in this report refer to AGY Holding Corp. and its subsidiaries.

### *GENERAL*

We are a leading manufacturer of advanced glass fibers that are used as reinforcing materials in numerous diverse high-value applications, including aircraft laminates, ballistic armor, pressure vessels, roofing membranes, insect screening, architectural fabrics and specialty electronics. We are focused on serving end-markets that require glass fibers for applications with demanding performance criteria, such as the aerospace, defense, construction, electronics, automotive and industrial end-markets.

Since the acquisition of AGY Asia on June 10, 2009 as discussed further below, the Company has two reportable segments, each a separate operating segment. The AGY US segment includes the U.S. manufacturing operations and its sale of advanced glass fibers that are used worldwide as reinforcing materials in numerous high-value applications and end-markets through AGY Holding Corp. and its wholly-owned domestic and French subsidiaries. The AGY Asia segment includes the manufacturing operations of the Company’s 70% controlling interest in AGY Hong Kong Ltd. and its sale of advanced glass fibers that are used primarily in the Asian electronics markets. The Company’s operating segments are managed separately based on differences in their manufacturing and technology capabilities, products and services and their end-markets as well as their distinct financing agreements. AGY Holding Corp. is a Delaware corporation and is a wholly-owned subsidiary of KAGY Holding Company, Inc. (“Holdings”). Holdings acquired all of our outstanding stock in April 2006 (the “Acquisition”). Our principal executive office is located at 2556 Wagener Road, Aiken, South Carolina 29801 and our telephone number is (888) 434-0945. Our website address is <http://www.agy.com>.

### *BUSINESS COMBINATION*

On June 10, 2009, AGY Cayman, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Company, completed its acquisition of 70% of the outstanding shares of Main Union Industrial Ltd. (renamed AGY Hong Kong Ltd.), a company incorporated in Hong Kong with a 100% controlling interest in Shanghai Grace Technology Co., Ltd. (renamed AGY Shanghai Technology Co., Ltd. (“AGY Shanghai”)), a company incorporated in the People’s Republic of China (“PRC”), which is a glassfiber yarns manufacturer. This acquisition expands AGY’s geographic, manufacturing, and servicing capabilities in the Asia-Pacific region relative to the electronics and industrial end-markets.

The Company paid \$20 million in cash for the 70% controlling interest in Main Union Industrial Ltd. and its subsidiaries (“AGY Asia”) and financed this consideration through the sale of additional equity to the Company’s private equity sponsors.

The details of this business combination, accounted for under the purchase method of accounting, the allocation of the purchase price and the impact of AGY Asia, which has been included in our consolidated financial statements since June 10, 2009, are presented in Note 2 to the accompanying unaudited interim consolidated financial statements.



*CRITICAL ACCOUNTING POLICIES*

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In preparing our financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses included in the financial statements. Estimates are based on historical experience and other information then currently available, the results of which form the basis of such estimates. While we believe our estimation processes are reasonable, actual results could differ from our estimates. The critical accounting policies that affect the Company's more complex judgments and estimates are described in our 2009 Form 10-K. There were no significant changes in our accounting policies and estimates since the end of fiscal 2009.



**Results of Operations**

The following tables summarize our results of operations in dollars and as a percentage of net sales for the three and nine months ended September 30, 2010 and 2009 (dollars in thousands):

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |             |
|---|-------------------------------------|------------|------------------------------------|-------------|
|   | 2010                                | 2009       | 2010                               | 2009        |
| Net Sales   |                                     |            |                                    |             |
| AGY US  | \$ 38,873                           | \$ 35,500  | \$ 122,627                         | \$ 106,559  |
| AGY Asia  | 7,718                               | 6,360      | 20,573                             | 7,741       |
|   | 46,591                              | 41,860     | 143,200                            | 114,300     |
| Intersegment sales  | (1,026)                             | (122)      | (2,754)                            | (122)       |
| Total net sales   | 45,565                              | 41,738     | 140,446                            | 114,178     |
| Cost of goods sold  | (42,625)                            | (43,873)   | (130,314)                          | (117,013)   |
| Gross profit (loss)   | 2,940                               | (2,135)    | 10,132                             | (2,835)     |
| Selling, general and administrative expenses                    | (3,902)                             | (3,981)    | (11,926)                           | (12,029)    |
| Restructuring charges   | (948)                               | (27)       | (1,978)                            | (752)       |
| Amortization of intangible assets                               | (250)                               | (250)      | (752)                              | (752)       |
| Goodwill impairment charge                                      | —                                   | —          | —                                  | (44,466)    |
| Other operating income (expense), net                           | 1,302                               | 98         | (1,093)                            | (1,769)     |
| Loss from operations  | (858)                               | (6,295)    | (5,617)                            | (62,603)    |
| Other non-operating income, net                                 | 120                                 | 285        | 183                                | 1,413       |
| Interest expense  | (5,900)                             | (5,717)    | (17,686)                           | (16,101)    |
| Gain or bargain purchase  | —                                   | —          | —                                  | 22,540      |
| Loss before income taxes  | (6,638)                             | (11,727)   | (23,120)                           | (54,751)    |
| Income tax (expense) benefit                                    | (71)                                | 3,980      | 5,478                              | 11,635      |
| Net loss  | (6,709)                             | (7,747)    | (17,642)                           | (43,116)    |
| Less: Net income (loss) attributable to noncontrolling interest | (19)                                | 229        | 406                                | 426         |
| Net loss attributable to AGY Holding Corp.                      | \$ (6,728)                          | \$ (7,518) | \$ (17,236)                        | \$ (42,690) |

|   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|----------|------------------------------------|----------|
|   | 2010                                | 2009     | 2010                               | 2009     |
| Net Sales   |                                     |          |                                    |          |
| AGY US  | 85.3 %                              | 85.1 %   | 87.3 %                             | 93.3 %   |
| AGY Asia  | 16.9 %                              | 15.2 %   | 14.6 %                             | 6.8 %    |
|   | 102.2 %                             | 100.3 %  | 101.9 %                            | 100.1 %  |
| Intersegment sales  | (2.2)%                              | (0.3)%   | (1.9)%                             | (0.1)%   |
| Total net sales   | 100.0 %                             | 100.0 %  | 100.0 %                            | 100.0 %  |
| Cost of goods sold  | (93.5)%                             | (105.1)% | (92.8)%                            | (102.5)% |
| Gross profit (loss)   | 6.5 %                               | (5.1)%   | 7.2 %                              | (2.5)%   |
| Selling, general and administrative expenses                    | (8.6)%                              | (9.5)%   | (8.5)%                             | (10.5)%  |
| Restructuring charges   | (2.1)%                              | (0.1)%   | (1.4)%                             | (0.7)%   |
| Amortization of intangible assets                               | (0.5)%                              | (0.6)%   | (0.5)%                             | (0.7)%   |
| Goodwill impairment charge                                      | — %                                 | — %      | — %                                | (38.9)%  |
| Other operating income (expense), net                           | 2.8 %                               | 0.2 %    | (0.8)%                             | (1.5)%   |
| Loss from operations  | (1.9)%                              | (15.1)%  | (4.0)%                             | (54.8)%  |
| Other non-operating income, net                                 | 0.3 %                               | 0.7 %    | 0.1 %                              | 1.2 %    |
| Interest expense  | (13.0)%                             | (13.7)%  | (12.6)%                            | (14.1)%  |
| Gain or bargain purchase  | — %                                 | — %      | — %                                | 19.7 %   |
| Loss before income taxes  | (14.6)%                             | (28.1)%  | (16.5)%                            | (48.0)%  |
| Income tax (expense) benefit                                    | (0.1)%                              | 9.5 %    | 3.9 %                              | 10.2 %   |
| Net loss  | (14.7)%                             | (18.6)%  | (12.6)%                            | (37.8)%  |
| Less: Net income (loss) attributable to noncontrolling interest | 0.1 %                               | 0.6 %    | 0.3 %                              | 0.4 %    |
| Net loss attributable to AGY Holding Corp.                      | (14.8)%                             | (18.0)%  | (12.3)%                            | (37.4)%  |



As further discussed below, we use EBITDA and Adjusted EBITDA, which are non-GAAP financial measures, to measure our operating performance.

EBITDA and Adjusted EBITDA (which are defined below) are reconciled from net income (loss) determined under GAAP as follows (dollars in thousands):

|                                      | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |                   |
|--------------------------------------|-------------------------------------|------------------|------------------------------------|-------------------|
|                                      | 2010                                | 2009             | 2010                               | 2009              |
| <b>Statement of operations data:</b> |                                     |                  |                                    |                   |
| Net loss                             | \$(6,709)                           | \$(7,747)        | \$(17,642)                         | \$(43,116)        |
| Interest expense                     | 5,900                               | 5,717            | 17,686                             | 16,101            |
| Income tax expense (benefit)         | 71                                  | (3,980)          | (5,478)                            | (11,635)          |
| Depreciation and amortization        | 5,096                               | 3,955            | 15,581                             | 9,610             |
| EBITDA                               | <u>\$ 4,358</u>                     | <u>\$(2,055)</u> | <u>\$ 10,147</u>                   | <u>\$(29,040)</u> |

|   | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |               |
|---|-------------------------------------|------------------|------------------------------------|---------------|
|   | 2010                                | 2009             | 2010                               | 2009          |
| EBITDA  | \$ 4,358                            | \$(2,055)        | \$ 10,147                          | \$(29,040)    |
| <b>Adjustments to EBITDA:</b>                                     |                                     |                  |                                    |               |
| Alloy depletion charge, net (a)                                   | 1,937                               | 65               | 6,779                              | 4,830         |
| Non-cash compensation charges (b)                                 | 5                                   | 58               | 36                                 | 607           |
| Management fees (c)   | 188                                 | 188              | 563                                | 563           |
| Acquisition-related costs expensed in accordance with ASC 805 (d) | —                                   | 188              | —                                  | 2,628         |
| Gain on early extinguishment of debt (e)                          | —                                   | —                | —                                  | (1,138)       |
| Restructuring charges (f)   | 948                                 | 27               | 1,978                              | 752           |
| Goodwill impairment charge (g)                                    | —                                   | —                | —                                  | 44,466        |
| Gain or bargain purchase (h)                                      | —                                   | —                | —                                  | (22,540)      |
| (Gain) loss on disposition of assets & others (i)                 | (1,145)                             | (227)            | 1,478                              | (616)         |
| Adjusted EBITDA   | 6,291                               | (1,756)          | 20,981                             | 512           |
| Less: Adjusted EBITDA attributable to the noncontrolling interest | (663)                               | 300              | (1,626)                            | 263           |
| Adjusted EBITDA attributable to AGY Holding Corp.                 | <u>\$ 5,628</u>                     | <u>\$(2,056)</u> | <u>\$ 19,355</u>                   | <u>\$ 249</u> |

|  | Three Months Ended<br>September 30, |                  | Nine Months Ended<br>September 30, |               |
|--|-------------------------------------|------------------|------------------------------------|---------------|
|  | 2010                                | 2009             | 2010                               | 2009          |
| <b>Adjusted EBITDA allocated to AGY Holding Corp. segment breakdown:</b> |                                     |                  |                                    |               |
| AGY US and Corporate   | \$ 4,081                            | \$(2,757)        | \$ 15,561                          | \$ (365)      |
| AGY Asia   | 1,547                               | 701              | 3,794                              | 614           |
|  | <u>\$ 5,628</u>                     | <u>\$(2,056)</u> | <u>\$ 19,355</u>                   | <u>\$ 249</u> |

- (a) We purchase or lease alloy metals that are used in our manufacturing process. During the manufacturing process a small portion of the alloy metal is physically consumed. When the metal is actually consumed we recognize a non-cash charge. This expense is recorded net of the amount of metal that can be recovered after some specific treatment and net of the charges associated with such recovery treatment.
- (b) Reflects non-cash compensation expenses related to awards under Holdings' 2006 Stock Option Plan and Holdings' restricted stock granted to certain members of management.



- (c) Reflects the elimination of the management fee payable to our sponsor, Kohlberg & Company, LLC, pursuant to a management agreement entered into in connection with the Acquisition.
- (d) Reflects the elimination of the transactional costs associated with AGY Asia business combination that was consummated on June 10, 2009. Costs incurred and deferred at December 31, 2008 of \$1,098 were expensed in 2009 as a result of adopting the provisions of ASC 805; the remainder, or \$1,342, constitutes incremental acquisition-related costs incurred and expensed during the nine months ended September 30, 2009.
- (e) Reflects the elimination of the net gain on early extinguishment of debt associated with the \$3,000 (face value) 11% senior secured second lien notes repurchase made by the Company in February 2009.
- (f) Reflects the elimination of the restructuring charges associated with reductions in our salaried workforce in 2009 and primarily to the relocation of some manufacturing equipment in 2010 to reduce our cost structure, streamline processes and optimize the AGY US manufacturing footprint.
- (g) Reflects the elimination of the charge associated with the impairment of the goodwill related to the AGY US segment, which was recognized in 2009.
- (h) Reflects the elimination of the gain on bargain purchase associated with the AGY Asia business combination.
- (i) Reflects primarily the elimination of the gain (loss) recorded versus historical book value on the sale or exchange of some non-operating assets.

EBITDA is generally defined as earnings before interest, taxes, depreciation and amortization. EBITDA is a measure used by management to measure operating performance. EBITDA is not a recognized term under GAAP and does not purport to be an alternative (a) to net income as a measure of operating performance or (b) to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. In addition, management believes that EBITDA provides more comparability between our historical results and our recent results that reflect purchase accounting and changes in our capital structure. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, these presentations of EBITDA may not be comparable to other similarly titled measures of other companies.

Adjusted EBITDA is a non-GAAP financial measure which is defined as EBITDA further adjusted to exclude unusual items and other adjustments permitted in calculating covenant compliance and calculated in the same manner as "Consolidated Cash Flow" under the indenture governing our Notes, which is used by management in calculating our fixed charge coverage ratio under the indenture governing our Notes. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to investors.

*Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009*

**Net sales.** Net sales increased \$3.9 million, or 9.4%, to \$45.6 million for the three months ended September 30, 2010, compared to \$41.7 million during the comparable quarter of 2009. AGY Asia contributed \$0.5 million of additional revenue compared to the third quarter of 2009 (after accounting for the elimination of \$0.9 million of increased intercompany sales) and reported the highest sales for that segment since the acquisition of AGY Asia, of \$7.7 million, or 24.2% higher than in the third quarter of 2009 due to increased demand in the Asian electronic market supply, increased export sales to Europe and favorable pricing. The remaining \$3.4 million, or 9.5% net increase in sales generated by AGY US in the third quarter of 2010, compared to the third quarter of 2009, was primarily due to higher sales volumes and a favorable mix, partly offset by some competitive pricing pressures. Market demand has been stable in most of the markets that we serve during the third quarter of 2010, with some softening related to seasonal influences compared to the second quarter of 2010 but was globally 12% higher than during the third quarter of 2009 for AGY US. Aerospace sales increased by \$0.8 million compared to the third quarter of 2009, or an 11.5%, increase and returned to 2008 average demand levels, reflecting primarily increases in both aircraft retrofit and new build activity. The industrial and construction market revenues of the U.S. operating segment increased approximately \$3.7 million and \$0.4 million, respectively. The electronics market revenues were \$1.0 million below the third quarter of 2009 and the second quarter of 2010 level reflecting some traditional seasonal softening in Asian market demand. We also experienced some capacity-constrained sales for some of our high-end electronics glassfibers as we rationalized our U.S. manufacturing footprint. Defense revenue decreased \$0.5 million in the third quarter of 2010, compared to the same period of 2009 mainly as the result of price erosion while volumes were essentially flat.



**Gross profit.** We reported a consolidated gross profit of \$2.9 million, or 6.5% of net sales for the three months ended September 30, 2010, compared to a negative gross margin of \$2.1 million for the three months ended September 30, 2009. Our AGY US segment led most of the \$5.0 million increase in profitability, while AGY Asia contributed \$1.8 million of the total improvement in the third quarter of 2010. The profitability of our AGY US segment benefited from (i) \$1.7 million of margin on increased demand and on a more favorable product mix, partially offset by \$0.6 million of competitive pricing pressure in certain markets, (ii) \$2.3 million of higher leverage of overhead costs and (iii) improved manufacturing efficiencies and cost reductions initiatives. These improvements were partially offset by \$1.4 million of accelerated depreciation related to the optimization of our U.S. manufacturing footprint. In 2009, the AGY US segment results were also negatively impacted by non-recurring expenses associated with management's decision to curtail production capacity and maintain lower inventory levels in order to improve liquidity.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$3.9 million during the third quarter of 2010 and essentially flat with the third quarter of 2009 level. Selling, general and administrative expenses decreased from 9.5% of net sales for the three months ended September 30, 2009 to 8.6% of net sales for the three months ended September 30, 2010.

**Restructuring charges.** In conjunction with our structural cost reduction initiatives, we recorded \$0.9 million in restructuring charges in the three months ended September 30, 2010 to further optimize the AGY US manufacturing footprint and improve profitability. These charges related primarily to the relocation of manufacturing equipment.

**Other operating income.** During the three months ended September 30, 2010, other operating income of \$1.3 million consisted primarily of a net \$1.1 million gain recognized on the sale of alloy metals. During the three months ended September 30, 2009, other operating income was \$0.1 million and consisted primarily of a \$0.1 million gain recognized on the sale of excess metals.

**Interest expense.** Interest expense increased \$0.2 million from \$5.7 million for the three months ended September 30, 2009 to \$5.9 million for the three months ended September 30, 2010. The increase was primarily due to an increase in AGY Asia interest expense due to higher borrowings in the third quarter of 2010 compared to 2009.

**Income tax expense.** Income tax benefit decreased \$4.1 million from a \$4.0 million tax benefit for the three months ended September 30, 2009 to a \$0.1 million tax expense for the three months ended September 30, 2010. During the third quarter of 2010, the Company's effective tax rate was an expense of 1.1%. This rate varied from the statutory rate of 34% due primarily to establishment of valuation allowance during the third quarter of 2010 for domestic deferred tax assets, which are not more-likely-than-not to be realized, change in foreign valuation allowance, losses on domestic and foreign subsidiaries with no tax benefit, and foreign rate differential. During the third quarter of 2009, the Company's effective tax rate was a benefit of 33.9%. Generally, the Company can recognize deferred tax assets for the losses incurred until such time that the aggregate deferred tax assets exceed aggregate deferred tax liabilities that do not relate to assets with an indefinite useful life.

**Net loss.** As a result of the aforementioned factors including primarily restructuring and accelerated depreciation charges, and loss recognized on the sale of alloy metals in the 2010 period, we reported a net loss attributable to AGY Holding Corp. of \$6.7 million for the three months ended September 30, 2010, compared to a net loss of \$7.5 million for the three months ended September 30, 2009. The net result attributable to the 30% noncontrolling interest in AGY Asia not owned by AGY Holding Corp. was at breakeven for the third quarter of 2010 compared to a \$0.2 million loss for the comparable period in 2009.

*Nine months Ended September 30, 2010 Compared to Nine months Ended September 30, 2009*

**Net sales.** Net sales increased \$26.2 million, or 23%, to \$140.4 million for the nine months ended September 30, 2010, compared to \$114.2 million for the comparable period of 2009. AGY Asia, which was acquired in June 2009, contributed \$10.2 million of additional revenue (after accounting for the elimination of \$2.6 million of increased intercompany sales) of which approximately \$4.4 million is due to the stronger Asian electronics demand and favorable pricing in 2010. The remaining \$16.0 million, or 15.1% net increase in sales generated by AGY US for the nine months ended September 30, 2010, compared to the same period of 2009 was primarily due to \$23.8 million of higher sales volumes, while an unfavorable product mix and competitive pricing pressures accounted for a decrease in sales of \$7.8 million. We experienced increased demand in all the markets that we serve except defense. These increases resulted primarily from the return to more normal



historical inventory levels for several of our customers. Market and global economic conditions stabilized and steadily improved over the bottom experienced during the second quarter of 2009. Aerospace sales increased by \$7.0 million compared to the nine months ended September 30, 2009 and returned to 2008 average demand levels, reflecting increases in both aircraft retrofit and new build activity and some inventory restocking in the supply chain in early 2010. The electronics, industrial and construction market revenues of the U.S operating segment increased approximately \$2.8 million, \$12.3 million and \$5.1 million, respectively, compared to the same period in 2009. Defense revenue decreased \$11.2 million during the nine months ended September 30, 2010, compared to the same period of 2009 as the result of the conclusion of the Mine Resistant Ambush Protected (“MRAP”) program during the first quarter of 2009 and of competitive pricing pressures.

**Gross profit.** We reported a consolidated gross profit of \$10.1 million, or 7.2% of net sales for the nine months ended September 30, 2010, compared to a negative gross margin of \$2.8 million for the nine months ended September 30, 2009. While AGY Asia contributed \$3.0 million of the improvement, our AGY US segment drove the remaining increase in profitability of \$9.9 million for the nine months ended September 30, 2010. The profitability of our AGY US segment benefited from \$9.6 million of margin on increased sales but was negatively impacted \$6.3 million from an unfavorable product mix associated with lower shipments to defense and competitive pricing pressure in certain markets. Additionally, the AGY US segment results were positively impacted in 2010 by improved manufacturing efficiencies, cost reduction initiatives and higher absorption of overhead costs, partially offset by \$4.1 million of accelerated depreciation related to the optimization of our U.S. manufacturing footprint. In 2009, the AGY US segment results were negatively impacted by expenses associated with management’s decision to curtail production capacity and lower inventory levels in order to improve liquidity.

**Selling, general and administrative expenses.** Selling, general and administrative costs were \$11.9 million during the nine months ended September 30, 2010 and essentially flat with the prior year level. The \$1.1 million of incremental expenses associated with the AGY Asia acquisition compared to the nine months ended September 30, 2009 were offset by \$1.2 million of lower expenses for our AGY US operating segment including a reduction in salaried workforce during 2009 and lower stock compensation charges during 2010. Selling, general and administrative costs decreased from 10.5% of net sales for the nine months ended September 30, 2009 to 8.5% of net sales for the nine months ended September 30, 2010.

**Restructuring charges.** For the nine months ended September 30, 2009, we recorded \$0.8 million in restructuring charges primarily related to severance and outplacement costs for headcount reductions in connection with our structural cost reduction initiatives. In conjunction with additional actions taken in 2010 to further optimize the AGY US manufacturing footprint and improve profitability, we recorded \$2.0 million in restructuring charges in the nine months ended September 30, 2010 that related primarily to the relocation of manufacturing equipment. See further disclosures in Note 7 of our interim consolidated financial statements.

**Goodwill impairment charge.** Lower than expected operating profit and cash flows and short-to-mid-term business outlook associated with the global economic environment triggered management to reassess during the second quarter of 2009 the recoverability of the goodwill associated with the purchase of AGY by Holdings in April 2006. Accordingly, the Company concluded that the goodwill was partially impaired and recognized a non-cash, pre-tax goodwill impairment charge of \$44.5 million, classified in “loss from operations” during the second quarter of 2009. See further disclosures in Note 6 of our interim consolidated financial statements.

**Other operating expense.** During the nine months ended September 30, 2009, other operating expense of \$1.8 million was primarily due to \$2.6 million of AGY Asia acquisition-related costs, including \$1.1 million of costs incurred and deferred at December 31, 2008 that were subsequently expensed on January 1, 2009 as a result of adopting ASC 805. These costs were partially offset by a \$0.5 million gain recognized on the sale of alloy metals. During the nine months ended September 30, 2010, other operating expense of \$1.1 million consisted primarily of a net \$1.6 million loss recognized on the sale of alloy metals.

**Other non-operating income.** During the nine months ended September 30, 2009, other non-operating income consisted primarily of the net \$1.1 million gain on the early extinguishment of debt associated with the purchase of \$3 million (face value) of our Notes. During the nine months ended September 30, 2010, other non-operating income was not significant.

**Interest expense.** Interest expense increased \$1.6 million from \$16.1 million for the nine months ended September 30, 2009 to \$17.7 million for the nine months ended September 30, 2010. The increase was primarily due to incremental interest expense associated with the AGY Asia acquisition.

**Gain on bargain purchase.** Management concluded, with the assistance of an independent third-party valuation specialist, that the fair value of the acquired assets exceeded the liabilities assumed associated with the AGY Asia acquisition, and that a bargain purchase of approximately \$20.4 million resulted at the June 10,



2009 acquisition date. See further disclosures in Note 3 to the Consolidated Financial Statements for the year ended December 31, 2009 on our 2009 Form 10-K. However, based on the preliminary assessment of the fair value of the acquired assets less liabilities, the Company recognized initially a \$22.5 million gain as a component of non-operating income during the second quarter of 2009.

**Income tax benefit.** Income tax benefit decreased \$6.1 million from a \$11.6 million tax benefit for the nine months ended September 30, 2009 to a \$5.5 million tax benefit for the nine months ended September 30, 2010. During the nine months ended September 30, 2010, our effective tax rate was a benefit of 23.7%. This rate varied from the statutory rate of 34% due primarily to establishment of valuation allowance during the third quarter of 2010 for domestic deferred tax assets, which are not more-likely-than-not to be realized, change in foreign valuation allowance, losses on domestic and foreign subsidiaries with no tax benefit, and foreign rate differential. Generally, the Company can recognize deferred tax assets for the losses incurred until such time that the aggregate deferred tax assets exceed aggregate deferred tax liabilities that do not relate to assets with an indefinite useful life. During the nine months ended September 30, 2009, our effective tax rate was a benefit of 21.3%. This rate varied from the statutory rate of 34% due primarily to higher pre-tax losses recognized in 2009, a goodwill impairment charge not deductible for tax, a nontaxable gain in connection with the bargain purchase related to the AGY Asia acquisition, and transactional costs associated with the AGY Asia acquisition that were expensed during 2009 but not deductible for tax, which benefits were partially offset by state taxes.

**Net loss.** As a result of the aforementioned factors including primarily restructuring and accelerated depreciation charges, and loss recognized on the sale of alloy metals in the 2010 period and significant non-recurring non cash net charges (goodwill impairment charge; gain on bargain purchase) in the 2009 period, we reported a net loss attributable to AGY Holding Corp. of \$17.2 million for the nine months ended September 30, 2010, compared to a net loss of \$42.7 million for the nine months ended September 30, 2009. The net loss attributable to the 30% noncontrolling interest in AGY Asia not owned by AGY Holding Corp. was \$0.4 million for each of the first nine months of 2010 and 2009.

#### **LIQUIDITY AND CAPITAL RESOURCES**

##### *AGY Holding Corp. and its Domestic Subsidiaries' Liquidity*

In the first nine months of 2010 our principal sources of domestic liquidity were borrowings under our financing arrangements, proceeds from monetization of our excess alloy metals and our cash on hand. Our domestic need for liquidity arises primarily from interest payments on the outstanding \$172.0 million principal amount of our Notes, interest and principal payments on our senior secured revolving credit facility ("Credit Facility"), the funding of capital expenditures, alloy metals, strategic initiatives, normal recurring operating expenses and working capital requirements and the financing of the consideration to be paid pursuant to the put/call agreement for our 30% noncontrolling interest in AGY Asia not owned by us. There are no mandatory payments of principal on the Credit Facility or on the Notes scheduled prior to their maturity in October 2011 and November 2014, respectively.

At September 30, 2010, AGY US had total liquidity of \$22.5 million, consisting of \$1.6 million in unrestricted cash and approximately \$20.9 million of borrowing availability under the Credit Facility.

##### *AGY Asia's Liquidity*

AGY Asia's sources of liquidity have been, since the acquisition of AGY Asia, borrowings under approximately \$53.0 million of non-recourse financing arrangements with the Bank of Shanghai ("AGY Asia Credit Facility"), which consists of an \$11.9 million one-year working capital loan and a \$41.1 million five-year term loan. AGY Asia's need for liquidity arises primarily from interest and principal payments on the AGY Asia Credit Facility and the funding of capital expenditures, alloy metals, strategic initiatives, normal recurring operating expenses and working capital requirements. There are no mandatory payments of principal on the working capital loan prior to its maturity in June 2011.

At September 30, 2010, AGY Asia had total liquidity of \$9.5 million, consisting of \$3.6 million of unrestricted cash and approximately \$5.9 million of borrowing availability under the AGY Asia Credit Facility.

Based upon our current and anticipated levels of operations, we believe, but cannot guarantee, that our cash flows from operations and from the monetization of excess alloy metals, together with availability under our credit facilities for our US and Asian segments, will be adequate to meet our liquidity needs for the next twelve months. We have begun discussions with the AGY Asia lender to revise the term amortization schedule. However, these forward-looking statements are subject to risks and uncertainties. See "Forward-Looking Statements" and "Item 1A. Risk Factors" in our 2009 Form 10-K.



*Working capital.*

The Company has historically defined working capital as total current assets, excluding unrestricted cash, less total current liabilities, including short-term borrowings and the current portion of long-term debt. Working capital was \$13.2 million and \$15.3 million on September 30, 2010 and December 31, 2009, respectively. The \$2.1 million net decrease was primarily due to a \$2.3 million increase in trade receivables resulting from the increase in sales for the third quarter of 2010 compared to 2009 and a \$1.1 million decrease in accrued liabilities and trade payables. These working capital increases were partially offset by a \$3.2 million increase in AGY Asia short-term borrowings to support working capital, a \$1.7 million increase in current portion of long term debt for AGY Asia, a \$0.2 million reduction in inventories, and a \$0.4 million decrease in deferred taxes.

*Other balance sheet items.*

*Net Property, Plant and Equipment and Alloy Metals.* Net property, plant and equipment and alloy metals decreased \$24.6 million from December 31, 2009 to September 30, 2010, primarily due to \$21.6 million of depreciation and alloy metals depletion expenses and the sale of \$12.3 million of excess alloy metals at book value for proceeds of \$10.7 million. We made \$6.9 million of capital expenditures, including accrued construction in progress, and AGY Asia acquired \$0.7 million of alloy metals and had \$1.6 million of currency translation and other adjustments.

*Long Term Debt.* Long-term debt decreased \$5.0 million from December 31, 2009 to September 30, 2010 as a result of a \$4.1 million decrease in borrowings under our AGY US operating segment credit facility and the reclassification of \$1.7 million of AGY Asia's long-term debt to current, partly offset by a \$0.8 million increase in AGY Asia borrowings.

*Nine months ended September 30, 2010 compared to nine months ended September 30, 2009.*

***Cash flows from operating activities***

Cash used by operating activities was \$0.6 million for the nine months ended September 30, 2010, compared to \$9.5 million used during the nine months ended September 30, 2009. The \$8.9 million decrease in cash used by operating activities is attributed to a \$19.0 million decrease in net losses (as adjusted for non-cash items) during the comparable periods, reduced in part by a decrease of \$10.1 million of operating cash provided by working capital, primarily from a \$13.1 million decrease in cash provided by inventory reductions and a \$2.1 million increase in cash provided by reductions in trade accounts receivable.

***Cash flow from investing activities***

Cash provided by investing activities was \$3.1 million for the nine months ended September 30, 2010, compared to cash used in investing activities of \$4.1 million for the nine months ended September 30, 2009. The \$7.2 million improvement in cash provided by investing activities was principally attributable to the \$18.2 million investment in AGY Asia, partly reduced by the \$13.1 million decrease in restricted cash related to the investment, which occurred in the first nine months of 2009 and was not recurring in the comparable period of 2010. We also experienced a \$3.2 million reduction in capital spending, partly offset by a \$0.4 million decrease in proceeds from excess alloy sales in the US operating segment and a \$0.7 million increase in alloy purchases by AGY Asia.

***Cash flow from financing activities***

Cash used in financing activities was \$0.9 million for the nine months ended September 30, 2010, compared to cash provided by financing activities of \$10.9 million for the nine months ended September 30, 2009. The \$11.7 million decrease was attributable to the AGY Asia investment in 2009 consisting of a \$20.0 million equity infusion by Kohlberg & Company, LLC to fund the acquisition, partly offset by a \$12.3 million shareholder loan repayment, which were not recurring in 2010, as well as a \$5.4 million decrease in US revolver borrowings and a \$0.4 million decrease in AGY Asia bank loans. These were partly offset by the \$1.8 million cash outflow for the repurchase of \$3.0 million of Notes (face value) in the nine months ending September 30, 2009 that was not recurring in the comparable period of 2010.

*Indebtedness*

***AGY US***

Our \$40 million Credit Facility has a term of 60 months (maturing October 2011) and includes sub-limits for the issuance of letters of credit and swing line loans. The borrowing base for our Credit Facility is equal to the sum of: (i) an advance rate against eligible accounts receivable of up to 90%, plus (ii) the lesser of (A) 65% of the book value of our eligible inventory (valued at the lower of cost or market) and (B) 85% of the net orderly



liquidation value for our eligible inventory, plus (iii) up to \$32.5 million of our eligible alloy inventory, minus (iv) 100% of mark-to-market risk on certain interest hedging arrangements, minus (v) a reserve of \$10.0 million.

At our option, loans under our Credit Facility bear interest based on either the Eurodollar rate or base rate (a rate equal to the greater of the corporate base rate of interest established by the administrative agent from time to time, and the federal funds effective rate plus 0.50%) plus, in each case, an applicable margin. Generally, the applicable margin is expected to be 1.75% in the case of Eurodollar rate loans and 0.75% in the case of base rate loans. The interest rate for borrowings over \$25.0 million is 3.0% for Eurodollar rate loans and 2.0% for base rate loans.

In addition, we pay customary commitment fees and letter of credit fees under the Credit Facility. All obligations under the Credit Facility are guaranteed by Holdings and all of our existing and future direct and indirect domestic subsidiaries. We may enter into swap agreements from time to time to reduce the risk of greater interest expense because of interest-rate fluctuations. Our and the guarantors' obligations under the Credit Facility are secured, subject to permitted liens and other agreed upon exceptions, by a first-priority perfected (subject to customary exceptions) security interest in substantially all of our and the guarantors' assets.

The Credit Facility contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers and consolidations, dividends and other payments in respect to capital stock, transactions with affiliates, and optional payments and modifications of subordinated and other debt instruments. The Credit Facility does not contain any financial maintenance covenants. The Credit Facility also includes customary events of default, including a default upon a change of control. The Company was in compliance with all such covenants at September 30, 2010.

The agreement governing the Credit Facility permits the lenders to accelerate payment of the outstanding principal and accrued and unpaid interest and/or to terminate their commitment to lend any additional amounts upon certain events of default, including failure to make required payments of principal and interest when due, violations of the material covenants under the agreement, a change of control of the Company, certain defaults with respect to the collateral securing the credit facility or if the Company fails to pay indebtedness owing to other parties, or lenders under other agreements accelerate payment of the indebtedness owing, in an aggregate amount of \$7.5 million or more.

As of September 30, 2010, we had utilized approximately \$2.4 million of the Credit Facility for the issuance of standby letters of credit and had \$15.2 million cash borrowings outstanding, leaving \$20.9 million available for additional borrowings after giving effect to the total borrowing base.

In connection with our acquisition of a 70% interest in AGY Hong Kong Ltd., as described in our 2009 Form 10-K, we amended our credit agreement to obtain the necessary approval of the revolving credit lenders. In the amendment, certain provisions of the credit agreement were modified or added including provisions providing that: the availability reserve in the borrowing base calculation increased from \$7.5 million to \$10 million; the foreign subsidiary indebtedness of AGY Hong Kong Ltd. or its subsidiaries is permitted provided that it is non-recourse indebtedness; the investment associated with the purchase of the remaining 30% is permitted provided that our excess availability under the facility is at least \$10 million for 60 days prior to the consummation date and \$12.5 million immediately following such consummation; and it is an event of default under the credit agreement if we default under our obligations regarding the acquisition of the remaining 30% of AGY Hong Kong Ltd. In addition, the applicable margin for any utilization of the revolver in excess of \$25 million increased from 1.75% to 3.0% for Eurodollar loans and from 0.75% to 2.0% for base rate loans. No other material terms of the credit agreement were modified under the amendment.

In connection with our refinancing on October 25, 2006, we issued \$175.0 million aggregate principal amount of 11% senior second lien notes ("Old Notes") to an initial purchaser, which were subsequently resold to qualified institutional buyers and non-U.S. persons in reliance upon Rule 144A and Regulation S under the Securities Act of 1933, as amended. We consummated an exchange offer of the Old Notes for the Notes in September 2008. Interest on the Notes is payable semi-annually on May 15 and November 15 of each year. Our obligations under the Notes are fully and unconditionally guaranteed, jointly and severally, on a second-priority basis, by each of our existing and future domestic subsidiaries, other than immaterial subsidiaries, that guarantee our indebtedness, including our new Credit Facility, or the indebtedness of any of our restricted subsidiaries. The indenture does not allow us to pay dividends or distributions on our outstanding capital stock (including to our parent) and limits or restricts our ability to incur additional debt, repurchase securities, make certain prohibited investments, create liens, transfer or sell assets, enter into transactions with affiliates, issue or



sell stock of a subsidiary or merge or consolidate. The indenture permits the trustee or the holders of 25% or more of the Notes to accelerate payment of the outstanding principal and accrued and unpaid interest upon certain events of default, including failure to make required payments of principal and interest when due, uncured violations of the material covenants under the indenture or if lenders accelerate payment of the outstanding principal and accrued and unpaid interest due to an event of default with respect to at least \$15.0 million of our other debt, such as our Credit Facility.

The indenture does not contain any financial maintenance covenants.

In February 2009, we repurchased \$3.0 million face amount of Notes for \$1.8 million plus accrued interest and commissions, resulting in a net gain on extinguishment of debt of approximately \$1.1 million (net of deferred financing fees written off), classified as "other non-operating income".

As of September 30, 2010, the estimated fair value of the Notes was \$147.1 million compared to a recorded book value of \$172 million.

### *AGY Asia*

The bank debt of approximately \$39.0 million assumed in the acquisition of AGY Asia was refinanced as discussed below. On July 10, 2009, AGY Asia entered into the AGY Asia Credit Facility. On June 8, 2010, a portion of the USD loan commitment was exchanged for RMB commitment under both the project loan and the working capital loan. The arrangement now consists of a five-year term loan that matures in June 2014 in the aggregate amount of approximately \$41.1 million (consisting of a USD 8.0 million loan and an RMB 222.2 million loan or approximately \$33.2 million converted at an exchange rate of RMB 6.70 to 1 U.S. dollar), a one-year working capital loan in the aggregate amount of approximately \$11.9 million (consisting of a USD 3.0 million loan and an RMB 59.5 million loan or approximately USD 8.9 million converted at an exchange rate of RMB 6.70 to 1 U.S. dollar) and a one-year letter of credit facility in the amount of \$2 million. As discussed above, proceeds from the loans were used principally to repay the \$37.6 million of loans outstanding at the time of the refinancing under AGY Asia's prior credit agreements.

The term loan is secured by AGY Asia's building, alloy metals and equipment and bears interest annually at the rate of either the five-year lending rate as published by the People's Bank of China, plus a margin, or six-month LIBOR plus 3.0%. At September 30, 2010, the Company had approximately \$36.3 million of borrowings outstanding under the term loan, consisting of a local currency loan of RMB 198,500,000, or approximately \$29.6 million converted at an exchange rate of 6.7 RMB to 1 U.S. dollar, and a U.S.-dollar-denominated loan of \$6.7 million.

The working capital loan facility is secured by equipment, assets and alloy metals acquired by AGY Asia and bears interest annually at the rate of either the one-year lending rate as published by the People's Bank of China, or three-month LIBOR plus 3.0%.

At September 30, 2010, we had approximately \$8.8 million of borrowings outstanding under the working capital loan consisting of a local currency loan of RMB 45,750,000, or approximately \$6.8 million converted at an exchange rate of 6.7 RMB to 1 U.S. dollar, and a U.S.-dollar-denominated loan of \$2.0 million.

The letter of credit facility is a one-year facility for the issuance of documentary letters of credit up to a maximum term of 120 days. A 15% deposit is required upon issuance with the balance due upon settlement of the underlying obligation.

On June 8, 2010, the working capital loan and letter of credit facility were renewed for a one-year term to June 2011.

The loan agreements contain customary representations and warranties and customary affirmative and negative covenants, including, among other things, interest coverage, debt-to-assets ratio, restrictions on indebtedness, liens, investments, mergers and consolidations, dividends and other payments in respect to capital stock, and transactions with affiliates. The loan agreements also include customary events of default, including a default upon a change of control. AGY Asia was in compliance with all such covenants at September 30, 2010 and December 31, 2009.

All amounts borrowed under the AGY Asia Credit Facility are non-recourse to AGY and its domestic subsidiaries.



**FINANCIAL OBLIGATIONS AND COMMITMENTS**

There are no mandatory payments of principal on the Credit Facility or on the Notes scheduled prior to their maturity in October 2011 and November 2014, respectively.

The AGY Asia Credit Facility, which is a non-recourse debt to AGY Holding Corp., includes an \$11.9 million working capital loan facility when fully drawn that matures in June 2011 and a five-year term loan with principal payments due semi-annually beginning April 2010 in accordance with the following amortization schedule when the term loan is fully drawn (in \$ millions):

|      |               |
|------|---------------|
| 2010 | \$ 5.2        |
| 2011 | 8.3           |
| 2012 | 10.1          |
| 2013 | 10.9          |
| 2014 | 6.7           |
|      | <u>\$41.2</u> |

We are obligated to make approximately \$0.8 million minimum purchases of marbles from Chinese marble producers during the remainder of 2010.

We also have several short-term operating leases for alloy metals. At September 30, 2010, we leased in our AGY US segment approximately 41,300 ounces of platinum and 2,600 ounces of rhodium under the Deutsche Bank Master Lease Agreement, with a notional value of approximately \$60.3 million and \$6.1 million, respectively. All of the leases outstanding at September 30, 2010 had initial terms of two to twelve months, maturing no later than October 11, 2011 (with future minimum rentals of approximately \$2.1 million until maturity in October 2011).

We also have various operating leases for certain manufacturing equipment, personal and real property.

As discussed in Note 2 to the accompanying unaudited interim consolidated financial statements, in connection with the purchase of AGY Asia, we entered into an option agreement with Grace pursuant to which Grace granted AGY a call option and AGY granted Grace a put option in respect of the 30% interest held by Grace in AGY Asia, in each case until December 31, 2013, unless mutually extended. The option price is determined by a formula outlined in the agreement. The exercise of the call option requires certain minimum financial performance levels to be reached by AGY Asia and the put option became exercisable in June 2010. As of September 30, 2010 the redemption amount of put option was \$6.0 million compared to an initial carrying value of \$12.4 million. Based on these provisions and the financial projections of the PRC affiliate, the Company believes that either the call option or the put option will be exercised in 2011. If the acquisition of the noncontrolling interest is consummated, the Company intends to finance the consideration paid pursuant to the agreement through the sale of additional equity to its private equity sponsor, if available, or other available liquidity.

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

This management’s discussion and analysis of financial condition and results of operations includes or may include “forward-looking statements.” All statements included herein, other than statements of historical fact, may constitute forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements include, among others, the following factors: competition from other suppliers of glass fibers, as well as suppliers of competing products; the cyclical nature of certain of the end-markets for our products; adverse macroeconomic and business conditions, continued disruption in credit markets and government policy generally leading to global market downturn; an inability to develop product innovations and improve our production technology and expertise; the loss of a large customer or end-user application; a decision by an end-user to modify or discontinue production of an end-product that has specified the use of our product; an inability to protect our intellectual property rights; liability for damages based on product liability claims; increases in energy costs and other raw materials or in the cost of acquiring or leasing alloy metals required for the production of glass fibers; labor disputes or increases in labor costs; difficulties and delays in manufacturing; a reliance on Owens Corning for our bushing fabrication and technical support for our operations; an inability to successfully implement our cost reduction initiatives relating to efficiency, throughput and process technology developments; an inability to successfully integrate future acquisitions including AGY Asia; our inability to successfully implement our cost reduction initiatives; interest rate and



foreign exchange rate fluctuations; business risks associated with doing business internationally; an inability to finance the consideration to be paid pursuant to the put/call agreement for the 30% noncontrolling interest in AGY Asia; the loss of key members of our management; an inability or failure to comply with environmental, health or safety laws and regulations; our limited history of profitable operations since our emergence from Chapter 11 protection on April 2, 2004; our substantial indebtedness; and certain covenants in our debt documents.

We do not have any intention or obligation to update forward-looking statements included in this management's discussion and analysis of financial condition and results of operations.

### ITEM 3. – Quantitative and Qualitative Disclosures About Market Risk

#### *INTEREST RATE RISK*

We are subject to interest rate risk in connection with our short- and long-term debt. Our principal interest rate exposures relate to the AGY US \$40 million senior secured revolving credit facility and our AGY Asia credit facility. Assuming the AGY US revolver is fully drawn, each 100 basis point change in interest rates would result in approximately a \$0.4 million change in annual interest expense on our revolving credit facility. Assuming the AGY Asia credit facility is fully drawn, each 100 basis point change in interest rates would result in approximately a \$0.5 million change in annual interest expense for AGY Asia.

#### *NATURAL GAS COMMODITY RISK AND PLATINUM/RHODIUM RISK*

Due to the nature of our manufacturing operations, we are exposed to risks due to changes in natural gas commodity prices. We may utilize derivative financial instruments in order to reduce some of the variability of the cash flows associated with our forecasted purchases of natural gas. In addition, because we use bushings made with a platinum-rhodium alloy as part of our manufacturing process, we are exposed to risks due to changes in the prices and lease rates of these metals.

At September 30, 2010, we had existing contracts for physical delivery of natural gas at our Aiken, SC facility that fix the commodity cost of natural gas for approximately 70 percent of our 2010 requirements and 50 percent of our January through August 2011 requirements for the estimated natural gas purchases of the AGY US operating segment. Although these contracts are considered derivative instruments, they meet the normal purchases exclusion contained in ASC 815, and are, therefore, exempted from the related accounting requirements.

#### *FOREIGN EXCHANGE RISK*

We are subject to inherent risks attributed to operating in a global economy. For AGY US, all of our debt and most of our costs are denominated in US dollars. Approximately 4% percent of our sales are denominated in currencies other than the US dollar. Although our level of foreign currency exposure is limited, we may utilize derivative financial instruments to manage foreign currency exchange rate risks.

Approximately 20% of the debt of our subsidiary, AGY Asia, is denominated in U.S. dollars, with the balance denominated in Chinese RMB. In addition, approximately 86% of the sales of AGY Asia are denominated in U.S. dollars, while approximately 79% of its costs are denominated in Chinese RMB.

At September 30, 2010, we had no foreign currency hedging agreements in effect.

We may be exposed to credit loss in the event of non-performance by the other parties to the derivative financial instruments. We mitigate this risk by entering into agreements directly with counterparties that meet our credit standards and that we expect to fully satisfy their contractual obligations. We view derivative financial instruments purely as a risk management tool and, therefore, do not use them for speculative trading purposes.

#### *IMPACT OF INFLATION AND ECONOMIC TRENDS*

Historically, inflation has not had a material effect on our results of operations, as we have been able to offset most of the impact of inflation through price increases for our products. However, we cannot guarantee that we will be able to offset any future price increases in energy, commodities and precious metals through price increases to our customers.



**ITEM 4. – Controls and Procedures**

As of the end of the period covered by this Quarterly Report, the Company's Principal Executive Officer and Principal Financial Officer have conducted an evaluation of the Company's disclosure controls and procedures. Based on their evaluation, the Company's Principal Executive Officer and Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the applicable Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's Principal Executive Officer and the Company's Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d) of the Exchange Act, the Company's management, including the Principal Executive Officer and the Principal Financial Officer, conducted an evaluation of the internal control over financial reporting to determine whether any changes occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded no such changes during the quarter ended September 30, 2010 materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.



**PART II – OTHER INFORMATION**

**ITEM 1A. Risk Factors**

As of November 15, 2010, there have been no material changes to the risk factors disclosed under the heading “Risk Factors” in our 2009 Form 10-K. These factors could materially affect our business, financial condition or future results. In addition, future uncertainties may increase the magnitude of these adverse affects or give rise to additional material risks not now contemplated.

**ITEM 6. – Exhibits**

| <u>Exhibit Number</u> | <u>Description</u>  |
|-----------------------|---|
| 31.1                  | Rule 13a-14(a) and 15d-14(a) Certification of Principal Executive Officer+                                  |
| 31.2                  | Rule 13a-14(a) and 15d-14(a) Certification of Principal Financial Officer and Principal Accounting Officer+ |
| 32.1                  | Section 1350 Certification of Principal Executive Officer+  |
| 32.2                  | Section 1350 Certification of Principal Financial Officer and Principal Accounting Officer+                 |

+ Filed herewith.



**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AGY Holding Corp.

Date: November 15, 2010

By: /s/ C. STEVEN SMOOT  
**C. Steven Smoot**  
**Chief Financial Officer**



**EXHIBIT INDEX**

| <u>Exhibit Number</u> | <u>Description</u>   |
|-----------------------|--|
| 31.1                  | Rule 13a-14(a) and 15d-14(a) Certification of Principal Executive Officer +                                  |
| 31.2                  | Rule 13a-14(a) and 15d-14(a) Certification of Principal Financial Officer and Principal Accounting Officer + |
| 32.1                  | Section 1350 Certification of Principal Executive Officer +  |
| 32.2                  | Section 1350 Certification of Principal Financial Officer and Principal Accounting Officer+                  |
| <hr/>                 |  |
| + Filed herewith.     |  |



**Exhibit 31.1**

**CERTIFICATION**

I, Douglas J. Mattscheck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AGY Holding Corp. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepting accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 15, 2010

/s/ Douglas J. Mattscheck

Douglas J. Mattscheck  
Chief Executive Officer  
(Principal Executive Officer)



**Exhibit 31.2**

**CERTIFICATION**

I, C. Steven Smoot, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AGY Holding Corp. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepting accounting principles;
  - c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 15, 2010

/s/ C. Steven Smoot

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C. Steven Smoot  
Chief Financial Officer  
(Principal Financial Officer)



**Exhibit 32.1**

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of AGY Holding Corp. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2010 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Douglas J. Mattscheck

\_\_\_\_\_  
Douglas J. Mattscheck  
Chief Executive Officer  
(Principal Executive Officer)

Dated: November 15, 2010

A signed original of this written statement required by Section 906 has been provided to AGY Holding Corp. and will be retained by AGY Holding Corp. and furnished to the Securities and Exchange Commission or its staff upon request.



**Exhibit 32.2**

**CERTIFICATION PURSUANT TO  
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as chief financial officer of AGY Holding Corp. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2010 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2010 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ C. Steven Smoot  
\_\_\_\_\_  
C. Steven Smoot  
Chief Financial Officer  
(Principal Financial Officer)

Dated: November 15, 2010

A signed original of this written statement required by Section 906 has been provided to AGY Holding Corp. and will be retained by AGY Holding Corp. and furnished to the Securities and Exchange Commission or its staff upon request.