



# 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 June 30, 2009

**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)

**20-420637**  
(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 August 18, 2009, there were 1,291,667 shares of common stock outstanding.



**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>Part I. FINANCIAL INFORMATION</u></b>	
<b><u>ITEM 1. Consolidated Financial Statements (Unaudited)</u></b>	
• <u>Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008</u>	3
• <u>Consolidated Statements of Operations for the three months and six months ended June 30, 2009 and 2008</u>	4
• <u>Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u>	5
• <u>Notes to the Consolidated Financial Statements</u>	7
<b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	21
<b><u>ITEM 3. Quantitative and Qualitative Disclosure about Market Risk</u></b>	32
<b><u>ITEM 4T. Controls and Procedures</u></b>	33
<b><u>Part II. OTHER INFORMATION</u></b>	
<b><u>ITEM 1A. Risk Factors</u></b>	34
<b><u>ITEM 6. Exhibits</u></b>	34
<b><u>SIGNATURES</u></b>	35
<b><u>EXHIBIT INDEX</u></b>	36



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)

	June 30, 2009 (Unaudited)	December 31, 2008 (1)
<b>Assets</b>		
Current assets:		
Cash	\$ 2,016	\$ 4,760
Restricted cash	12,140	1,239
Trade accounts receivables, less allowances of \$2,789 and \$3,604 at June 30, 2009 and December 31, 2008, respectively	18,633	14,023
Inventories, net	39,392	39,992
Deferred tax assets	6,708	6,708
Other current assets	3,698	2,115
Total current assets	82,587	68,837
Property, plant and equipment, and alloy metals, net	237,558	178,880
Intangible assets, net	21,724	21,453
Goodwill	40,526	84,992
Other assets	951	1,325
<b>TOTAL</b>	<b>\$ 383,346</b>	<b>\$ 355,487</b>
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable	\$ 11,540	\$ 9,494
Accrued liabilities	17,569	17,662
Short-term borrowings	15,822	—
Current portion of long-term debt	1,476	—
Total current liabilities	46,407	27,156
Long-term debt	228,653	191,400
Pension and other employee benefit plans	10,695	10,917
Other liabilities	4,209	—
Deferred tax liabilities	20,011	27,709
Total liabilities	309,975	257,182
Commitments and contingencies		
Noncontrolling interest	12,233	—
Shareholder's equity:		
Common stock, \$.0001 par value per share; 5,000,000 shares authorized; 1,291,667 shares issued and outstanding	—	—
Additional paid-in capital	122,278	101,729
Accumulated deficit	(61,758)	(4,047)
Accumulated other comprehensive income	618	623
Total shareholder's equity	61,138	93,865
<b>TOTAL</b>	<b>\$ 383,346</b>	<b>\$ 355,487</b>

(1) Derived from audited financial statements

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		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net sales	\$ 32,826	\$64,069	\$ 72,440	\$122,034
Cost of goods sold	40,521	51,721	73,140	100,453
<b>Gross profit (loss)</b>	<b>(7,695)</b>	<b>12,348</b>	<b>(700)</b>	<b>21,581</b>
Selling, general and administrative expenses	3,794	4,912	8,048	9,352
Restructuring charges	207	—	725	—
Amortization of intangible assets	251	465	502	929
Goodwill impairment charge	44,466	—	44,466	—
Other operating (expense) income	(177)	308	(1,867)	319
<b>Income (loss) from operations</b>	<b>(56,590)</b>	<b>7,279</b>	<b>(56,308)</b>	<b>11,619</b>
Other non-operating (expense) income:				
Interest expense	(5,253)	(6,017)	(10,384)	(12,636)
Other income (expense), net	24	(87)	1,128	109
Income (loss) before income tax benefit (expense)	(61,819)	1,175	(65,564)	(908)
Income tax benefit (expense)	6,587	(423)	7,655	346
<b>Net income (loss)</b>	<b>(55,232)</b>	<b>752</b>	<b>(57,909)</b>	<b>(562)</b>
Less: Net loss attributable to the noncontrolling interest	(197)	—	(197)	—
<b>Net income (loss) attributable to AGY Holding Corp.</b>	<b><u>\$(55,035)</u></b>	<b><u>\$ 752</u></b>	<b><u>\$(57,712)</u></b>	<b><u>\$ (562)</u></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)	
	Six Months Ended June 30, 2009	2008
<b>Cash flow from operating activities:</b>		
Net loss	\$ (57,909)	\$ (562)
Adjustments to reconcile (net loss) to net cash (used in) provided by operating activities:		
Goodwill impairment charge	44,466	—
Depreciation	5,153	5,702
Alloy metals depletion, net	4,765	5,843
Amortization of debt issuance costs	358	362
Amortization of intangibles with definite lives	502	929
Gain on sale, disposal or exchange of property and equipment and alloy metals	(387)	(798)
Gain on early extinguishment of debt	(1,138)	—
Effect of adopting SFAS No. 141(R) for acquisition-related costs	1,098	—
Stock compensation	549	582
Deferred income tax (benefit) expense	(7,698)	709
Changes in assets and liabilities (net of effect of assets acquired and liabilities assumed in acquisition):		
Trade accounts receivable	1,662	(1,985)
Inventories	3,176	2,553
Other assets	7	(1,193)
Accounts payable	56	2,171
Accrued liabilities	(4,117)	(1,459)
Pension and other employee benefit plans	(222)	592
Net cash (used in) provided by operating activities	<u>(9,679)</u>	<u>13,446</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment and alloy metals	(8,509)	(30,854)
Proceeds from the sale of property and equipment and alloy metals	7,649	1,326
Increase in restricted cash	(1)	(14)
Payment for majority interest business acquisition, net of cash acquired	(18,030)	—
Other investing activities	—	(586)
Net cash used in investing activities	<u>(18,891)</u>	<u>(30,128)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from Revolving Credit Facility borrowings	37,025	48,700
Payments on Revolving Credit Facility borrowings	(29,400)	(35,600)
Purchases of Senior Secured Notes	(1,793)	—
Payments on capital leases	—	(146)
Capital contribution	20,000	—
Net cash provided by financing activities	<u>25,832</u>	<u>12,954</u>
<b>Effect of exchange rate changes on cash</b>	(6)	(10)
<b>Net decrease in cash</b>	(2,744)	(3,738)
<b>Cash, beginning of period</b>	4,760	5,204
<b>Cash, end of period</b>	<u>\$ 2,016</u>	<u>\$ 1,466</u>



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

	(Unaudited)	
	Six Months Ended June 30,	
	2009	2008
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$ 9,844	\$ 11,869
Cash paid for income taxes	\$ 96	\$ 228
<b>Supplemental disclosures of non cash financing/investing activities:</b>		
Construction in-progress included in accounts payable	\$ 301	\$ 461

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



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

**1. Overview and Significant Accounting Policies**

In these notes, the terms “AGY”, “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, 2008 for a discussion of our significant accounting policies.

AGY Holding Corp. is a Delaware corporation with its headquarters in South Carolina. AGY Holding Corp. and its subsidiaries (collectively, “AGY” or the “Company”) 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.

As discussed in Note 2, 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.

***Basis of Presentation***

The accompanying unaudited interim consolidated financial statements 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 information included in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008 (the “2008 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 2008 Form 10-K. Changes in the facts and circumstances may have a significant impact on the resulting financial statements.

The Company has evaluated subsequent events through August 19, 2009, the date it filed its report on Form 10-Q for the quarter ended June 30, 2009 with the SEC, and has no material subsequent events to report.

***Adoption of new accounting standards***

In April 2009, the Financial Accounting Standards Board (“FASB”) issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, which requires entities to assess whether certain factors exist that indicate that the volume and level of market activity for an asset or liability have decreased or that transactions are not orderly. If, after evaluating those factors, the evidence indicates there has been a significant decrease in the volume and level of activity in relation to normal market activity, observed transactional values or quoted prices may not be determinative of fair value and adjustment to the observed transactional values or quoted prices may be necessary to estimate fair value. FSP No. FAS 157-4 was effective for interim and annual periods ending after June 15, 2009. There was no impact from the adoption of FSP No. FAS 157-4 on our results of operations, cash flows, or financial position.



In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures About Fair Value of Financial Instruments* (“FSP”). This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim financial statements as well as for annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in all interim financial statements. This FSP was effective for interim reporting periods ending after June 15, 2009. There was no impact from the adoption of the provisions of this FSP on our results of operations, cash flows, or financial position.

In May 2009, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 165, *Subsequent Events* (“SFAS No. 165”), which established principles and requirements for subsequent events. The statement details the period after the balance sheet date during which the Company should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize events or transactions occurring after the balance sheet date in its financial statements and the required disclosures for such events. Under the requirements of SFAS No. 165, which we adopted for the quarter ended June 30, 2009, we have disclosed the date through which subsequent events are reported. The adoption of this standard did not have a material effect on our results of operations, cash flows, or financial position.

Effective January 1, 2009, we adopted the provisions of SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS No. 141(R)”), which became effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Among other things, SFAS No. 141(R) requires that all acquisition-related costs be expensed as incurred. At December 31, 2008, under the prior guidance of SFAS No. 141, we had deferred \$1,098 of acquisition-related costs associated with our proposed acquisition of a majority interest in a Chinese company. In adopting this new accounting standard, we expensed (classified as “other operating expense” in the statement of operations for the six months ended June 30, 2009) the \$1,098 of acquisition-related costs incurred and deferred at December 31, 2008. We also expensed \$1,342 of incremental advisory, legal and accounting fees that we incurred during the six months ended June 30, 2009 in connection with this transaction. The previously described business combination was consummated on June 10, 2009, and as discussed in Note 2, we applied the other provisions of SFAS No. 141(R) to the accounting for this acquisition.

On January 1, 2009, we adopted SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51*, (“SFAS No. 160”), which establishes accounting and reporting standards that require the noncontrolling interest to be identified, labeled, and presented in the consolidated balance sheet within equity, but separate from the parent’s equity. SFAS No. 160 also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be identified and presented on the face of the consolidated statement of operations. The initial adoption of SFAS No. 160 had no impact on our results of operations, cash flows or financial position, as all our subsidiaries were wholly owned on January 1, 2009.

On January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, (“SFAS No. 161”), which requires enhanced disclosures about an entity’s derivative and hedging activities. SFAS No. 161 does not change the accounting for derivative instruments. See Note 13 to the interim consolidated financial statements for enhanced disclosures required by SFAS No. 161.

Effective January 1, 2008, we adopted FASB Statement No. 157, *Fair Value Measurements* (“SFAS No. 157”), for financial assets and liabilities. The initial adoption of SFAS No. 157 did not impact the Company’s results of operations, cash flows, or financial position. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which allowed companies to defer the adoption of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those items that are recognized or disclosed at fair value on an annual or more frequently recurring basis, until years beginning after November 15, 2008. In accordance with this interpretation, on January 1, 2009, we adopted the provisions of SFAS No. 157 related to our nonfinancial assets and liabilities. However, there were no nonfinancial assets and liabilities requiring initial measurement or subsequent remeasurement during the six months ended June 30, 2009.





In October 2008, the FASB issued FASB Staff Position (“FSP”) No. FAS 157-3 to clarify the application of SFAS No. 157 in a market that is not active and to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP No. FAS 157-3 was effective upon issuance; however, the adoption of FSP No. FAS 157-3 did not have an impact on our results of operations, cash flows, or financial position.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Asset*. FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141(R) and other generally accepted accounting principles. FSP No. FAS 142-3 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. The adoption of FSP No. FAS 142-3 did not have a material impact on our results of operations, cash flows, or financial position.

#### ***Recently issued accounting standards***

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* (“SFAS No. 168”). SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* and establishes the “FASB Accounting Standards Codification” (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. All guidance contained in the Codification carries an equal level of authority. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification will not have an effect on our results of operations, cash flows, or financial position. However, because the Codification completely replaces existing standards, it will affect the way GAAP is referenced within our future consolidated financial statements.

In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (“SFAS No. 167”), which amends the consolidation guidance applicable to variable interest entities. The amendments will significantly affect the overall consolidation analysis under FASB Interpretation No. 46(R). This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2009. This statement will be effective for the Company beginning in fiscal year 2010. We are currently assessing the potential impact of adoption of SFAS No. 167 on our results of operations, cash flows, or financial position.

In June 2009, the FASB issued FASB No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* (“SFAS 166”). SFAS 166 requires additional disclosures about the transfer and derecognition of financial assets, eliminates the concept of qualifying special-purpose entities under SFAS 140, creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale, clarifies other sale-accounting criteria, and changes the initial measurement of a transferor’s interest in transferred financial assets. SFAS 166 is effective for fiscal years beginning after November 15, 2009. We are currently evaluating the impact the adoption of SFAS 166 will have on our results of operations, cash flows, or financial position.



## 2. Business Combination and Anderson Contract Termination Costs

### *2009 Chinese Business Combination*

On June 10, 2009, pursuant to the terms of the Sale and Purchase Agreement dated March 12, 2009, by and among AGY Cayman, Grace Technology Investment Co., Ltd., and Grace THW Holding Limited (“Grace”), previously described in the Current Report on Form 8-K of AGY Holding Corp. filed on March 18, 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 and previously a 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 the People’s Republic of China (“PRC”), which is also 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.

In connection with the execution of the Sale and 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 of the 30% interest held by Grace in AGY Hong Kong Ltd., (2) a supply agreement, pursuant to which Grace will purchase 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 will provide certain technical and manufacturing support services to AGY Shanghai.

The Company paid \$20 million in cash for a 70% controlling interest in Main Union Industrial Ltd. and its subsidiaries (which we collectively refer to as “AGY China”) and financed this consideration through the sale of additional equity to the Company’s private equity sponsors. As noted previously, the Company entered into an option agreement that grants the Company the right to purchase the remaining 30% ownership at a stipulated multiple of earnings before interest, taxes, depreciation and amortization if certain financial parameters are achieved and grants Grace the right to put their remaining 30% ownership to the Company after the one year anniversary of the execution of the Sale and Purchase Agreement at a stipulated multiple of earnings before interest, taxes, depreciation and amortization. Management believes that either the call option or put option will be exercised before 2011, and the Company intends to finance the consideration to be paid pursuant to the agreement through the sale of additional equity to its private equity sponsor, if available, or other liquidity.

### *Preliminary Fair Value Determination and Allocation of Consideration Transferred*

As noted above, the Company paid \$20,000 in cash and assumed substantially all of the liabilities of the acquired business for a total purchase price of approximately \$71,458, assuming a 100% controlling interest. The acquisition is being accounted for under the purchase method of accounting and AGY China is included in the Company’s consolidated financial statements from the June 10, 2009 acquisition date. Management has preliminarily determined the fair value of assets acquired and liabilities assumed with the assistance of an independent third-party valuation specialist. However, the valuation has not been finalized and accordingly, management has not finalized its accounting for the acquisition as of June 30, 2009, and therefore, all amounts are based on management’s preliminary estimates.

Management believes, based on its preliminary allocation of purchase price to the fair value of the acquired assets less liabilities assumed, that the acquisition was a bargain purchase and will result in approximately \$23,210 of negative goodwill. Since the valuation has not been completed and management has not yet finalized its acquisition accounting, the Company has classified the preliminarily determined estimate of negative goodwill as a reduction of the fair value of the machinery and equipment acquired. When management finalizes its determination of the acquisition cost and reassesses the allocation of the acquisition cost to the fair value of the acquired assets and assumed liabilities, which management expects to substantially complete during the third quarter of 2009, any negative goodwill will be recognized as non-operating income. Management believes that the Company was able to negotiate a bargain purchase price as a result of the current economic environment.



Following is a summary of the preliminary estimates of the fair value of the acquired assets less assumed liabilities at the acquisition date:

<b>Net identifiable assets acquired (in millions):</b>	
Cash	\$ 2.0
Trade accounts receivables	6.3
Inventories	2.6
Other current assets	1.6
Property, plant and equipment and alloy metals (net of negative goodwill of \$23.2 million as discussed above)	68.5
Identifiable intangible assets	1.2
Other assets	0.7
Current liabilities	(7.2)
Other noncurrent liabilities	(4.2)
<b>Total identifiable net assets</b>	<b><u>\$71.5</u></b>

The previously described put option is a redemption feature which results in the classification of the noncontrolling interest, approximately \$12,431 at the acquisition date, as temporary equity presented in the accompanying consolidated balance sheet between total liabilities and shareholder's equity.

The Company also has not completed its evaluation of the effect of the acquisition on its segment reporting, but expects to do so in the third quarter of 2009.

*Acquisition-related Costs*

At December 31, 2008, under the prior guidance of SFAS No. 141, the Company had deferred \$1,098 of acquisition-related costs associated with the Chinese business combination. In adopting the new accounting standard SFAS No. 141(R) on January 1, 2009, the Company wrote-off (classified as "other operating expense" in the statement of operations for the six months ended June 30, 2009) the \$1,098 of acquisition-related costs incurred and deferred at December 31, 2008. During the three and six months ended June 30, 2009, the Company also expensed \$786 and \$1,342, respectively of incremental advisory, legal and accounting fees that were incurred in 2009 in connection with this transaction.

*AGY China Results of Operations*

The following table presents the amount of unaudited net sales, loss from operations and net loss of AGY China included in our interim consolidated statements of operations from the date of the acquisition for the three and six months ended June 30, 2009:

	<b>Three and Six Months ended June 30, 2009</b>
Net sales	\$ 1,381
Loss from operations	(549)
Net loss	(658)

*Pro Forma Results*

The following table presents our preliminary estimate of unaudited pro forma consolidated results as if the business combination occurred as of January 1, 2009. The pro forma information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place as of January 1, 2009 as these preliminary pro forma results do not reflect all the adjustments to historical financials related to the impact of the preliminary fair value determination and allocation of the purchase price to the acquisition:

	<b>Three Months Ended June 30, 2009</b>	<b>Six Months Ended June 30, 2009</b>
Net sales	\$ 37,123	\$ 80,775
Loss from operations	(58,256)	(60,038)



Net loss	(57,531)	(62,799)
----------	----------	----------



**Anderson contract termination costs**

As discussed in the Company’s 2008 Form 10-K, in connection with the Company’s termination of the Anderson, SC land and building lease agreement, the Company also triggered, effective June 30, 2008, the early termination of the Anderson manufacturing services agreement with Owens Corning (“OC”).

During April 2008, the Anderson furnace had a premature failure that resulted in a permanent shutdown of the furnace. As a consequence, the Company was obligated to pay \$639 for the facility lease expenses and the manufacturing service costs related to labor and other fixed expenses incurred by OC from the date of the furnace shutdown to June 30, 2008, the effective date of the termination of all the Anderson related agreements, without economic benefit to the Company.

The Company recorded these costs as contract termination costs netted in “other operating income”, under the guidance of SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal of Activities”. The Company paid in full the balance due for such contract termination costs to OC during the third quarter of 2008.

**3. Inventories, net**

Inventories, net of reserves for excess, obsolete, and lower of cost or market adjustments of \$1,819 and \$1,482 as of June 30, 2009 and December 31, 2008, respectively, consist of the following:

	June 30, 2009	December 31, 2008
Finished goods and work in process	\$28,055	\$ 30,180
Materials and supplies	11,337	9,812
	<u>\$39,392</u>	<u>\$ 39,992</u>

**4. Property, Plant and Equipment and Alloy Metals**

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

	June 30, 2009	December 31, 2008
Land	\$ 11,561	\$ 861
Buildings and leasehold improvements	37,441	15,029
Machinery and equipment	101,094	73,000
Alloy metals (net of depletion)	116,880	117,924
	266,976	206,814
Less – Accumulated depreciation	(38,234)	(33,138)
	228,742	173,676
Construction-in-progress	8,816	5,204
	<u>\$237,558</u>	<u>\$ 178,880</u>

As discussed in Note 2, property, plant and equipment acquired in the Chinese business combination were recorded at their estimated fair market value at the acquisition date of \$91,744 (including \$10,700 of land use rights, \$20,750 of buildings and leasehold



improvements, \$49,322 of machinery and equipment and construction-in-progress, and \$10,972 of alloy metals) less the allocation of the \$23,210 preliminary negative goodwill associated with this acquisition to machinery and equipment until the evaluation of the fair value of the assets acquired and liabilities assumed is completed, as discussed in Note 2.

Depreciation expense was \$5,153 and \$5,702 in the six months ended June 30, 2009 and 2008, respectively, and depletion of alloy metals was \$4,765 and \$5,843 (net of recoveries and excluding expense to process such recoveries), in the six months ended June 30, 2009 and 2008, respectively.

During the first six months of 2009, the Company sold alloy metals and recognized a gain of \$387, classified as “other operating expense”. During the second quarter of 2008, the Company sold land and recognized a gain of \$930, classified as “other operating income”.

**5. Intangible Assets**

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

	June 30, 2009	December 31, 2008	Estimated Useful Lives
<b>Intangible assets subject to amortization:</b>			
Customer relationships - U.S.	\$ 4,800	\$ 4,800	11 years
Customer contracts and relationships - China	1,200	—	10 years
Process technology	10,200	10,200	18 years
Deferred financing fees	5,075	5,145	5 to 8 years
Covenant not to compete	2,018	2,018	3 years
Sub-Total	23,293	22,163	
Less – Accumulated amortization	(7,182)	(6,323)	
	16,111	15,840	
Trademarks – not amortized	5,613	5,613	
Net intangible assets	<u>\$21,724</u>	<u>\$ 21,453</u>	

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

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**

Management concluded, with the assistance of independent third-party valuation specialists, that as of June 30, 2009, the goodwill associated with the purchase of AGY Holding Corporation by KAGY Holding Company, Inc. in April 2006 was partially impaired due largely to the near-to-mid term business outlook associated with the global economic environment. As a result, the Company recognized a non-cash, pre-tax goodwill impairment charge of \$44.5 million, classified as a charge against “loss from operations” in the second quarter of 2009.



### 7. Restructuring Initiatives

During the first half of 2009, the Company initiated several actions throughout the business to reduce its cost structure, streamline its processes, and optimize its manufacturing capabilities. Such actions included, but were not limited to, the temporary reduction of manufacturing capacity and associated workforce and permanent reductions in salaried personnel.

For the six months ended June 30, 2009, the Company recorded \$725 in restructuring charges that related primarily to severance and outplacement costs for the salaried positions that the Company eliminated.

	<u>Severance Costs</u>	<u>Others</u>	<u>Total</u>
Balance as of December 31, 2008	\$ —	\$ —	\$ —
Restructuring costs incurred	688	37	725
Payments	(404)	(18)	(422)
Balance as of June 30, 2009	<u>\$ 284</u>	<u>\$ 19</u>	<u>\$ 303</u>

### 8. Accrued Liabilities

Accrued liabilities consist of the following:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Vacation	\$ 2,220	\$ 2,371
Real and personal property taxes, excluding prepetition amounts still in negotiation	4,872	4,216
Pre-petition real and personal property taxes	999	999
Payroll and benefits	1,507	1,057
Unpaid severance costs	284	—
Variable compensation accrual	—	3,629
Amount due for pension and retiree medical reimbursement	344	1,540
Accrued interest	2,463	2,444
Current portion of pension and other employee benefits	1,055	1,055
Accrued non refundable PRC value added tax	1,672	—
Other	2,153	351
Total accrued liabilities	<u>\$17,569</u>	<u>\$ 17,662</u>

At June 30, 2009 and December 31, 2008, the Company had \$1,240 and \$1,239 of restricted cash in escrow, respectively for disputed and allowed claims resulting from the Company, under prior ownership, emerging from bankruptcy in 2004. The Company had remaining accrued liabilities of \$999 at June 30, 2009 and December 31, 2008, for such disputed real and personal property taxes.



9. Debt

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

	June 30, 2009	December 31, 2008
Senior secured notes	\$172,000	\$ 175,000
Senior secured revolving credit facility	24,025	16,400
Shanghai credit facility - non recourse	37,568	—
Shanghai Grace Fabric Corporation loan	12,358	—
Total debt	245,951	191,400
Less – Current portion AGY China	17,298	—
Total long-term debt	\$228,653	\$ 191,400

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. In connection with its acquisition of a 70% interest in Main Union Industrial Ltd, as described in Note 2, the Company amended its credit agreement in order to obtain the necessary approval of the revolving credit lenders. As a result of the amendment, the Availability Reserve in the borrowing base calculation increased from \$7,500 to \$10,000, the foreign subsidiary indebtedness of Main Union 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 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 Main Union. 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 key 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 June 30, 2009 and December 31, 2008, we had \$24,025 and \$16,400 borrowings, respectively, outstanding under the Credit Facility. The weighted average interest rate for cash borrowings outstanding as of June 30, 2009, was 2.2%. At June 30, 2009 and December 31, 2008, we also issued approximately \$950 and \$450, respectively, of standby letters of credit primarily for collateral required for workers’ compensation and utilities obligations. Borrowing availability at June 30, 2009 and December 31, 2008, was approximately \$14,950 and \$23,150, respectively.





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 June 30, 2009 and December 31, 2008.

### *Senior Secured Notes*

On October 25, 2006, the Company issued \$175,000 aggregate principal amount of 11% senior secured second lien notes ("Old Notes") due in 2014 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. On May 8, 2008, we filed with the United States Securities and Exchange Commission ("SEC") a registration statement on Form S-4 under the Securities Act of 1933 to exchange all of the Old Notes for the 11% senior secured second lien exchange notes ("Notes"); such exchange was fully consummated and closed on July 11, 2008. The Notes are identical in all respects to the Old Notes except:

- the Notes are registered under the Securities Act;
- the Notes are not entitled to any registration rights which were applicable to the Old Notes under the registration rights agreement; and
- the liquidated damages provisions of the registration rights agreement are no longer applicable.

Interest on 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, 2009, we may, at our discretion, redeem up to 35% of the aggregate principal amount of Notes issued under the indenture at a redemption price of 111% of the principal amount, plus accrued and unpaid interest and additional interest, if any, to the redemption date, with the net cash proceeds of one or more equity offerings, provided that: (1) at least 65% of the aggregate principal amount of Notes originally issued under the indenture (excluding notes held by the Company) remains outstanding immediately after the occurrence of such redemption and (2) the redemption occurs within 90 days of the date of the closing of such equity offering. At any time prior to November 15, 2010, we may also 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 any optional redemption provision.

As of June 30, 2009 and December 31, 2008, the estimated fair value of the Notes was \$135,450 and \$105,000, respectively, compared to a recorded book value of \$172,000 and \$175,000, respectively. 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.

### *Shanghai Credit Facility- Non-recourse*

Bank debt assumed in the acquisition of AGY China was \$37,568 at June 30, 2009, of which \$34,104 was refinanced on a long-term basis on July 10, 2009 as discussed below. Accordingly \$34,104 was classified as long-term debt and \$3,464 remained classified as short-term debt at June 30, 2009.

On July 10, 2009, AGY Shanghai entered into a financing arrangement with the Bank of Shanghai ("Shanghai Credit Facility"). The arrangement consists of a five-year term loan in the aggregate amount of \$40,500, a one-year working capital loan in the aggregate amount of approximately \$11,700 and a one-year letter of credit facility in the amount of \$2,000. As discussed above, proceeds from the loans were used, in part, to repay the \$37,568 outstanding under AGY Shanghai's prior credit agreements.



The term loan is secured by AGY Shanghai’s building 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.

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

2009	\$ —
2010	5.1
2011	8.1
2012	9.9
2013	11.3
2014	6.1
	<u>\$40.5</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%. Working capital loan borrowings may be made in both local currency and US Dollars, up to certain limits.

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, 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 June 30, 2009.

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

**Shanghai Grace Fabric Corporation Loan**

Prior to the acquisition date, AGY Shanghai entered into a working capital unsecured loan with Shanghai Grace Fabric Corporation, a predecessor sister company. The \$12,358 outstanding under this loan at the acquisition date and at June 30, 2009 was repaid in July 2009, using, in part, restricted cash for such repayment. The \$12,358 loan was classified as short-term borrowings at June 30, 2009.

**Maturities of Long-Term Debt**

Maturities of long-term debt (including the consideration of refinancing of current maturities on a long-term basis) at June 30, 2009 consist of the following:

	<u>North America</u>	<u>China – Non recourse</u>	<u>Total</u>
2010	\$ —	\$ 2,622	\$ 2,818
2011	24,025	6,861	30,845
2012	—	8,479	8,336
2013	—	9,587	9,515
2014	172,000	5,079	177,139
	<u>\$196,025</u>	<u>\$ 32,628</u>	<u>\$228,653</u>



**10. Capital Stock and Equity**

The authorized capital of AGY Holding Corp. 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 six months ended June 30, 2009 or in 2008.

On June 10, 2009, \$20,000 of additional paid-in capital was recorded to recognize an additional contribution by certain shareholders in Holdings to fund the AGY China acquisition.

**11. Employee Benefits**

**Pension and Other Postretirement Benefits**

*Pension Benefits* - As described more fully in our 2008 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 Postretirement Benefits* - We have a postretirement benefit plan that covers substantially all of our domestic employees. Upon the completion of the attainment of age sixty-two and 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 six months ended June 30, 2009 and 2008, are as follows:

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	Pension Benefits		Post-Retirement Benefits		Pension Benefits		Post-Retirement Benefits	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	\$ —	\$ —	\$ 112	\$ 105	\$ —	\$ —	\$ 224	\$ 210
Interest cost	68	73	109	105	137	147	218	210
Amortization of unrecognized gains	—	—	(3)	—	—	—	(6)	—
Total net periodic benefit cost	\$ 68	\$ 73	\$ 218	\$ 210	\$ 137	\$ 147	\$ 436	\$ 420

Expected net employer contributions for the defined benefit plan for the year ending December 31, 2009 are \$604. Expected net employer contributions for the postretirement benefit plan for the year ending December 31, 2009 are \$451.

**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 provides a matching employer contribution of 50% of 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 six months ended June 30, 2009 and 2008, the Company contributed \$343 and \$402, respectively. Effective July 31, 2009, the matching employer contribution was temporarily suspended for the salaried workforce.

**12. Stock-based Compensation**

Our stock-based compensation includes stock options and restricted stock as described in our 2008 Form 10-K. Total stock-based compensation was \$549 and \$582 at June 30, 2009 and 2008, respectively. No additional stock options or restricted stock were granted, exercised, forfeited or expired during the six months ended June 30, 2009.



**13. Comprehensive Income (Loss)**

Comprehensive income (loss) represents net income (loss) and other gains and losses affecting shareholder’s equity that are not reflected in our consolidated statements of operations. The components of comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income (loss)	\$ (55,232)	\$ 752	\$(57,909)	\$(562)
Currency translation adjustments	(6)	(6)	(6)	(8)
Comprehensive income (loss)	<u>\$ (55,238)</u>	<u>\$ 746</u>	<u>\$(57,915)</u>	<u>\$(570)</u>

**14. Derivative Instruments and Hedging Activities**

We from time to time enter into fixed-price agreements for our natural gas commodity requirements 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 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities — an amendment of FASB Statement No. 133*, and SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, and are therefore exempted from the related accounting requirements. At June 30, 2009, 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 107% and 94% of our estimated natural gas purchase requirements in the third quarter and fourth quarter, respectively, of 2009 and approximately 25% of fiscal year 2010. Because the natural gas commitments for the third quarter 2009 exceed our forecast utilization, we recognized a loss of \$58 in the consolidated financial statements for the three and six months ended June 30, 2009.

We also use, on occasion, foreign currency derivatives to manage the risk associated with fluctuations in foreign exchange rates. Associated with a purchase commitment of certain manufacturing equipment denominated in euros, in February 2008 we entered into forward contracts to purchase 3.3 million Euros to hedge the exposure to changes in value of the Euro to the U.S dollar. All the contracts matured in the second and third quarters of 2008, and were accounted for as fair value hedges. At June 30, 2009 and December 31, 2008, we had no foreign currency hedging agreements in effect.

**15. Alloy Metals Leases**

We lease under short-term operating facilities (generally with lease terms from one to twelve months) a portion of the alloy metals needed to support our manufacturing operations. During the six months ended June 30, 2009 and 2008, total lease costs of alloy metals were approximately \$2,020 and \$4,056, respectively, and were classified as a component of cost of goods sold.

We leased alloy metals under the following three agreements during the six months ended June 30, 2009 and in 2008:

**Metal Consignment Facility** — AGY has 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 since August 2005. 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. The platinum facility is payable upon the earlier of the occurrence of an event of default under the agreement or the termination of the agreement, and is collateralized by (i) the leased platinum and (ii) all of the Company’s owned platinum, including, without limitation, platinum incorporated into equipment. Lease payments are payable monthly and, at our 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 is the fixed market-based lease rate for the applicable lease period, plus a 2.0% margin.



The consignment 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 the Credit Facility and the Notes. The consignment agreement does not contain any financial covenants. Bank of Nova Scotia or we may terminate the consignment agreement at any time upon 30 days prior written notice.

At June 30, 2009 and December 31, 2008, we leased 26,400 and 28,800 ounces, respectively, of platinum under the facility, with a notional value of approximately \$31,300 and \$25,900, respectively, as calculated under the facility. Unused availability at June 30, 2009 and December 31, 2008, was approximately 5,600 and 3,200 ounces of platinum, respectively, with a notional value of \$38,300 and \$43,700, respectively. If the market value of the leased platinum exceeds \$69,600 or 32,000 ounces, the Company is required to purchase or otherwise provide sufficient platinum to reduce the lease balance. At June 30, 2009 and December 31, 2008, there were no outstanding letters of credit securing the agreement. All of the leases outstanding at June 30, 2009 had initial terms of one to twelve months, maturing no later than October 7, 2009 (with future minimum rentals of approximately \$276 until maturity in October 2009).

**Owens Corning Master Lease Agreement** — In October 2007, as part of the CFM acquisition, we entered into a master lease agreement with OC to lease platinum and rhodium, exclusively for use in the Huntingdon, PA CFM and Anderson, SC manufacturing operations. Effective October 24, 2008, we terminated the OC master lease agreement. This master lease agreement allowed us to enter into leases of alloy metal with terms of one to six months for up to approximately 19,800 ounces of platinum and 3,400 ounces of rhodium. The annual lease rate was fixed at 9%, and the notional lease value was based on the market price of platinum and rhodium in effect at the inception of the lease.

**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 describes 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 has a three-year term and allows AGY to enter into leases of alloy metals 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 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 certain cross-default provisions.

At June 30, 2009 and December 31, 2008, we leased approximately 17,800 and 19,050 ounces of platinum, respectively, and 3,100 and 3,300 ounces of rhodium, respectively, under the Master Lease Agreement, with a notional value of approximately \$23,400 and \$21,800. All of the leases outstanding at June 30, 2009 had initial terms of one to twelve months, maturing no later than October 28, 2009 (with future minimum rentals of approximately \$350 until maturity in October 2009).

**16. 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.

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 six months ended June 30, 2009 and 2008, was approximately \$1,026 and \$356, respectively. The following is a schedule by year of minimum future rentals payments at June 30, 2009:

7/1/09 to 12/31/09	\$ 595
2010	1,198
2011	1,107
2012	1,062
2013	1,056
Thereafter	1,652
	<u>\$6,670</u>

We are obligated to make approximately \$1,800 minimum purchases of marbles from OC during the remainder of 2009.



## 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 2008 Annual Report on Form 10-K (the “2008 Form 10-K”) filed with the Securities and Exchange Commission.

### OVERVIEW

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.

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, pursuant to the terms of the Sale and Purchase Agreement dated March 12, 2009, by and among AGY Cayman, Grace Technology Investment Co., Ltd., and Grace THW Holding Limited (“Grace”), previously described in the Current Report on Form 8-K of AGY Holding Corp. filed on March 18, 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 and a 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 the People’s Republic of China (“PRC”), which is also 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 a 70% controlling interest in Main Union Industrial Ltd and its subsidiaries (“AGY China”) 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 preliminary allocation of the purchase price and the impact of AGY China, which has been included in our consolidated financial statements since its June 10, 2009 acquisition, are presented in Note 2 to the accompanying unaudited interim consolidated financial statements.

### OUTLOOK

We are making progress in connection with our strategies to improve operating efficiency and to expand our product offerings, our markets, and our customer base. During the first half of 2009, we experienced soft demand across most of our markets, and a decrease in inventory levels held by many our customers. It is unlikely that we will see significant improvements in the markets we serve in 2009 based on current economic forecasts. Additionally, the timing of several defense related program awards is uncertain at this time. As a result of these uncertainties, we continue to focus on capacity and cost reduction initiatives, cash flow generation and on maintaining adequate liquidity necessary for our operations.



**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 2008 Form 10-K. There were no significant changes in our accounting policies and estimates since the end of fiscal 2008.

*Adoption of new accounting standards*

New accounting pronouncements that have been recently adopted are included in Note 1, “Overview and Significant Accounting Policies” to the accompanying unaudited interim consolidated financial statements.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

New accounting pronouncements that have been recently issued but not yet adopted are included in Note 1, “Overview and Significant Accounting Policies” to the accompanying unaudited interim consolidated financial statements.



**Results of Operations**

The following tables summarize our results of operations in dollars and as a percentage of net sales for the three and six months ended June 30, 2009 and 2008 (dollars in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net sales	\$ 32,826	\$64,069	\$ 72,440	\$122,034
Cost of goods sold	40,521	51,721	73,140	100,453
Gross profit (loss)	(7,695)	12,348	(700)	21,581
Selling, general and administrative expenses	3,794	4,912	8,048	9,352
Restructuring charges	207	—	725	—
Amortization of intangible assets	251	465	502	929
Goodwill impairment charge	44,466	—	44,466	—
Other operating (expense) income, net	(177)	308	(1,867)	319
Income (loss) from operations	(56,590)	7,279	(56,308)	11,619
Other non-operating (expense) income, net	24	(87)	1,128	109
Interest expense	(5,253)	(6,017)	(10,384)	(12,636)
Income (loss) before income taxes	(61,819)	1,175	(65,564)	(908)
Income tax benefit (expense)	6,587	(423)	7,655	346
Net income (loss)	(55,232)	752	(57,909)	(562)
Less: Net loss attributable to noncontrolling interest	(197)	—	(197)	—
Net income (loss) attributable to AGY Holding Corp.	<u>\$(55,035)</u>	<u>\$ 752</u>	<u>\$(57,712)</u>	<u>\$ (562)</u>

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	123.4 %	80.7 %	101.0 %	82.3 %
Gross profit (loss)	(23.4) %	19.3 %	(1.0) %	17.7 %
Selling, general and administrative expenses	11.6 %	7.7 %	11.1 %	7.7 %
Restructuring charges	0.6 %	— %	1.0 %	— %
Amortization of intangible assets	0.8 %	0.7 %	0.7 %	0.8 %
Goodwill impairment charge	135.5 %	— %	61.4 %	— %
Other operating (expense) income, net	(0.5) %	0.5 %	(2.6) %	0.3 %
Income (loss) from operations	(172.4) %	11.4 %	(77.8) %	9.5 %
Other non-operating (expense) income, net	0.1 %	(0.1) %	1.6 %	0.1 %
Interest expense	(16.0) %	(9.4) %	(14.3) %	(10.4) %
Income (loss) before income taxes	(188.3) %	1.9 %	(90.5) %	(0.8) %
Income tax benefit (expense)	20.1 %	(0.7) %	10.6 %	0.3 %
Net income (loss)	(168.2) %	1.2 %	(79.9) %	(0.5) %
Less: Net loss attributable to noncontrolling interest	(0.5) %	— %	(0.2) %	— %
Net income (loss) attributable to AGY Holding Corp.	<u>(167.7) %</u>	<u>1.2 %</u>	<u>(79.7) %</u>	<u>(0.5) %</u>

As further discussed below, our management uses 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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Statement of operations data:</b>				
Net income (loss)	\$(55,232)	\$ 752	\$(57,909)	\$ (562)
Interest expense	5,253	6,017	10,384	12,636
Income tax (benefit) expense	(6,587)	423	(7,655)	(346)
Depreciation and amortization	2,989	3,466	5,655	6,631
EBITDA	<u>\$(53,577)</u>	<u>\$10,658</u>	<u>\$(49,525)</u>	<u>\$18,359</u>
<b>EBITDA</b>				
<b>Adjustments to EBITDA:</b>				
Alloy depletion charge, net (a)	1,723	3,441	4,765	5,871
Non-cash compensation charges (b)	102	234	549	582
Management fees (c)	187	187	375	375
Acquisition-related costs expensed in accordance with SFAS No 141 (R) (d)	786	—	2,440	—
Gain on early extinguishment of debt (e)	—	—	(1,138)	—
Restructuring charges (f)	207	—	725	—
Cost associated with the exit of Anderson facility (g)	—	623	—	623
Goodwill impairment charge (h)	44,466	—	44,466	—
Disposition of assets (gain) & others (i)	(427)	(930)	(389)	(930)
Adjusted EBITDA	(6,533)	14,213	2,268	24,880
Less: Adjusted EBITDA attributable to the noncontrolling interest	(37)	—	(37)	—
Adjusted EBITDA attributable to AGY Holding Corp.	<u>\$ (6,496)</u>	<u>\$14,213</u>	<u>\$ 2,305</u>	<u>\$24,880</u>
<b>Adjusted EBITDA allocated to AGY Holding Corp. breakdown:</b>				
AGY U.S.A manufacturing operations	\$ (6,409)	\$14,213	\$ 2,392	\$24,880
AGY China manufacturing operations	(87)	—	(87)	—
	<u>\$ (6,496)</u>	<u>\$14,213</u>	<u>\$ 2,305</u>	<u>\$24,880</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 be recorded. 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 annual management fee payable to our sponsor, Kohlberg & Company, LLC, pursuant to management agreement entered into in connection with the Acquisition.
- (d) Reflects the elimination of the transactional costs associated with AGY China business combination that was consummated on June 10, 2009. \$1,098 relates to costs incurred and deferred at December 31, 2008 that were expensed in 2009 as a result of adopting the provisions of SFAS No 141 (R); the remainder, or \$1,342, constitute incremental acquisition-related costs incurred and expensed during the first half of 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 ("Notes") repurchase made by the Company in February 2009.
- (f) Reflects the elimination of the restructuring charges associated with a reduction in our salaried workforce in 2009 to reduce our cost structure and streamline processes.
- (g) Reflects the elimination of the costs associated with the termination of the Anderson land and building lease and manufacturing services agreements that continued to be incurred from the date of the premature failure of the Anderson furnace to June 30, 2008, without economic benefit to the Company.
- (h) Reflects the elimination of the charge associated with the impairment of the goodwill related to the purchase of AGY Holding Corporation by KAGY Holding Company, Inc. in April 2006, which was recognized in the second quarter of 2009.
- (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 defined as earnings before interest, taxes, depreciation and amortization. EBITDA is a non-GAAP financial measure used by management to measure operating performance. EBITDA is not a recognized term under GAAP and does not purport to be an alternative to net income as a measure of operating performance or 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 result 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 EBITDA provides more comparability between our historical results and 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 (as well as Adjusted 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 as permitted and calculated in the manner that "Consolidated Cash Flow" is calculated under the indenture governing our Notes, relative to certain provisions, including but not limited to, restricted payments and incurrence of additional indebtedness. 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 JUNE 30, 2009 COMPARED TO THREE MONTHS ENDED JUNE 30, 2008

**Net sales.** Net sales decreased \$31.3 million, or 48.8%, to \$32.8 million for the three months ended June 30, 2009, compared to \$64.1 million during the comparable quarter of 2008. The global economic downturn and lower inventory levels held by our customers were the primary drivers of this decrease. Without taking account of the insignificant impact of the Chinese acquisition in mid June 2009, volumes sold were down globally by 43%, compared to the second quarter of 2008. The construction and industrial market revenues were down 53% and 36%, respectively, compared to the second quarter of 2008, as a result of soft market conditions. Electronics sales were down 33% compared to the same period in 2008, however, they have more than doubled compared to the first quarter of 2009 as a result of some improved market conditions in Asia. Aerospace sales decreased by 45% compared to the second quarter of 2008 reflecting continued de-stocking initiatives by our customers, and decreased aircraft retrofit activity. Defense revenue in the second quarter of 2009 decreased by 77% compared to the comparable period of 2008. Defense revenue in 2008 was favorably impacted by the ramp-up activities of the MRAP program, which was completed in March of 2009.

**Gross profit/loss.** We had a negative gross margin of \$7.7 million for the three months ended June 30, 2009, compared to a gross profit of \$12.3 million for the three months ended June 30, 2008. The negative gross margin in the second quarter of 2009 was driven largely by lower sales volumes and an unfavorable product mix associated with lower shipments to defense and aerospace markets. Additionally, the under-absorption of overhead costs associated with management's decision to curtail production capacity and lower inventory levels negatively impacted results. These negative variances were partially offset by cost reduction initiatives including the curtailment of discretionary spending, primary workforce furloughs and salaried headcount reductions.

**Selling, general and administrative expenses.** Selling, general and administrative costs decreased from \$4.9 million during the second quarter of 2008 to \$3.8 million during the quarter ended June 30, 2009. This decrease reflects continued activities in reducing the Company's cost structure including a reduction in the salaried workforce and minimizing discretionary spending. Selling, general and administrative costs increased from 7.7% of net sales for the three months ended June 30, 2008 to 11.6% of net sales for the three months ended June 30, 2009.

**Restructuring charges.** For the three months ended June 30, 2009, we recognized \$0.2 million in restructuring charges primarily related to severance and outplacement costs for headcount reductions in connection with our structural cost-reduction initiatives.

**Amortization of intangible assets.** Amortization of other intangible assets decreased \$0.2 million to \$0.25 million during the quarter ended June 30, 2009, when compared to the quarter ended June 30, 2008. This decrease was primarily attributable to the expiration of a non-compete covenant on December 31, 2008.

**Goodwill impairment charge.** Management concluded, with the assistance of an independent third-party valuation specialist, that as of June 30, 2009, the goodwill associated with the purchase of AGY Holding Corporation by KAGY Holding Company, Inc. in April 2006 was partially impaired due largely to the near-to-mid term business outlook associated with the global economic environment. As a result, the Company recognized a pre-tax goodwill impairment charge of \$44.5 million, classified in "loss from operations" in the second quarter of 2009.

**Other operating expense.** During the second quarter of 2009, other operating expense of \$0.2 million related primarily to \$0.8 million of acquisition-related costs, partially offset by a \$0.4 million gain recognized on the sale of excess alloy metals. During the second quarter of 2008, other operating income of \$0.3 million was primarily the result of the sale of an unused portion of land and building at the Aiken facility, partially offset by the Anderson contract termination costs.

**Interest expense.** Interest expense decreased \$0.7 million from \$6.0 million in the second quarter of 2008 to \$5.3 million for the three months ended June 30, 2009. The decrease was primarily due to the \$0.6 million of non-recurring fees and expenses incurred during the second quarter of 2008 in connection with the Company's S-4 Registration Statement that were not incurred in 2009.

**Income tax benefit.** Income tax benefit increased \$7.0 million from a \$0.4 million tax expense for the three months ended June 30, 2008 to a \$6.6 million tax benefit for the three months ended June 30, 2009, due to the higher pre-tax loss recognized in the second quarter of 2009. In addition, the effective tax rate decreased from 36.0% for the second quarter of 2008 to 10.7% for the second quarter of 2009 as a result of (i) the \$44.5 million goodwill impairment charge, which is not tax deductible for income tax purposes,



recognized during the second quarter of 2009, and (ii) management's determination that a significant portion of the acquisition transactional costs we expensed in 2009 as result of adopting the provisions of SFAS No 141(R) would not be tax deductible.

**Net loss.** As a result of the aforementioned factors, we reported a net loss attributable to AGY Holding Corp. of \$55.0 million for the three months ended June 30, 2009, compared to net income of \$0.8 million for the three months ended June 30, 2008.

**SIX MONTHS ENDED JUNE 30, 2009 COMPARED TO SIX MONTHS ENDED JUNE 30, 2008**

**Net sales.** Net sales decreased \$49.6 million, or 40.7%, to \$72.4 million for the six months ended June 30, 2009, compared to \$122.0 million during the comparable period of 2008. The global economic downturn and lower inventory levels held by our customers were the primary drivers of this decrease. Without taking account of the insignificant impact of the Chinese acquisition in early June 2009, volumes sold were down globally by 43% compared to the same period in 2008. The electronics, construction and industrial market revenues were down 51%, 38% and 35%, respectively, compared to the same period in 2008, as a result of soft demand. Aerospace sales decreased by 34% compared to the first half of 2008 reflecting softer demand, lower inventory levels in the supply chain, and decreased aircraft retrofit activity. Defense revenue decreased 33% in the first half of 2009 compared to the same period of 2008 as the result of the conclusion of the MRAP program during the first quarter of 2009.

**Gross profit/ loss.** We had a negative gross margin of \$0.7 million for the six months ended June 30, 2009, compared to a gross profit of \$21.6 million for the six months ended June 30, 2008. The negative gross margin in the first half of 2009 was driven largely by lower sales volumes, an unfavorable product mix, and expenses associated with management's decision to curtail production capacity and lower inventory levels in order to improve liquidity. These negative variances were partially offset by cost reduction initiatives including, but not limited to, the curtailment of discretionary spending, primary workforce furloughs and salaried headcount reductions.

**Selling, general and administrative expenses.** Selling, general and administrative costs decreased from \$9.4 million during the first half of 2008 to \$8.0 million during the six months ended June 30, 2009. This decrease reflects activities necessary to reduce the Company's cost structure and minimizing discretionary spending. Selling, general and administrative costs increased from 7.7% of net sales for the six months ended June 30, 2008 to 11.1% of net sales for the six months ended June 30, 2009.

**Restructuring charges.** For the six months ended June 30, 2009, we recognized \$0.7 million in restructuring charges primarily related to severance and outplacement costs for headcount reductions in connection with our structural cost-reduction initiatives.

**Amortization of intangible assets.** Amortization of other intangible assets decreased \$0.4 million to \$0.5 million during the six months ended June 30, 2009, when compared to the six months ended June 30, 2008. This decrease was primarily attributable to the expiration of a non-compete covenant on December 31, 2008.

**Goodwill impairment charge.** Management concluded, with the assistance of an independent third-party valuation specialist, that as of June 30, 2009, the goodwill associated with purchase of AGY Holding Corporation by KAGY Holding Company, Inc. in April 2006 was partially impaired due largely to the near-to-mid term business outlook associated with the global economic environment. As a result, the Company recognized a pre-tax goodwill impairment charge of \$44.5 million, classified in "loss from operations" in the second quarter of 2009.

**Other operating expense.** During the first half of 2009, other operating expense of \$1.9 million related primarily to (i) \$2.4 million of acquisition-related costs, including \$1.1 million of acquisition-related costs incurred and deferred at December 31, 2008 that were subsequently expensed on January 1, 2009 as a result of adopting SFAS No. 141(R), partially offset by (ii) a \$0.4 million book gain recognized on the sale of excess alloy metals during the first half of 2009. During the first half of 2008, other operating income of \$0.3 million was primarily the result of the sale of an unused portion of land and building at the Aiken facility, partially offset by the Anderson contract termination costs.

**Other non-operating income.** During the first half of 2009, other non-operating income of \$1.1 million was due to the net gain on the early extinguishment of debt associated with the purchase of \$3 million (face value) of our Notes. In the first half of 2008, other non-operating income of \$0.1 million was primarily due to realized and unrealized foreign exchange gains.



**Interest expense.** Interest expense decreased \$2.2 million from \$12.6 million in the first half of 2008 to \$10.4 million for the six months ended June 30, 2009. The decrease was due to \$2.2 million of non-recurring fees and expenses incurred during the first half of 2008 related to bondholders' consent solicitation for our Metal Consignment Facility amendment and the Company's S-4 Registration Statement.

**Income tax benefit.** Income tax benefit increased \$7.4 million from a \$0.3 million tax benefit for the six months ended June 30, 2008 to a \$7.7 million tax benefit for the six months ended June 30, 2009 due to the higher pre-tax loss recognized in the second quarter of 2009. In addition, the effective tax rate decreased from 38.1% for the first half of 2008 to 11.7% for the first half of 2009 as a result of (i) the \$44.5 million goodwill impairment charge recognized during the second quarter of 2009 that is not tax deductible, and (ii) management's determination that a significant portion of the acquisition transactional costs we expensed in 2009 as result of adopting the provisions of SFAS No 141(R) would not be tax deductible.

**Net loss.** As a result of the aforementioned factors, we reported a net loss attributable to AGY Holding Corp. of \$57.7 million for the six months ended June 30, 2009, compared to net loss of \$0.6 million for the six months ended June 30, 2008.

## LIQUIDITY AND CAPITAL RESOURCES

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

Our principal sources of liquidity are cash flows from operations and borrowings under our financing arrangements. Our need for liquidity will arise 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"), 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 Credit Facility or on the Notes scheduled prior to their maturity in October 2011 and November 2014, respectively.

At June 30, 2009, we had total liquidity of \$15.8 million, consisting of \$0.8 million of unrestricted cash and approximately \$15.0 million of borrowing availability under the Credit Facility. Based upon our current and anticipated levels of operations, we believe, but can not guarantee, that our cash flows from operations and investing activities, together with availability under our Credit Facility, will be adequate to meet our liquidity needs for the next twelve months and the foreseeable future. However, this forward-looking statement is subject to risks and uncertainties. See "Forward-Looking Statements" and "Item 1A. Risk Factors." of our 2008 Form 10-K.

### *AGY China's Liquidity*

AGY China's sources of liquidity are cash flows from operations and borrowings under approximately \$52.2 million of non-recourse financing arrangements with the Bank of Shanghai ("Shanghai Credit Facility"). The need for liquidity will arise primarily from interest and principal payments on the Shanghai Credit Facility and the funding of capital expenditures, alloy metals, strategic initiatives, normal recurring operating expenses and working capital requirements. There are semi-annual mandatory payments of principal on the term loan borrowings in the amounts described below under "Financial Obligations and Commitments", beginning in April 2010.

### *Working capital*

Working capital is defined as total current assets, excluding unrestricted cash, less total current liabilities, including the short-term borrowings and current portion of long-term debt. We had working capital of \$34.2 million and \$36.9 million on June 30, 2009 and December 31, 2008, respectively. The decrease relates primarily to a \$2.8 million working capital deficiency of to AGY China. For the non China related operations, the \$2.0 million decrease in accounts receivable and \$2.9 million decrease in inventory was offset by a \$1.0 million decrease in accounts payable and a \$3.8 million decrease in accrued liabilities.

### *Other balance-sheet items*

**Net Property, Plant and Equipment and Alloy Metals.** Net property, plant and equipment and alloy metals increased \$58.7 million from December 31, 2008 to June 30, 2009, primarily due to the \$68.5 million of net preliminary estimated fair value of property, plant and equipment and alloy metals acquired in the Chinese business combination in June 2009. The remainder is the result of \$9.9 million of depreciation and alloy metals depletion expenses and the sale of \$7.3 million of excess alloy metals at book value, partially offset by \$7.4 million of capital expenditures including accrued construction in progress.



*Long Term Debt.* Long-term debt increased \$37.3 million from December 31, 2008 to June 30, 2009 as a result of \$32.6 million of long-term debt attributable to AGY China and a \$4.7 million increase in borrowings under our Credit Facility necessary to fund the operating cash flow requirements and capital expenditures made during the first six months of 2009.

***Six months ended June 30, 2009 compared to six months ended June 30, 2008***

Cash used by operating activities was \$9.7 million for the six months ended June 30, 2009, compared to cash provided by operating activities of \$13.4 million for the six months ended June 30, 2008. The \$23.1 million decrease in operating cash flows during the first half of 2009 was driven largely by the net loss adjusted for non-cash items recognized during the first half of 2009.

Cash used in investing activities was \$18.9 million for the six months ended June 30, 2009, compared to \$30.1 million for the six months ended June 30, 2008. This decrease was due to (i) the purchase of \$25.1 million of alloy metals in the first half of 2008, compared to the sale of \$7.6 million of excess alloy in the first half of 2009, partly offset by (ii) the \$18.0 million payment for the majority interest of AGY China, net of cash acquired in June 2009, and (iii) a \$2.8 million increase in purchases of property, plant and equipment to support strategic initiatives in the first half of 2009.

Cash provided by financing activities was \$25.8 million for the six months ended June 30, 2009, compared to \$13.0 million for the six months ended June 30, 2008. This increase was due primarily to (i) a \$20.0 million equity infusion by Kohlberg & Company, LLC to fund the AGY China acquisition in June 2009, partially offset by (ii) the \$1.8 million cash outflow for the repurchase of \$3 million of Notes (face value) in the first quarter of 2009, and (iii) a \$5.5 million decrease in revolver borrowings in the first half of 2009 compared to the first half of 2008.

***Indebtedness***

***North America***

For our North American based operations, our principal sources of liquidity have been cash flow generated from operations, borrowings under our \$40 million Credit Facility, the issuance of \$175 million (\$172 million outstanding) in aggregate principal amount of Notes due 2014 and our cash on hand.

Our Credit Facility matures in 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 market-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 also includes customary events of default, including a default upon a change of control.



As of June 30, 2009, we had utilized approximately \$0.9 million of the Credit Facility for the issuance of standby letters of credit and had \$24.0 million cash borrowings outstanding, leaving \$15.0 million available for additional borrowings.

In connection with our acquisition of a 70% interest in AGY Hong Kong Ltd., as described in Note 2 to the accompanying unaudited interim consolidated financial statements, we amended our credit agreement in order to obtain the necessary approval of the revolving credit lenders. As a result of the amendment, 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 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 key 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. As discussed in Note 8 to these interim consolidated financial statements, we consummated an exchange offer of the Old Notes in June 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 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 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.

In February 2009, we repurchased \$3.0 million face amount of Notes for \$1.8 million plus accrued interest and commission, 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 June 30, 2009, the estimated fair value of the Notes was \$135.5 million compared to a recorded book value of \$172 million.

#### *China*

Bank debt assumed in the acquisition of AGY China was \$37.6 million at June 30, 2009, of which \$34.1 million was refinanced on a long-term basis on July 10, 2009 as discussed below. Accordingly \$34.1 million was classified as long-term debt and \$3.5 million remained classified as short-term debt at June 30, 2009.

On July 10, 2009, AGY Shanghai entered into a financing arrangement with the Bank of Shanghai ("Shanghai Credit Facility"). The arrangement consists of a five-year term loan in the aggregate amount of \$40.5 million, a one-year working capital loan facility in the aggregate amount of approximately \$11.7 million and a one-year letter of credit facility in the amount of \$2.0 million. As discussed above, proceeds from the loans were used, in part, to repay the \$37.6 million outstanding under AGY Shanghai's prior credit agreements.

The term loan is secured by AGY Shanghai's building 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.



The working capital loan 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%. Working capital loan borrowings may be made in both local currency and US Dollars, up to certain limits.

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, 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 June 30, 2009.

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

Prior to the acquisition date, AGY Shanghai also entered into a working capital unsecured loan with Shanghai Grace Fabric Corporation, a predecessor sister company. The \$12.4 million outstanding under this loan at the acquisition date and at June 30, 2009 was repaid in July 2009, using, in part, restricted cash for such repayment. The \$12.4 million loan was classified as short-term borrowings at June 30, 2009.

**FINANCIAL OBLIGATIONS AND COMMITMENTS**

As of June 30, 2009, accounts payable obligations totaled \$11.5 million.

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 Shanghai Credit Facility, which is a non-recourse debt to AGY Holding Corp., includes an \$11.7 million working capital loan facility that matures in 2010 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):

2009	\$ —
2010	5.1
2011	8.1
2012	9.9
2013	11.3
2014	6.1
	<u>\$40.5</u>

The \$12.4 million outstanding at June 30, 2009 under the working capital unsecured loan granted to AGY Shanghai by Shanghai Grace Fabric Corporation, a predecessor sister company prior to the acquisition date was repaid in full in July 2009, using, in part, restricted cash of \$10.9 million for such repayment.

We are obligated to make approximately \$1.8 million minimum purchases of marbles from OC during the remainder of 2009.

We also have several short-term operating leases for alloy metals and we 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 China, 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 China, 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 China and the put option first becomes exercisable only upon the first anniversary of the acquisition or, if earlier, in June 2010. 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 before 2011. If the acquisition of the non-controlling 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.





### 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 these costs through price increases to our customers.

### 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; interest rate and foreign exchange rate fluctuations; the loss of key members of our management; an inability to comply with environmental, health or safety laws; 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 Disclosure About Market Risk

#### INTEREST RATE RISK

We are subject to interest rate risk in connection with our debt facilities. Our principal interest rate exposure relates to the \$40 million Credit Facility and the Shanghai Credit Facility. Assuming these facilities are fully drawn, each quarter point change in interest rates would result in approximately a \$0.21 million annual change in interest expense associated with the debt facilities.

#### 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 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 of these metals.

#### FOREIGN EXCHANGE RISK

We are subject to inherent risks attributed to operating in a global economy. All of our debt and most of our costs are denominated in U.S. dollars. Approximately 3% percent of our sales are denominated in currencies other than the U.S. dollar. Although our level of foreign currency exposure is limited, we may utilize derivative financial instruments to manage foreign currency exchange rate risks.

We are 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.



**ITEM 4T. – 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 June 30, 2009 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 August 18, 2009, there have been no material changes to the risk factors disclosed under the heading “Risk Factors” in our 2008 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**

<b>Exhibit Number</b>	<b>Description</b>
3.1	Restated Certificate of Incorporation of AGY Holding Corp. (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.2	By-laws of AGY Holding Corp. (incorporated by reference to Exhibit 3.2 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.3	Certificate of Formation of AGY Aiken LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.4	Limited Liability Company Agreement of AGY Aiken LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.5	Certificate of Formation of AGY Huntingdon LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.6	Limited Liability Company Agreement of AGY Huntingdon LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
10.1	Sale and Purchase Agreement by and among Grace Technology Investment Co., Ltd., Grace THW Holding Limited, and AGY (Cayman) dated as of March 12, 2009 (incorporated by reference to Exhibit 10.34 of Form 10-K (File No. 333-150749) filed March 25, 2009)
10.2	Framework Agreement by and among Grace THW Holding Limited, Grace Technology Investment Co., Ltd., AGY Holding Corp., AGY (Cayman), Main Union Industrial Ltd., and Shanghai Grace Technology Co., Ltd., dated as of March 12, 2009 (incorporated by reference to Exhibit 10.35 of Form 10-K (File No. 333-150749) filed March 25, 2009)
10.3	Shareholders’ Agreement by and among Grace Technology Investment Co., Ltd., AGY (Cayman), and Main Union Industrial Ltd. (which will change its name to AGY Hong Kong Ltd.), dated as of June 10, 2009. ‡
10.4	Option Agreement by and among Grace Technology Investment Co., Ltd., AGY Cayman, and Main Union Industrial Ltd. (which will change its name to AGY Hong Kong Ltd.), dated as of June 10, 2009. ‡
10.5	Amendment No. 3 and Consent by and among AGY Holding Corp., Aiken LLC, AGY Huntingdon LLC, KAGY Holding Company, Inc., UBS Securities LLC, UBS Loan Finance LLC, UBS AG, Stamford Branch, as administrative and collateral agent on behalf of the lenders, and the lenders party thereto, dated as of June 8, 2009. ‡
31.1	Certification by Douglas J. Mattscheck pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ‡
31.2	Certification by Wayne T. Byrne pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ‡
32.1	Certification by Douglas J. Mattscheck 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. ‡
32.2	Certification by Wayne T. Byrne 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. ‡
‡	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: August 19, 2009

By: /s/ Wayne T. Byrne  
Wayne T. Byrne  
Chief Financial Officer



EXHIBIT INDEX

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of AGY Holding Corp. (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.2	By-laws of AGY Holding Corp. (incorporated by reference to Exhibit 3.2 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.3	Certificate of Formation of AGY Aiken LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.4	Limited Liability Company Agreement of AGY Aiken LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.5	Certificate of Formation of AGY Huntingdon LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
3.6	Limited Liability Company Agreement of AGY Huntingdon LLC (incorporated by reference to Exhibit 3.1 of Form S-4 (File No. 333-150749) filed May 8, 2008)
10.1	Sale and Purchase Agreement by and among Grace Technology Investment Co., Ltd., Grace THW Holding Limited, and AGY (Cayman) dated as of March 12, 2009 (incorporated by reference to Exhibit 10.34 of Form 10-K (File No. 333-150749) filed March 25, 2009)
10.2	Framework Agreement by and among Grace THW Holding Limited, Grace Technology Investment Co., Ltd., AGY Holding Corp., AGY (Cayman), Main Union Industrial Ltd., and Shanghai Grace Technology Co., Ltd., dated as of March 12, 2009 (incorporated by reference to Exhibit 10.35 of Form 10-K (File No. 333-150749) filed March 25, 2009)
10.3	Shareholders' Agreement by and among Grace Technology Investment Co., Ltd., AGY (Cayman), and Main Union Industrial Ltd. (which will change its name to AGY Hong Kong Ltd.), dated as of June 10, 2009. ‡
10.4	Option Agreement by and among Grace Technology Investment Co., Ltd., AGY Cayman, and Main Union Industrial Ltd. (which will change its name to AGY Hong Kong Ltd.), dated as of June 10, 2009. ‡*
10.5	Amendment No. 3 and Consent by and among AGY Holding Corp., Aiken LLC, AGY Huntingdon LLC, KAGY Holding Company, Inc., UBS Securities LLC, UBS Loan Finance LLC, UBS AG, Stamford Branch, as administrative and collateral agent on behalf of the lenders, and the lenders party thereto, dated as of June 8, 2009. ‡
31.1	Certification by Douglas J. Mattscheck pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ‡
31.2	Certification by Wayne T. Byrne pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. ‡
32.1	Certification by Douglas J. Mattscheck 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. ‡
32.2	Certification by Wayne T. Byrne 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. ‡

‡ Filed herewith.

\* Confidential treatment has been requested as to certain portions of the document, which portions have been omitted and filed separately with the Securities and Exchange Commission.



**Exhibit 10.3**

THIS SHAREHOLDERS' AGREEMENT (this "**Agreement**") is made the 10th day of June, 2009 (the "**Effective Date**").

BETWEEN:

- (1) **Grace Technology Investment Co., Ltd.**, a company incorporated in British Virgin Islands whose registered office is P.O. Box 957, offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands, British West Indies ("**Grace**");
- (2) **AGY (Cayman)**, a company incorporated in the Cayman Islands whose registered office is at Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands ("**AGY**"); and
- (3) **Main Union Industrial Ltd.**, a company incorporated in Hong Kong whose registered office is at Suite 1112A, Ocean Centre, Harbour City, 5 Canton Road, Kowloon, Hong Kong, which promptly after the Effective Date will change its name to **AGY Hong Kong Ltd.** (the "**Company**").

WHEREAS:

- (A) Grace and AGY desire to enter into a joint venture relationship that has as its principal purpose the development, manufacture, distribution and sale of certain glass yarn products (the "**Joint Venture**").
- (B) Grace Holdings (as defined below), Grace, AGY Holding Corp., AGY, the Company and the PRC Affiliate (as defined below) have entered into that certain Framework Agreement dated 12th March, 2009 (the "**Framework Agreement**") and the other agreements referenced therein, which contemplate that the Business (as defined below) of the Joint Venture will be conducted by the Company and the PRC Affiliate, and that AGY will hold a majority interest of the Company and Grace will own a minority interest in the Company, subject to certain options as described in the Option Agreement (as defined below).
- (C) Grace Holdings, Grace, and AGY have entered into a sale and purchase agreement (the "**Share Sale Agreement**") dated 12th March, 2009 pursuant to which AGY has agreed to purchase from Grace, and Grace has agreed to sell, upon the terms and conditions therein, a 70% equity interest in the Company.
- (D) The parties hereto agree to enter into this Agreement for the purposes of regulating the business, affairs and management of the Company and the PRC Affiliate (as defined below) as from the Effective Date.



NOW IT IS HEREBY AGREED as follows:

**1. INTERPRETATION**

In this Agreement, including the Recitals, the following expressions shall, except where the context otherwise requires, have the following meanings:

“**Affiliate(s)**” means in relation to any specified body corporate or Person, any other body corporate, unincorporated entity or Person directly or indirectly Controlling, directly or indirectly Controlled by or under direct or indirect common Control with such specified body corporate or Person;

“**Articles**” means the Articles of Association of the Company, as amended from time to time;

“**Asia**” means the commercial and business territory defined by the primary yarn consuming countries between the western coast of the Pacific Ocean and 100°E Longitude. Notwithstanding anything in the foregoing sentence to the contrary, (a) Asia includes, without limitation, PRC, Hong Kong, Japan, South Korea, Singapore, Malaysia, Indonesia, Macau, Brunei, Cambodia, Laos, Mongolia, Australia, New Zealand, the Philippines, Thailand, and Vietnam; and (b) Asia excludes, without limitation, North and South America, Europe, Africa, India, the Middle East, Russia, North Korea, Burma, and Taiwan; *provided that* Taiwan will be included in the definition of Asia at such time that the Company is permitted to sell to customers in Taiwan under all applicable laws and regulations;

“**Basic Documents**” means the documents agreed by the Parties to be of essential importance to the arrangements contemplated herein, being the Framework Agreement, Share Sale Agreement, Option Agreement, Intellectual Property Licence Agreement, Intercompany Agreement, Mutual Distributorship Agreement, Supply Agreement, Local Site Services Agreement, and the Technical Services Agreement (each as defined in the Framework Agreement) and all other documents incidental to the consummation of the transactions contemplated under the aforesaid documents;

“**Big 4 Accounting Firm**” means KPMG, PricewaterhouseCoopers, Deloitte Touche Tohmatsu or Ernst & Young, or any other internationally recognized accounting firm as may be agreed to by the Parties from time to time;

“**Board**” means the Board of Directors of the Company;

“**Business**” means manufacturing electronic grade direct melt E-Glass glass yarn and selling such products as conducted by the PRC Affiliate and the Company and as proposed to be conducted as of the Effective Date in accordance with the Basic Documents, and as otherwise may be determined by the Board following the Effective Date;

“**Business Day**” means any day other than a Saturday, Sunday or other day on which commercial banks in the PRC or



Hong Kong are required or authorized by law or executive order to be closed or on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m. Hong Kong time;

**"Competing Business"** means any business competing with the Business, including producing or selling glass fibre;

**"Completion"** has the meaning set forth in the Share Sale Agreement;

**"Completion Date"** has the meaning set forth in the Share Sale Agreement;

**"Confidential Information"** has the meaning set forth in the Framework Agreement;

**"Control"** means, in relation to a specified body corporate or Person, the power of any other Person directly or indirectly to secure that the affairs of such specified body corporate or Person are conducted in accordance with the wishes of that other Person:

- (i) by means of the holding of Equity Securities or the possession of voting power (either at the shareholder, director or other comparable level) in or in relation to that specified body corporate or Person or an intermediate Person; or
- (ii) by virtue of any powers conferred by the memorandum and articles of association or by-laws or other similar documents regulating that specified body corporate or Person or an intermediate Person;

**"Deferred Consideration Payment Notice"** means the Deferred Consideration Payment Notice under the Share Sale Agreement.

**"Director"** means any director of the Company and where applicable, any alternate director;

**"Encumbrance"** means any mortgage, charge, pledge, lien (otherwise than arising by statute or operation of law), hypothecation, equities, adverse claims, or other encumbrance, priority or security interest, over or in any property, assets or rights of whatsoever nature or interest or any agreement for any of the same and **"Encumber"** shall be construed accordingly;

**"Equity Securities"** means, with respect to any Person, such Person's capital stock, membership interests, partnership interests, registered capital, joint venture or other ownership interests or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such capital stock, membership interests, partnership interests, registered capital or joint venture or other ownership interests (whether or not such derivative securities are issued by such Person);





“**Governmental Authority**” means any government or political subdivision thereof; any department, agency or instrumentality of any government or political subdivision thereof; any court or arbitral tribunal; and the governing body of any securities exchange, in each case having competent jurisdiction;

“**Grace Fabric**” means Shanghai Grace Fabric Co., Ltd;

“**Grace Holdings**” means Grace THW Holding Limited, a company incorporated in the Cayman Islands, being the parent company of Grace;

“**Group Companies**” means the Company and the PRC Affiliate and “**Group Company**” means any of them;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the PRC;

“**Inter-Company Funding**” has the meaning ascribed to it in the Share Sale Agreement.

“**New Funding Arrangements**” means the New Funding Arrangements under the Share Sale Agreement.

“**New Funding Notice**” means the New Funding Notice under the Share Sale Agreement.

“**Memorandum**” means the Memorandum of Association of the Company, as amended from time to time;

“**Options**” has the meaning set forth in the Option Agreement;

“**Option Agreement**” means the Option Agreement made between AGY, Grace and the Company pursuant to which Grace has agreed to grant AGY a call option and AGY has agreed to grant Grace a put option, in respect of the Remaining Grace Interest in the Company;

“**Option Exercise Date**” means the date on which AGY exercises its call option or Grace exercises its put option in accordance with the terms of the Option Agreement;

“**Party**” means one of the parties to this Agreement;

“**Person**” means any natural person, firm, company, Governmental Authority, joint venture, partnership, association or other entity (whether or not having separate legal personality);

“**PRC**” means the People’s Republic of China and for the purposes of this Agreement excludes Taiwan and the Special Administrative Regions of Hong Kong and Macau;



**“PRC Affiliate”** means Shanghai Grace Technology Co., Ltd (上海宏联电子材料有限公司), the particulars of which are set out in Schedule 2 to the Share Sale Agreement, which promptly after the Effective Date will change its name as contemplated in Clause 2.2;

**“Refinancing Arrangements”** means the new financing arrangements currently expected to be entered into by the PRC Affiliate with Bank of Shanghai following Completion pursuant to which the PRC Affiliate’s existing bank debt will be refinanced and a new loan of not less than US\$52,000,000 shall be extended to the PRC Affiliate;

**“Related Person”** means (i) any shareholder, director, or officer of AGY or Grace or any Affiliate of either of them, (ii) any relative of such shareholders, directors or officers, (iii) any Person in which any shareholder, director or officer of the AGY or Grace owns Equity Securities, other than a passive shareholding of less than two percent (2%) in a publicly listed company, or over which a Related Person exercises, or all Related Persons together can exercise, control or significant influence through voting, position or ownership, or its Affiliate and (vi) any other Affiliate of the AGY or Grace;

**“Remaining Grace Interest”** means the Shares held by Grace as of the date of the Agreement or such other Equity Securities in the Company as Grace may hold as at the Option Exercise Date;

**“Senior Management”** means Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and any other senior executives;

**“Shares”** means the common shares of par value of HK\$1.00 each in the capital of the Company carrying the rights and privileges as set forth in the Articles;

**“Shareholders”** means any or all of those Persons at any time holding any Shares in the Company;

**“Subscription Shares”** means the Subscription Shares issuable pursuant to the Share Sale Agreement;

**“Transfer”** means to transfer, sell, assign, pledge, hypothecate, give, create a security interest in or lien on, place in trust (voting or otherwise), transfer by operation of law (other than a merger or consolidation of the Company) or in any other way Encumber or dispose of, directly or indirectly and whether or not voluntarily, any Equity Securities;

**“Warranties”** means the representations, warranties and undertakings given or made by Grace and/or Grace Holdings and contained in the Share Sale Agreement including, without limitation, those warranties, representations, indemnities and undertakings as set out in Clause 9 of, and Schedule 5 to, the Share Sale Agreement;



In this Agreement:

- (i) references to this Agreement include the Schedules, Exhibits and Appendices, which form an integral part hereof. A reference to any Clause, Schedule, Exhibit or Appendix is, unless otherwise specified, to such Clause of, or Schedule, Exhibit or Appendix to, this Agreement. The words “hereof,” “hereunder” and “hereto,” and words of like import, unless the context requires otherwise, refer to this Agreement as a whole and not to any particular Clause hereof or Schedule, Exhibit or Appendix hereto. A reference to any document (including this Agreement) is to that document as amended, consolidated, supplemented, novated or replaced from time to time;
- (ii) references to “law” shall include all applicable laws, regulations, rules and orders of any Governmental Authority, including any common or customary law, constitution, code, ordinance, statute or other legislative measure and any regulation, rule, treaty, order, decree or judgment; and “lawful” shall be construed accordingly;
- (iii) references to any statutory provision or any law, rule or regulation (whether or not having the force of law) shall be construed as references to the same as amended, varied, modified, consolidated or re-enacted from time to time and to any subordinate legislation made under such statutory provision;
- (iv) words importing the singular include the plural and vice versa, words importing one gender include every gender, and references to persons include bodies corporate and unincorporated;
- (v) headings are for ease of reference only and shall not affect the interpretation of this Agreement;
- (vi) references to writing include any mode of reproducing words in a legible and non-transitory form;
- (vii) the expression “Shareholders” shall, where the context permits, include their respective successors, assigns and personal representatives (where applicable);
- (viii) all references to the “right to nominate” mean and include the exclusive right to vote for the appointment and removal of person(s), and a person (A) “nominated by” another person (B) means the exercise by person (A) of such exclusive right to vote for the appointment or removal of person (B), and “nominate” shall be construed accordingly;
- (ix) any reference to a number or price of Shares shall be appropriately adjusted to reflect any share split, share consolidation, share dividend, share reclassification, reorganization, capitalization issuance or similar transaction affecting the share capital of the Company;



- (x) if a period of time is specified and dates from a given day or the day of a given act or event, such period shall be calculated exclusive of that day; if the day on or by which something must be done is not a Business Day, that thing must be done on or by the Business Day immediately following such day;
- (xi) references to the provision of written or verbal materials (including notices, reports, circulars, papers and correspondence) by, between or among the Company, the Shareholders and the Directors means communications using the English language (unless specifically authorized herein to be provided in one or more languages); and
- (xii) the phrase “directly or indirectly” means directly, or indirectly through one or more intermediate persons or through contractual or other arrangements, and “direct or indirect” has the correlative meaning.

## **2. BUSINESS OF THE GROUP COMPANIES**

- 2.1 The Company shall procure that the PRC Affiliate will not conduct any business or activity other than the sale, distribution and manufacturing of glass fibre products as permitted by its business licence.
- 2.2 Promptly after the Effective Date, and in any event within thirty (30) days after the Effective Date, the Company shall change its name to “AGY Hong Kong Ltd.”, and within sixty (60) days after the Effective Date, the Company shall cause the PRC Affiliate to change its name to “AGY Shanghai Technology Co., Ltd.” (上海AGY电子材料有限公司) or such other Chinese name as AGY may choose and the PRC authorities may approve. The Parties will use good faith efforts to design a special logo for the Company and the PRC Affiliate to use during the period prior to the exercise of one of the Options, reasonably agreeable to both AGY and Grace in which the “G” in “AGY” is larger than “A” and “Y”.

## **3. SHARE CAPITAL OF THE COMPANY**

### **3.1 Authorized Capital.**

As of the Effective Date, the authorised capital of the Company is HK\$20,000 divided into 20,000 Shares of HK\$1.00 each. 20,000 Shares have been issued of which AGY holds 14,000 Shares and Grace holds 6,000 Shares.

### **3.2 Equity Ownership by the Parties.**

As of the Effective Date the equity ownership structure in the Company shall be that AGY owns seventy percent (70%) and Grace owns thirty percent (30%) of the Company’s outstanding Equity Securities.



### 3.3 Option and Adjustment in Equity Ownership

AGY, Grace and the Company acknowledge that they have entered into the Option Agreement and that the initial equity structure described in Clause 3.2 above is subject to change through the exercise of an Option.

AGY, Grace and the Company further acknowledge that the initial equity structure described in Clause 3.2 above may also be subject to adjustment if the Subscription Shares are issued.

## 4. **BOARD CONSTITUTION AND BOARD AND SHAREHOLDERS' MEETINGS**

- 4.1 The number of Persons comprising the Board shall be five (5), of which three (3) shall be nominated by AGY and two (2) shall be nominated by Grace. The PRC Affiliate (after amendment of its articles of association with which Grace hereby agrees to assist, support and take all necessary corporate steps to achieve) shall have a sole Executive Director who shall be appointed by the Board. Each Party's right to nominate Directors will roughly reflect its relative ownership percentage of the Company and the constitution of the Board shall be adjusted in accordance with the shareholding proportion when further fundraising occurs or the shareholding structure of the Company changes after any Option Exercise Date.
- 4.2 A Director shall be removed from the Board, with or without cause, upon, and only upon, the affirmative vote of the Shareholders in accordance with this Clause. Each Shareholder shall vote for the removal of such Director upon the request of the Shareholder that nominated such Director. Otherwise, no Shareholder shall vote for the removal of such Director.
- 4.3 In the event any Director resigns or is removed in accordance with Clause 4.2, the Shareholder that nominated such Director will have the right to nominate such Director's successor or replacement, and such successor or replacement Director shall be nominated and elected on or as soon as practicable after the date of such resignation or removal.
- 4.4 Each Director may, by giving written notification to the Company Secretary, nominate any other Person (including another Director) to be his alternate for such period of time as may be specified therein, and may in like manner at any time terminate such appointment in accordance with the Articles. If such alternate Director is a Director himself, such alternate Director would, for the purposes of quorum and voting, count for himself and, in addition, the Person for whom he is an alternate.
- 4.5 Each Director shall be entitled to, and the Shareholders shall ensure that each Director shall be entitled to, examine the books and accounts of the Company and have free access, at all reasonable times, to any and all properties and facilities of the Company and the PRC Affiliate. The Shareholders shall procure that the Company shall provide such available information relating to the business affairs and financial position of the Company and the PRC Affiliate as any Director may reasonably require. A Director may provide such information to the Shareholders who nominated the Director.



4.6 Save for matters stated herein as requiring Shareholder consent:

- (i) the Board shall have ultimate responsibility for management and operation of the Company and the PRC Affiliate; and
- (ii) the Board shall be required to make all major decisions of the Company and the PRC Affiliate and all decisions outside the day to day business of the Company and the PRC Affiliate. All matters in respect of such decisions must be referred to the Board, and no Shareholder or officer of the Company or the PRC Affiliate shall take any actions purporting to commit the Company or PRC Affiliate in relation to any such matters without the approval of the Board. Each Shareholder shall cause the Director nominated by it, if any, not to take any such actions or authorize any officers to take any such actions without the approval of the Board.

4.7 The Chairman of the Board shall be selected by a majority vote of the Directors.

4.8 Meetings of the Board shall take place as frequently as required to operate the business of the same in an efficient manner but in any case shall take place generally at least once in every three (3) month period. Meetings shall be conducted in English and held in a location approved by a majority of the Directors of the Company having regard to potential tax consequences to the Group Companies of having meetings in such location. Either Party may bring a Chinese translator to meetings of the Board. Minutes of each Board meeting shall be written in the English language and translated to Chinese.

4.9 In relation to meetings of the Board, a meeting may be called by the Chairman of the Board or by any Director of the Company giving notice in writing to the Company Secretary or Chairman specifying the date, time and agenda for such meeting. The Company Secretary or Chairman shall upon receipt of such notice give a copy of such notice by registered post to all Directors at such addresses that the Directors shall inform the Company in writing from time to time of such meeting, accompanied by a written agenda specifying the business of such meeting and copies of all papers relevant for such meeting. A copy of such notice shall be provided as well by electronic mail or facsimile at the address or number, as the case may be, provided by the Directors. Not less than fourteen (14) Business Days' notice shall be given to all Directors; provided, however, that such notice period may be reduced with the written consent of all of the Directors.

4.10 All meetings of the Board shall require a quorum of at least a majority of the Directors attending in person or by proxy; provided, however, that the quorum must include one Director nominated by Grace if there is at least one nominated by Grace and one Director nominated by AGY if there is at least one nominated by AGY. Notwithstanding the foregoing, if such a quorum is not present within one hour from the time appointed for the meeting of the Board, such Board meeting shall be



adjourned to a meeting to be held on the 10th Business Day following such meeting at the same time and place of such meeting, and any Director present at such second meeting shall constitute a quorum.

- 4.11 At any Board meeting of the Company each Director may exercise one vote. Any Director may, by written notice to the Company Secretary, authorize another Director to attend and vote by proxy for such Director at any such meetings.
- 4.12 Except as otherwise provided in this Clause 4.12, all decisions of the Board of the Company should be made by a simple majority vote of the Directors present at a meeting at which a quorum has been achieved. However, decisions of the Board with respect to the following matters will require the unanimous vote of the Directors present at a meeting at which a quorum has been achieved:
- (i) Any amendment to this Agreement (except to implement the terms and conditions upon which any new Equity Securities of the Company or the PRC Affiliate are issued in accordance with this Agreement) or the Memorandum and the Articles;
  - (ii) The termination or dissolution of the Company; and
  - (iii) The change of the Company's name.
- 4.13 If the agenda for any meeting of the Directors contemplates that the Board will take action with respect to any of the following material transactions:
- (i) the issuance of new shares or alteration of the equity structure of the Company (other than as provided in this Agreement, the Option Agreement, or the Share Sale Agreement);
  - (ii) any merger, or sale of the equity or substantially all the assets of the Company;
  - (iii) the acquisition of any material business;
  - (iv) the incurrence of material debt, other than trade debt incurred in the ordinary course of business;
  - (v) any capital expenditure in excess of US\$1 million;
  - (vi) the lease or acquisition of real property; or
  - (vii) any confirmation requested by either Party as to the calculation or treatment of Non-Reoccurring Items or Occasional Items (each as defined in the Option Agreement).

then the Director nominated by Grace may, by providing written notice to AGY, request that that the Chief Executive Officers of each of Grace Holdings and AGY Holding Corp. meet in person or by phone to discuss any such matter in advance of such



Directors' meeting. In such event, the Chief Executive Officers shall meet in person or by phone within thirty (30) days of AGY's receipt of such request, and the meeting of the Board will be delayed until such meeting takes place or until the expiration of such thirty (30) day period in the event that the Chief Executive Officer of Grace Holdings does not make himself reasonably available during such period. In no event, however, will this Clause 4.13 be interpreted as requiring more than a majority vote of the Board on such matters or limiting the discretion of the Directors nominated by AGY.

- 4.14 Directors may participate in Board meetings by telephone, and such participation shall constitute presence for purposes of the quorum provisions of Clause 4.10 and the Company shall ensure that (i) each such Director is able to hear all other Directors and (ii) if such Director wishes, he is able to address other Directors. Each of AGY and Grace shall have the right to have one or more of observers attend the meetings of the Board upon advance written notice to the Board. The individual observers who are not employees of AGY or Grace or a Related Person shall be subject to the reasonable approval of the Board.
- 4.15 The Company shall reimburse the Directors quarterly for, and hold the Directors harmless against liability for the payment of, all of the Directors' reasonable out-of-pocket costs, fees and expenses incurred in connection with or related to attending meetings of the Board, the Shareholders' investment in the Company and travelling to and within China and Hong Kong, including all reasonable travel, lodging and related expenses incurred by the Directors during business trips to and within China and Hong Kong which are attributable to the Shareholders' investment in the Company.
- 4.16 Any action that may be taken by the Directors at a meeting may be taken by a written resolution prepared in English signed by all of the Directors.
- 4.17 Subject to other provisions of this Agreement, the Board shall have the authority to determine the extent of, and the means of satisfying, any future funding needs of the Company or, as the case may be, the PRC Affiliate, and shall have the discretion to determine the terms of any future issuance of securities or incurrence of indebtedness by the Company; provided, however, that no Shareholder shall have any obligation to provide any indemnity, guarantee or other security to any other Shareholder or any third party in support of loans, overdraft facilities, borrowings or other financial arrangements entered into, required by or otherwise procured for the Company.
- 4.18 The Board shall give not less than fourteen (14) Business Days notice of meetings of Shareholders to those Persons whose names on the date the notice is given appear as Shareholders in the share register of Company and are entitled to vote at the meeting.
- 4.19 The notice provisions described above as applicable to a Board meeting shall also apply to a Shareholders' meeting. The quorum of Shareholders' meetings shall be all Shareholders or their authorized representatives/proxies. A quorum must be present at the beginning of and throughout each meeting. For the time of the meeting:-
- (i) if within thirty (30) minutes from the time appointed for a meeting a quorum is not present, the meeting shall stand adjourned until the same time and place on the same day in the next week;





- (ii) if at such adjourned meeting a quorum is not present within thirty (30) minutes from the time appointed for such adjourned meeting (or such longer interval as the chairman of the meeting may think fit to allow), the meeting shall stand further adjourned until the same time and place on the same day in the next week; and
- (iii) if at the second adjourned meeting a quorum is not present within thirty (30) minutes from the time appointed for such meeting (or such longer interval as the chairman of the meeting may think fit to allow), any Shareholder present shall constitute a quorum.

4.20 A Shareholder or its authorised representative/proxy at the meeting of Shareholders may participate in the meeting of Shareholders by means of telephone conference or similar means of communication and any Person participating in a meeting of the Shareholders in such manner shall be deemed to be present in person at such meeting and shall be taken into account for the purpose of a quorum and can take part in the vote. The Company shall ensure that (i) each such Shareholder is able to hear all other Shareholders and (ii) subject to the same treatment of Shareholders present at the meeting in person, if such Shareholder wishes, he is able to address other Shareholders.

The Chairman of the Board from time to time shall preside as Chairman at every Shareholders' meeting. Any resolution proposed at any Shareholders' meeting shall be decided by a simple majority of votes by the voting Shareholders except where a greater majority is required or required otherwise by this Agreement and/or the Articles. In the case of an equality of votes, the Chairman shall have no casting vote. Shareholders' resolutions may be passed by written resolution prepared in English and Chinese languages, circulated and signed by all the Shareholders. Any such resolution may consist of several documents in like form each signed by one or more Shareholders.

- 4.21 Each Shareholder shall exercise any voting rights or other powers of control so as to ensure the passing of resolution(s) necessary or appropriate to enable the affairs of the Group Company to be conducted in accordance with the provisions of this Agreement or to give full effect to the provisions of this Agreement, and to ensure that no resolution which does not accord with such provisions will be passed.
- 4.22 The Shareholders and the Company shall, so far as is practicable, procure that the provisions of Clause 4 shall apply in accordance with the Articles of Association of the PRC Affiliate (to the extent permissible under applicable laws).



- 4.23 Unless otherwise expressly required by laws or as set out in this Agreement for which the Shareholders' approval is required, all other matters relating to the Company or the PRC Affiliate shall be decided by the Board, and the Board shall have full powers to do so.
- 4.24 The Shareholders shall vote for any decision made by the Board in accordance with this Agreement if such decision shall be required by the applicable laws to be passed at the general meeting of the Company.
- 4.25 The Shareholders shall procure that all decisions made by the Board in respect of the PRC Affiliate in accordance with this Agreement shall be passed by the general meeting and/or the meeting of the Board.
- 4.26 Each of the Shareholders shall exercise all voting rights and other powers of control available to them to ensure that the Articles and the Articles of Association of the PRC Affiliate shall comply and be consistent with the provisions of this Agreement.

**5. REPRESENTATIONS, WARRANTIES AND UNDERTAKINGS**

5.1 Each Party represents, warrants and undertakes to each other Party that:

- (i) it is a company duly incorporated or established and validly existing in all respects under the laws of its place of incorporation and it is established with full power and authority to own its assets and to carry on its business as such business is now being conducted and no action has been taken or threatened (whether by it or any third party) for or with a view to its liquidation, receivership or analogous process. The execution of this Agreement and all other ancillary documents by such Party has been validly authorised;
- (ii) the obligations expressed as being assumed by it under this Agreement constitute its valid, legal and binding obligations enforceable against it in accordance with the terms of this Agreement;
- (iii) neither the execution or delivery by it of this Agreement or of any ancillary document nor the performance or observance of any of its obligations under this Agreement, does or will:
  - (a) conflict with, or result in any breach or violation of, any judgment, order or decree, trust deed, mortgage, agreement or other instrument or arrangement by which it is bound; or
  - (b) where applicable, cause any limitation imposed on any of its powers, or on the right or ability of its Directors to exercise such powers to be exceeded.



5.2 Further Assurances

- (i) Each Party agrees that it shall do and execute or procure to be done and executed all such further acts, deeds, documents and things as may be necessary to give full effect to the terms and intent of this Agreement.
- (ii) Each of Grace and AGY agree that it shall do and procure to be done all such acts as may be necessary to cause the Shares to be treated identically.

**6. COVENANTS**

- 6.1 Within five (5) Business Days following the issuance of the New Funding Notice by Grace in accordance with the Share Sale Agreement (or on a date otherwise agreed by the parties thereto), AGY shall subscribe for the Subscription Shares on the basis described in the Share Sale Agreement.
- 6.2 Prior to the Completion Date Grace shall have procured that the Company make an application for the registered capital of the PRC Affiliate to be increased to an amount not less than the then outstanding Inter-Company Funding.
- 6.3 The Company shall procure that the PRC Affiliate will use commercially reasonable efforts to conclude the proposed Refinancing Arrangements. If a New Funding Notice is issued in accordance with the Share Sale Agreement, the Company shall procure that the PRC Affiliate (a) will promptly use funds made available to the Company through the New Funding Arrangements to repay the Inter-Company Funding and (b) for the avoidance of doubt, will draw down such funds as are sufficient to repay the Inter-Company Funding within five (5) Business Days of such funding becoming available.
- 6.4 The Parties acknowledge that it has been agreed under the Share Sale Agreement that upon the expiry of 3 months Grace may issue a Deferred Consideration Payment Notice and in such circumstances, AGY shall pay the Deferred Consideration (as defined therein) to Grace in lieu of subscribing for the Subscription Shares on the basis described in the Share Sale Agreement.

**7. MANAGEMENT**

- 7.1 Save as otherwise provided in this Agreement or agreed between the Parties, the Shareholders shall, and shall procure the Directors nominated by them to exercise their powers and control in relation to the PRC Affiliate so as to ensure that the PRC Affiliate shall:
  - (i) carry on and conduct businesses and affairs in a proper and efficient manner and for its own benefit;
  - (ii) transact its business on arm's length terms or on terms not less favourable than arm's length terms;
  - (iii) keep proper books of account and therein make true and complete entries of all its dealings and transactions of and in relation to its business;



- (iv) conduct its business in accordance with all applicable legal requirements, including the obtaining of all necessary licences, consents and approvals; and
- (v) ensure that all major documents and agreements subject to Board approval shall be presented to the Board with true and correct translations in the English language.

7.2 The Shareholders shall vote in general meeting and shall cause the Directors appointed or nominated by each of them, when determining the amount of dividends to be distributed by the Company, to give effect to the Shareholders' intention that, subject to the Board's determination of constraints imposed by (a) prudent financial management and (b) the working capital requirements of the Company, a cash dividend be distributed at the conclusion of each financial year equivalent to the net profit after tax of the Company, as calculated by the Board in good faith, and provided that the rights of the Shareholders with respect to payment of the annual cash dividend under this Clause 7.2 will not be prejudiced by the issuance of the Subscription Shares pursuant to the Share Sale Agreement.

7.3 AGY confirm and agree that any calculation or valuation relating to the Company or the PRC Affiliate that may be required in connection with the arrangements contemplated by clauses 2 or 3 of the Option Agreement or by Clause 10.1 (ii) hereof, shall be made in good faith and will not result from or be distorted by unnecessary transfers of assets or funds between either Main Union or the PRC Affiliate and any other affiliate or subsidiary of either of them which is intended to reduce the calculation of EBITDA (as defined in the Option Agreement) or otherwise materially reduce amounts which would otherwise have been payable to Grace.

## **8. FINANCING OBLIGATIONS**

8.1 In the event that the Company needs additional resources to fund operations or capital projects and at such time, the number of authorized but unissued Shares shall not be sufficient to allow the issuance of additional Shares in connection with a Shareholder's equity contribution, the Company and the Shareholders may instead provide funding in the form of shareholder loans until such time as new applications or an increase in registered capital are approved.

## **9. RESTRICTIONS ON TRANSFER OF SHARES**

9.1 Except for (i) Transfers in accordance with Clauses 10.1 and 10.2, (ii) Transfers pursuant to the Option Agreement and (iii) the grant of any proxy or power of attorney by any Shareholder for the purpose of exercising the right of such Shareholder to attend meetings of Shareholders of the Company and to exercise the voting right of such Shareholder at such meeting, no Shareholder shall Transfer any Shares owned by such Shareholder unless prior written approval shall have been obtained from the other Shareholder. Any attempt to Transfer any Shares in violation of the preceding sentence shall be null and void ab initio, and the Shareholders shall procure that the Company shall not register any such Transfer.



9.2 Notwithstanding any other provisions of this Agreement, neither of the Shareholders shall Transfer any Shares unless:

- (i) the transferee has agreed in writing to be bound by the terms and conditions of this Agreement pursuant to a Deed of Adherence substantially in the form attached hereto as Exhibit A; and
- (ii) the Transfer complies in all respects with the other applicable provisions of this Agreement and applicable laws and regulations.

9.3 The provisions set forth in Clauses 9.1 and 9.2 cannot be avoided by the Transfer of any direct or indirect interest, legal or beneficial, in the Equity Securities in either Shareholder.

9.4 The Transfer restrictions in this Agreement and in the Articles shall not be capable of being avoided by the holding of Shares indirectly through any entity that can itself be sold in order to Transfer an indirect interest in Shares free of such restrictions, or any trust, derivative contract or other economic arrangement transferring the benefits of ownership of any Shares. Each of the Shareholders undertakes that it shall not take any action intended to avoid such restrictions in any manner.

## 10. DRAG-ALONG AND CO-SALE RIGHTS

### 10.1 Drag-Along Right.

- (i) In the event that any third Person makes a bona fide offer to purchase all of the issued and outstanding capital stock of the Company and the Board approves such offer (a "**Drag-Along Sale**"), then AGY shall have the right, but not the obligation, to require that Grace sell all its Shares and shareholder loans owing by the Company to Grace to such third Person at the same price per Share as AGY receives for its Shares and on the same terms and conditions as applicable (the "**Drag-Along Right**"). Not later than thirty (30) days prior to the date on which such Drag-Along Sale is anticipated to be consummated, the Board shall give written notice of such Drag-Along Sale to Grace. Grace agrees to vote all of its Shares in favour of the Drag-Along Sale and will otherwise cooperate with and take all necessary and appropriate steps to facilitate the proposed Drag-Along Sale on such terms and conditions as AGY or the Board shall reasonably propose, including (i) executing waivers of any right of pre-emption or similar right it may have over the Shares, (ii) delivering such Share certificates duly endorsed for transfer and/or with a duly executed instrument of transfer, as well as an assignment of any shareholder loan and related note, and (iii) entering into any share or security sale agreement, merger agreement or similar agreement; provided that AGY must also enter into the same agreement or a substantially similar agreement, and such agreement must provide that Grace will be entitled to the same type of consideration and the same conditions as AGY (e.g., cash or securities or a combination thereof). AGY and Grace will each bear its pro rata share (based upon its equity ownership percentage) of the expenses of such Drag-Along Sale.



- (ii) If AGY chooses to exercise its Drag-Along Right within twelve (12) months of Completion, AGY will guarantee that the net consideration received by Grace for its Shares in the Company will not be less than the amount that would be payable pursuant to Clause 2.2 (a) of the Option Agreement in circumstances where the Call Option provided for therein is exercised and on the assumption of an EBITDA of US\$12,000,000 having been achieved.
- (iii) If AGY chooses to exercise its Drag-Along Rights after the twelve (12) months period envisaged by (ii) above the net consideration payable to Grace for its Shares will be calculated on the basis of the Call Option being exercised pursuant to the terms of the Option Agreement on the date notice of the Drag-Along Sale was given to Grace (and on the assumption that the same was exercisable at such time).
- (iv) Any exercise by AGY of its Drag-Along-Rights at a time prior to the repayment or cancellation of the Inter-Company Funding shall be subject to arrangements being made to ensure that new registered capital invested in the PRC Affiliate will be used for the purposes described in Clause 6.2.

#### 10.2 Right of Co-Sale.

- (i) In the event that AGY receives a bona fide offer from a third Person to purchase all or any of AGY's Shares in the Company, Grace will have the right, but not an obligation, to participate on a pro rata basis in such proposed Transfer and otherwise on the same terms and conditions as AGY (the "**Right of Co-Sale**").
- (ii) AGY will deliver a written notice to Grace (the "**Co-Sale Notice**") not later than thirty (30) days prior to the consummation of such proposed Transfer. Such Co-Sale Notice shall contain the material terms and conditions, including the number of Shares being the subject of the bona fide offer, the full name and address of the proposed purchaser; and the full terms and conditions of the proposed offer including the price payable per Share, and any additional consideration which is or may become payable to AGY and any of its Affiliates, which is attributable directly or indirectly to the offer.
- (iii) If Grace desires to exercise its Right of Co-Sale, Grace must give AGY written notice to that effect within fifteen (15) days after receiving the Co-Sale Notice described above, and upon giving such notice, Grace shall be deemed to have effectively and irrevocably exercised the Right of Co-Sale. Upon such exercise, Grace may include in the Transfer all or any part of Grace's Shares equal to the product obtained by multiplying (a) the aggregate number of Shares subject to the proposed



Transfer, as specified in the Co-Sale Notice by (b) a fraction, the numerator of which is the number of Shares owned by Grace immediately before consummation of the proposed Transfer and the denominator of which is the total number of Shares owned, in the aggregate, by AGY and Grace immediately prior to the consummation of the proposed Transfer. If Grace elects to transfer all its Shares, it shall also assign any shareholder loan owed to it by the Company to the third Person transferee.

- (iv) At the closing of the proposed Transfer, AGY, and Grace, as applicable, shall effect its participation in the proposed Transfer by delivering one or more certificates representing the number of its Shares which are being sold, properly endorsed for transfer, duly executed instrument of transfer, sold note and assignment of any shareholder loan to the third Person transferee. AGY and Grace hereby agree that the terms and conditions of any such Transfer will be memorialized in, and governed by, a written purchase and sale agreement with customary terms and provisions for such a transaction including a provision relating to the repayment or cancellation of the Inter-Company Funding similar to that contemplated by Clause 10.1 (iii) above, and the Parties further covenant and agree to enter into such an agreement as a condition precedent to any Transfer pursuant to this Clause 10.2.

10.3 Non-Cash Consideration. If the consideration proposed to be paid for the Shares pursuant to the transactions contemplated by Clauses 10.1 and 10.2 is cash or publicly traded securities, then Grace will receive cash or such publicly traded securities pursuant to Clauses 10.1 and 10.2. However, if the consideration proposed to be paid for the Shares pursuant to the transactions contemplated by Clauses 10.1 and 10.2 is in property or services other than cash or publicly traded securities, the Board shall instruct independent assessment agency to evaluate the fair market value of such consideration, and AGY will cause Grace to be paid in cash.

11. Intentionally omitted.

**12. ACCESS TO INFORMATION**

12.1 As of the Effective Date, so long as any Shareholder holds any Shares, the Company shall deliver to such Shareholder the following documents of each Group Company:

- (i) annual audited consolidated financial statements within one hundred and twenty (120) days after the end of each financial year, audited by a Big 4 Accounting Firm at the Company's election (with draft copies provided within sixty (60) days after the end of each financial year);
- (ii) unaudited consolidated quarterly financial statements within forty-five (45) days of the end of each financial quarter together with a good faith calculation of EBITDA (as defined in the Option Agreement) as at the end of each such quarter;



- (iii) unaudited consolidated monthly financial statements within ten (10) days of the end of each month, together with a good faith calculation of EBITDA as at the end of each such month;
- (iv) copies of all documents and information sent to any Shareholder (in his capacity as a shareholder of the Company);
- (v) an annual budget and business plans within thirty (30) days prior to the end of each financial year. The budget and business plans shall include detailed capital expenditure plans, financial projections (including an income statement, balance sheet and cash flow statement etc.), debt financing/repayment requirements, business strategy and detailed arrangements associated with the expected creation of any subsidiaries, partnerships and joint ventures. The Board shall as soon as practicable adopt detailed budgets and business plans for the Company before the commencement of the relevant financial year;
- (vi) an executive summary, in the English language, of the business activities of the PRC Affiliate within ten (10) days of the end of each month, including any inter-company transactions or transactions with Related Persons or members of the Board; and
- (vii) such other information of any Group Company as may be reasonably requested by any of the Shareholders.

All the financial statements referred to in this Clause 12.1 shall be prepared in conformance with Generally Accepted Accounting Principles (GAAP) in the United States of America and shall include a balance sheet, income statement and statement of cash flows.

- 12.2 For so long as any Shares are outstanding, such Shareholder shall have the following rights during normal business hours:
- (i) inspection rights of the books and records of the PRC Affiliate;
  - (ii) inspection rights of any of the facilities of the PRC Affiliate and
  - (iii) the right to discuss the business, operations and management and other matters of the PRC Affiliate with the Directors, officers, employees, accountants, legal counsel and investment bankers.

**13. COMMENCEMENT, TERMINATION AND BREACH**

- 13.1 This Agreement shall only take effect and become legally binding on the Parties immediately upon (and only upon) Completion. If for any reason the arrangements relating to Completion envisaged by the Share Sale Agreement are not completed, this Agreement shall have no legal force or effect nor binding on the Parties.
- 13.2 Except as otherwise provided in Clause 13.3, this Agreement shall continue in full force and effect until the Company has been dissolved, wound up or otherwise ceases to exist as a separate corporate entity;





13.3 This Agreement shall terminate:

- (i) if all the outstanding Shares are held beneficially by one Shareholder; or
- (ii) in relation to any Shareholder, after such Shareholder shall have ceased to be a shareholder of Company.

13.4 Termination of this Agreement shall not release any Party from any liability which at the time of termination has already accrued to the other Parties or any liability arising or maturing after such termination as a result of any breach, omission committed or omitted prior to such termination.

13.5 The Parties hereto agree that any new shareholder, who will hold more than five percent (5%) of any Shares of Company, shall be required to sign a deed confirming its agreement to be bound by this Agreement as a condition of its becoming a shareholder or increasing the amount of Shares held in the Company, as the case may be.

#### 14. **SEVERABILITY**

If at any time any one or more provisions hereof is or becomes invalid, illegal, unenforceable or incapable of performance in any respect, the validity, legality, enforceability or performance of the remaining provisions hereof shall not thereby in any way be affected or impaired, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

#### 15. **INDEMNIFICATION**

Grace (the “**Indemnifying Party**”) shall indemnify, defend and hold harmless AGY (the “**Indemnified Party**”) from and against any and all losses, damages, liabilities, claims, proceedings, costs and expenses (including the fees, disbursements and other charges of counsel incurred by the Indemnified Party in any action between the Indemnifying Party and the Indemnified Party or between the Indemnified Party and any third party, in connection with any investigation or evaluation of a claim or otherwise) (collectively, “**Losses**”) resulting from or arising out of any breach by the Indemnifying Party of any representation, warranty, covenant or agreement in this Agreement. The amount of any payment to the Indemnified Party shall be sufficient to make the Indemnified Party whole for any diminution in value of the Shares. In connection with the obligation of the Indemnifying Party to indemnify for expenses as set forth above, the Indemnifying Party shall, upon presentation of appropriate invoices containing reasonable detail, reimburse the Indemnified Party for all such expenses as they are incurred by the Indemnified Party.



**16. ENTIRE AGREEMENT**

This Agreement, together with the Option Agreement and the Share Sale Agreement, constitutes the entire agreement and understanding between the Parties in connection with the subject- matter of this Agreement and supersedes all previous proposals, representations, warranties, agreements or undertakings relating thereto whether oral, written or otherwise and no Party hereto has relied on any such proposals, representations, warranties, agreements or undertakings. Nothing in this Clause 16 shall impair or limit any rights or remedies of the Parties and their Affiliates under the Basic Documents or relieve any Party or other Person from liability for fraud or wilful misrepresentation.

**17. NATURE OF THIS AGREEMENT**

In the event of any conflict between the provisions of the Agreement and the terms of the Memorandum or the Articles, the provisions of this Agreement shall prevail and, if any of the Parties hereto shall so require, the Memorandum and the Articles shall be revised so as to reflect the provisions of this Agreement.

**18. TIME**

18.1 Time shall be of the essence of this Agreement.

18.2 No time or indulgence given by any Party to the other shall be deemed or in any way be construed as a waiver of any of its rights and remedies hereunder.

**19. ASSIGNMENT AND COUNTERPARTS**

19.1 This Agreement shall be binding on and shall inure for the benefits of the successors and assigns of the Parties hereto.

19.2 Save as aforesaid, and save as provided herein, no Party hereto may assign or transfer any of his or its rights or obligations under this Agreement.

19.3 This Agreement may be executed in one or more counterparts including counterparts transmitted by telecopier or facsimile, each of which shall be deemed an original, but all of which signed and taken together, shall constitute one document.

**20. NOTICES AND OTHER COMMUNICATION**

20.1 Any notice or other communication to be given under this Agreement shall be in writing and may be sent by post or delivered by hand or given by facsimile or by courier to the address or fax number from time to time designated, the initial address and fax number so designated by each Party are set out in Schedule 1. Any such notice or communication shall be sent to the Party to whom it is addressed and must contain sufficient reference and/or particulars to render it readily identifiable with the subject-matter of this Agreement. If so delivered by hand or given by facsimile such notice or communication shall be deemed received



on the date of despatch and if so sent by post (or, if sent to an address outside of Hong Kong, so sent by courier) shall be deemed received three (3) Business Days after the date of despatch (in the case of local mail) and five (5) Business Days after the date of despatch (in case of overseas registered/certified mail).

20.2 Each Person making a communication hereunder by facsimile shall promptly confirm by telephone to the Person to whom such communication was addressed each communication made by it by facsimile pursuant thereto, but the absence of such confirmation shall not affect the validity of any such communication.

**21. GOVERNING LAW, JURISDICTION AND PROCESS AGENTS**

21.1 This Agreement shall be governed by, and construed in accordance with, the laws of Hong Kong, without regard to the principles of conflicts of law of any jurisdiction.

21.2 All of the provisions of the Framework Agreement that apply to the Basic Documents, including, without limitation, Clause 5 (Confidentiality) and Clause 6 (Dispute Resolution), are hereby incorporated into this Agreement by reference.

**22. U.S. TAX MATTERS**

The Company and Grace hereby authorize and empower AGY on behalf of and in the name of the Company to make such elections, filings and determinations (or cause the Company to make such elections, filings, and determinations on behalf of any other Group Company) under the tax laws of the United States, any state in the United States or the District of Columbia, as AGY may in its sole discretion determine. In addition, the Company will provide AGY in a timely manner all information requested by AGY to assist AGY and its beneficial owners in completing any U.S. tax returns or otherwise complying with U.S. tax laws.

**23. MISCELLANEOUS**

23.1 No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by any other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

23.2 No Shareholder, acting solely in its capacity as a Shareholder, shall act as an agent of the Company or have any authority to act for or to bind the Company, except as authorized by the Board. For the purposes of this Clause, unless acting expressly solely in its capacity as a Shareholder, any Shareholder who is a director or officer or employee of the Company or its Subsidiaries acting



in the ordinary course of business of the Company or its Subsidiaries shall be conclusively deemed to act for and on behalf of, and shall not be regarded as acting as an agent of, the Company or such Subsidiary, as the case may be. Any Shareholder that takes any action or binds the Company in violation of this Clause shall be solely responsible for, and shall indemnify the Company and each other Shareholder against, any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever (including but not limited to any investigative, legal and other expenses reasonably incurred in connection with, and any amounts paid in settlement of, any pending or threatened legal action or proceeding) that the Company, or such other Shareholder, as the case may be, may at any time become subject to or liable for by reason of such violation. The provisions of this Clause survive the termination of this Agreement.

23.3 The Shareholders expressly do not intend hereby to form a partnership, either general or limited, under any jurisdiction's partnership law. The Shareholders do not intend to be partners one to another, or partners as to any third party, or create any fiduciary relationship among themselves, solely by virtue of their status as Shareholders. To the extent that any Shareholder, by word or action, represents to another Person that any Shareholder is a partner or that the Company is a partnership, the Shareholder making such representation shall be liable to any other Shareholders that incur any losses, claims, damages, liabilities, judgments, fines, obligations, expenses and liabilities of any kind or nature whatsoever (including but not limited to any investigative, legal or other expenses reasonably incurred in connection with, and any amount paid in settlement of, any pending or threatened legal action or proceeding) arising out of or relating to such representation. The provisions of this Clause survive the termination of this Agreement.

*[Signature Page Follows]*



IN WITNESS whereof the parties executed this Agreement the day and year first above written.

SIGNED by )  
)  
For and on behalf )  
**GRACE TECHNOLOGY** )  
**INVESTMENT CO., LTD.** )  
in the presence of: )

SIGNED by )  
)  
for and on behalf )  
**AGY (CAYMAN)** )  
In the presence of : )

SIGNED by )  
)  
for and on behalf )  
**MAIN UNION INDUSTRIAL LTD.** )  
In the presence of : )



**Exhibit 10.4**

Portions of this Exhibit, as indicated by [\*\*\*], are omitted and have been filed separately with the Securities and Exchange Commission pursuant to the Registrant's application requesting confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

THIS AGREEMENT is dated the 10th day of June, 2009 and is made

**BETWEEN**

- (1) **Grace Technology Investment Co., Ltd.**, a company incorporated in British Virgin Islands whose registered office is P.O. Box 957, offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands, British West Indies ("**Grace**");
- (2) **AGY (Cayman)**, a company incorporated in the Cayman Islands whose registered office is at Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands ("**AGY**"); and
- (3) **Main Union Industrial Ltd.**, a company incorporated in Hong Kong whose registered office is at Suite 1112A, Ocean Centre, Harbour City, 5 Canton Road, Kowloon, Hong Kong, which promptly after the Effective Date will change its name to **AGY Hong Kong, Ltd.** (the "**Company**").

**Background**

- (A) AGY, AGY Holding Corp., Grace, Grace THW Holding Limited, the Company and the PRC Affiliate (as defined below) have entered into a framework agreement dated as of March 12, 2009 (the "**Framework Agreement**") in which the parties have agreed to conclude certain arrangements described therein.
- (B) Pursuant to the Framework Agreement, AGY, Grace and Grace THW Holding Limited have entered into a sale and purchase agreement dated as of March 12, 2009 (the "**Share Sale Agreement**") pursuant to which AGY has agreed to purchase a 70% equity interest in the Company from Grace.
- (C) Grace will continue to hold a 30% interest in the Company following the sale of shares as contemplated in the Share Sale Agreement.
- (D) AGY and Grace have further agreed that AGY shall have the option to purchase and Grace shall have the option to put to AGY the Option Interest (as defined below) in the Company on the terms set out herein.

**BY WHICH IT IS AGREED** as follows:

**1. Definitions and Interpretation**

1.1 Defined Terms

In this Agreement, unless the context requires otherwise:

"**Affiliate**" means in relation to any specified body corporate or Person, any other body corporate, unincorporated entity or



Person directly or indirectly Controlling, directly or indirectly Controlled by or under direct or indirect common Control with such specified body corporate or Person;

“**Bank Debt**” means the consolidated bank debt of the Company and the PRC Affiliate as accumulated at such time as either of the Options is Exercised, as calculated by the Company’s board of directors in good faith;

“**Big 4 Accounting Firm**” means KPMG, PricewaterhouseCoopers, Deloitte Touche Tohmatsu or Ernst & Young, or any other internationally recognized accounting firm as may be agreed to by the Parties from time to time;

“**Business Day**” means a day, other than a Saturday or Sunday, on which banks are open in Hong Kong and Shanghai to the general public for business;

“**Call Option**” means the right granted to AGY hereunder to require Grace to sell to it the Option Interest as provided for in Clause 2;

“**Call Option Price**” means the price for the sale of the Option Interest, as calculated in accordance with Clause 2.4;

“**Cash**” means the consolidated cash of the Company and the PRC Affiliate at such time as either Option is Exercised, as calculated by the Company’s board of directors in good faith, including (i) all cash held by the Company or the PRC Affiliate in coins and bank notes and (ii) all amounts standing to the credit of the Company or the PRC Affiliate’s bank accounts, other than cheques received but which remain unpaid and which have not been credited to the Company’s or the PRC Affiliate’s bank account, *less* all amounts (A) the use of which is subject to restriction or which amounts are held in reserve, (B) are subject to cheques that have been written by the Company or the PRC Affiliate but not yet cashed or (C) have been set aside for specific purposes and are unavailable for the settlement of current obligations of the Company or the PRC Affiliate;

“**Change of Control**” means, with respect to a Person, (i) a merger or consolidation of such Person with a third party which results in the holders of the voting securities of such Person outstanding immediately prior thereto ceasing to represent at least fifty percent (50%) of the combined voting power of the surviving entity immediately after such merger or consolidation, or (b) except in the case of a bona fide equity financing in which such Person issues new shares of its capital stock, a transaction or series of related transactions in which a third party, together with its Affiliates, becomes the beneficial owner of fifty percent (50%) or more of the combined voting power of the outstanding securities of such Person, or (c) the sale or other transfer to a third party of all or substantially all of such Person’s businesses and assets, but excluding any financial factoring arrangements;

“**Completion**” means a completion of the sale and purchase of all or any portion of the Option Interest in accordance with this Agreement;

“**Completion Date**” means, in relation to any Completion, the date on which such Completion occurs in accordance with this Agreement;



“**Control**” means, in relation to a specified body corporate or Person, the power of any other Person directly or indirectly to secure that the affairs of such specified body corporate or Person are conducted in accordance with the wishes of that other Person:

- (i) by means of the holding of Equity Securities or the possession of voting power (either at the shareholder, director or other comparable level) in or in relation to that specified body corporate or Person or an intermediate Person; or
- (ii) by virtue of any powers conferred by the memorandum and articles of association or by-laws or other similar documents regulating that specified body corporate or Person or an intermediate Person;

“**EBITDA**” means, as of the date of a determination thereof under this Agreement, the product of (i) 4 times (ii) the consolidated earnings of the Company and the PRC Affiliate, before interest, tax, depreciation and amortisation, for the most recent 3 full calendar months preceding such date of determination adjusted for, to the extent reflected in such consolidated earnings, any Non-Recurring Items or Occasional Items,

*less*

- (a) to the extent included in such consolidated earnings, any earnings of the Company or the PRC Affiliate that are attributable to the sale of products not manufactured by the PRC Affiliate; and

*plus*

- (b) to the extent already deducted from such consolidated earnings, the consolidated metal operating losses of the Company and the PRC Affiliate,

all as calculated in good faith by the Company’s board of directors based on the consolidated financial statements of the Company and the PRC Affiliate for such 3-calendar-month period and (if either AGY or Grace should require) confirmed by any Big 4 Accounting Firm.

It is understood that neither Grace nor AGY shall use adjustments in respect of Non-Recurring Items and Occasional Items to manipulate valuations under the Option Price calculations contemplated by this Agreement, and such exclusions will be used merely to more closely model true ongoing operational performance;

“**Equity Securities**” means, with respect to any Person, such Person’s capital stock, membership interests, partnership interests, registered capital, joint venture or other ownership interests or any options, warrants or other securities that are directly or indirectly convertible into, or exercisable or exchangeable for, such capital stock, membership interests, partnership interests, registered capital or joint venture or other ownership interests (whether or not such derivative securities are issued by such Person);





“**Exercise**” means the exercise by AGY of the Call Option or by Grace of the Put Option, in accordance with the terms and conditions of this Agreement and “**Exercised**” shall be constructed accordingly;

“**Governmental Authority**” means any government or political subdivision thereof; any department, agency or instrumentality of any government or political subdivision thereof; any court or arbitral tribunal; and the governing body of any securities exchange, in each case having competent jurisdiction;

“**NEV**” means the net equity value of the Company at such time as either of the Options is Exercised, as calculated by the Company’s board of directors in good faith and in accordance with the formula set forth in Clauses 2.4 and 3.4 (as the context may require);

“**Non-Recurring Items**” means earnings charges or credits which are considered to be “one time” in nature, unlikely to recur on an annual basis, and not reflective of ongoing operational results. Examples of such charges or credits include (but are not limited to): gain or loss on sale of fixed assets, asset impairment charges, reversal of balance sheet allowance accounts or prepaid expense asset accounts established prior to closing, and one time government subsidies or charges.

“**Notice**” means either the Call Option notice or the Put Option notice (as the context may require) substantially in the form set out in Schedule 1. Once served, the Notice shall be irrevocable;

“**Occasional Items**” means earnings charges or credits which are considered to be a normal part of business operations, likely to recur on an annual basis, but not necessarily likely to occur each and every month. Examples of such charges or credits include (but are not limited to): alloy recoveries, abnormal foreign exchange contract gain / loss, and bushing fabrication charges. As nearly as possible, Occasional Items will be spread across financial reporting months evenly via accrual accounting;

“**Option Interest**” means, as of any given time, all Shares owned by Grace as of that time, which as of the date of this Agreement represent 30% of the issued and outstanding Shares;

“**Option Interest Percentage**” means, as of any given time, the percentage of the total number of issued and outstanding Shares represented by the Option Interest as of such time;

“**Option Period**” means the period commencing on the execution date of this Agreement and ending at the 31st day of December, 2013 (both dates inclusive), unless extended by agreement in writing between the Parties;

“**Option Price**” means, as the context requires, the Call Option Price or the Put Option Price;

“**Option**” means, as the context requires, the Call Option or the Put Option;



“**Outstanding Net Bank Debt**” means net Bank Debt, as calculated by the Company’s board of directors in good faith and in accordance with the formula set in Clause 2.4 or 3.4, as the context may require.

“**Party**” means one of the parties to this Agreement;

“**Person**” means any natural person, firm, company, Governmental Authority, joint venture, partnership, association or other entity (whether or not having separate legal personality);

“**PRC**” means People’s Republic of China and for the purpose of this Agreement excludes Taiwan and the Special Administrative Regions of Hong Kong and Macau;

“**PRC Affiliate**” means Shanghai Grace Technology Co Ltd., a company formed in the PRC which is wholly owned by the Company.

“**Put Option**” means the right of Grace to require AGY to purchase the Option Interest granted under Clause 3;

“**Put Option Price**” means the price for the sale of the Option Interest, as calculated in accordance with Clause 3.4.

“**Shares**” means the common shares of par value of HK\$1.00 each in the capital of the Company carrying the rights and privileges as set forth in the Articles;

“**TEV**” means the total enterprise value of the Company, as calculated in accordance with the formula set in Clauses 2.4 or 3.4 (as the context may require).

“**Transferred Option Interest**” means the portion of the Option Interest being transferred on a particular Completion Date, which in the case of the Call Option, will be the entire Option Interest, and, in the case of the Put Option will be either the entire Option Interest or, if AGY validly elects to acquire the Option Interest in two stages pursuant to Clause 4.1(b), the portion of the Option Interest being acquired at the stage of the acquisition to which such Completion Date relates.

## 2. **Call Option**

### 2.1 Grant of Call Option

Grace irrevocably grants to AGY during the Option Period, the Call Option to require Grace to sell to AGY the Option Interest subject to the conditions provided for in Clause 2.2 below and at the price as calculated in accordance with Clause 2.4.

### 2.2 Conditions for Exercise of the Call Option

- (a) Except as provided below in Clause 2.2(b), the grant of the Call Option in Clause 2.1 above shall be subject to and become exercisable only when an EBITDA of [\*\*\*] has been achieved and shall remain effective during the Option Period until the Exercise of either the Put Option by Grace or the Call Option by AGY.



- (b) If AGY Holding Corp., a Delaware corporation and ultimate parent company of AGY (“**AGY Parent**”) undergoes a Change of Control before the Call Option would otherwise be exercisable under Clause 2.2(a), then AGY must give written notice to Grace of the Change of Control of AGY Parent (the “**Change of Control Notice**”) within sixty (60) days after the consummation of such Change of Control and the following provisions shall then apply:
- (i) If the Change of Control Notice is given within twelve (12) months after completion under the Share Sale Agreement, AGY may, at any time within thirty (30) days after giving such notice, Exercise the Call Option, but only on the assumption of an EBITDA of [\*\*\*] for purposes of calculating the Call Option Price.
  - (ii) If the Change of Control Notice is given any time after the twelve (12)-month anniversary of the completion under the Share Sale Agreement, AGY may, at any time within thirty (30) days after giving such notice, Exercise the Call Option, notwithstanding that the Call Option may not then be otherwise exercisable under Clause 2.2(a) because an EBITDA of [\*\*\*] has not then been achieved.
  - (iii) If AGY does not Exercise the Call Option within that thirty (30)-day period, then the Call Option will thereafter become exercisable, if at all, only as provided in Clause 2.2(a).

### 2.3 Exercise of Call Option

- (a) All parties agree that the Call Option may be Exercised by AGY in respect of the full Option Interest by serving on Grace a duly completed Notice of the Exercise of the Call Option during the Option Period.
- (b) Grace agrees and acknowledges that its obligation to sell the Option Interest under the Call Option is binding upon it and it will take all necessary and reasonable steps to facilitate the proposed transaction, including (i) executing waivers of any statutory appraisal rights or dissenters’ rights or any right of pre-emption or similar right it may have over the Option Interest and (ii) delivering such share certificates duly endorsed for transfer, duly executed instrument of transfer, sold note and assignment of shareholders loans (if any). From and after Grace’s receipt of full payment for the Option Interest, all rights of Grace shall cease with respect to such Option Interest or any shareholders loans (if any).

### 2.4 Purchase Price

- (a) The Call Option Price payable by AGY for the Option Interest following an Exercise of the Call Option shall be calculated in accordance with the following formula:

$$\text{Call Option Price} = \text{NEV} \times \text{the Option Interest Percentage}$$



Where

NEV = TEV – Outstanding Net Bank Debt

Where

TEV = (i) EBITDA as of the date the duly completed Notice of the Exercise of the Call Option is served on Grace ×  
(ii) [\*\*\*]

and

Outstanding Net Bank Debt = Bank Debt – Cash

- (b) It is understood and agreed that in the calculation of the NEV for the purpose of determining the Call Option Price, both increases in the amount of outstanding debt of the Company after the completion under the Share Sale Agreement (save for debt attributable to the working capital needs of the PRC Affiliate) and any increase in Cash balances after the completion under the Share Sale Agreement shall not be taken into account.

### 3. **Put Option**

#### 3.1 Grant of Put Option

AGY irrevocably grants to Grace during the Option Period, the Put Option to require AGY to purchase from Grace the Option Interest subject to the conditions provided for in Clause 3.2 below and at the price as calculated in accordance with Clause 3.4.

#### 3.2 Conditions for Exercise of the Put Option

- (a) Except as otherwise provided in Clause 3.2(b), the grant of the Put Option in Clause 2.1 above shall first become exercisable upon the first anniversary of the completion under the Share Sale Agreement and shall remain effective during the Option Period until the Exercise of Put Option by Grace or Call Option by AGY.
- (b) If AGY Parent undergoes a Change of Control before the Put Option is exercisable under Clause 3.2(a), then Grace may, at any time within thirty (30) days after AGY's giving of the Change of Control Notice under Clause 2.2(b), Exercise the Put Option, notwithstanding that the Put Option may not then be otherwise exercisable under Clause 3.2(a). If Grace does not Exercise the Put Option within that thirty (30)-day period, then the Put Option will thereafter become exercisable, if at all, only as provided in Clause 3.2(a).



3.3 Exercise of Put Option

- (a) All parties agree that the Put Option may be Exercised by Grace in respect of the Option Interest by serving on AGY a duly completed Notice of the Exercise of the Put Option during the Option Period.
- (b) AGY agrees and acknowledges that its obligation to purchase the Option Interest under the Put Option is binding upon it.
- (c) Grace agrees that it will take all necessary and reasonable steps to facilitate the proposed transaction, including
  - (i) executing waivers of any statutory appraisal rights or dissenters' rights or any right of pre-emption or similar right it may have over the Option Interest, (ii) delivering such share certificates duly endorsed for transfer, duly executed instrument of transfer, sold note and assignment of shareholders loans (if any) and (iii) entering into any share or security sale agreement or similar agreement. From and after Grace's receipt of full payment for the Option Interest, all rights of Grace shall cease with respect to the Option Interest or any shareholders loans (if any).

3.4 Sale Price

- (a) Except as otherwise provided in Clause 3.4(c), the Put Option Price payable by AGY for the Option Interest following the Exercise of the Put Option by Grace shall be calculated in accordance with the following formula:

$$\text{Put Option Price} = \text{NEV} \times \text{the Option Interest Percentage}$$

Where

$$\text{NEV} = \text{TEV} - \text{Outstanding Net Bank Debt}$$

Where

$$\text{TEV} = \text{(i) EBITDA as of the date the duly completed Notice of the Exercise of the Put Option is served on AGY} \times \text{(ii) [***]}$$

and

$$\text{Outstanding Net Bank Debt} = \text{Bank Debt} - \text{Cash}$$

- (b) It is understood and agreed that in the calculation of the NEV for the purpose of determining the Put Option Price, both increases in the amount of outstanding debt of the Company after the completion under the Share Sale Agreement (save for debt attributable to the working capital needs of the PRC Affiliate) and any increase in Cash balances after the completion under the Share Sale Agreement shall not be taken into account.
- (c) If, following the Exercise by Grace of the Put Option, AGY elects to acquire the Option Interests in two stages pursuant to Clause 4.1(b) below, then:
  - (i) the portion of the Put Option Price payable at Completion of the first stage of the acquisition will be equal to the



product of (A) the Put Option Price *times* (B) the percentage of the entire Option Interest represented by the portion of the Option Interest being acquired in the first stage of the acquisition; and

- (ii) the portion of the Put Option Price payable at Completion of the second stage of the acquisition will be equal to the product of (A) the Put Option Price (calculated, for purposes of this Clause 3.4(c)(ii), as though the formula contained in Clause 3.4(a) provided that  $TEV = (i) EBITDA$  as of the date the duly completed Notice of the Exercise of the Put Option is served on AGY  $\times$  (ii) [\*\*\*]) *times* (B) the percentage of the entire Option Interest represented by the portion of the Option Interest that was not acquired in the first stage of the acquisition.

#### 4. Completions

##### 4.1 Time and Place of Completions

- (a) Except as otherwise provided in Clause 4.1(b), each Completion shall occur at the offices of the Company (or at such other place as the parties may agree in writing) no later than 12:00 noon on the 20th Business Day following the receipt of the Notice by the relevant Party or such later date as all required regulatory approvals, if any, have been obtained. A confirmation letter shall be signed by both AGY and Grace confirming the completion of the actions as listed in Clause 4.2 below.
- (b) Notwithstanding any other provision of this Agreement, at any time within 10 Business Days after the Exercise by Grace of the Put Option, AGY will have the option to elect to acquire the Option Interest in two stages by sending written notice to Grace of AGY's election to do so, which notice will state the portion of the Option Interest that AGY intends to purchase in the first stage of such acquisition. If AGY makes such an election, then Completion of the first stage of the acquisition of the Option Interest will take place at the time contemplated by Clause 4.1(a) and Completion of the second stage of the acquisition will take place by the six-month anniversary of Completion of the first stage or such later date as all required regulatory approvals, if any, have been obtained.

##### 4.2 Action to be Taken at a Completion

- (i) Grace shall execute and deliver to AGY an instrument of transfer in favour of AGY in respect of the Transferred Option Interest and such other documents (if any) as may be required to give good title to the Transferred Option Interest and to enable AGY to become the registered holder thereof.
- (ii) Grace shall deliver or cause to be delivered to AGY:
  - a. share certificate(s) in respect of the Shares constituting the Transferred Option Interest;



- b. certified true copy of the resolutions or certified extract of resolutions passed by the board of directors of Grace authorizing the execution of, and the performance by Grace of its obligations under this Agreement;
  - c. written resignation of the director(s) and any company secretary(ies) of the Company nominated by Grace, and in each case acknowledging that they have no outstanding rights or claims of any kind, whether for compensation for loss of office or on any other grounds, against the Company or its Affiliates;
  - d. to the extent in Grace's possession, all statutory books (which shall be written up to but not including the applicable Completion Date), certificate of incorporation, certificate of business registration, constitution documents including memorandum and articles of association, and common seal (if any) of the Company or the PRC Affiliate;
  - e. to the extent in Grace's possession, all and any other books and records of the Company or the PRC Affiliate of whatever nature including any confidential information held by Grace about the Company or the PRC Affiliate in any format (both written and electronically recorded);
  - f. to the extent in Grace's possession, all the current cheque books of the Company or the PRC Affiliate together with currently available statements of all bank accounts; and
  - g. a certificate signed by a director of Grace confirming that all representations and warranties given pursuant to this Agreement remain true and correct, that Grace is in full compliance with the terms hereof and that Grace waives and releases all rights and claims of any kind against the Company and its Affiliates, other than the right to receive the Option Price, subject to the terms and conditions contained in this Agreement.
- (iii) Grace shall pass resolutions (provided that if such resolutions are dated more than six months prior to the date of the applicable Completion Grace shall procure the same shall be confirmed, ratified or restated) under which the transfer of the Transferred Option Interest to AGY, and the registration of AGY as the holder of the Transferred Option Interest shall be approved, and the execution, delivery, and performance of this Agreement shall be approved and ratified.
- (iv) Grace shall support board resolutions of the Company to be passed at or before the first Completion under this Agreement, under which:
- a. the resignations of each of the director(s) of the Company nominated by Grace with effect from the first Completion Date shall be approved or noted; and
  - b. the persons nominated by AGY in writing not less than three Business Days prior to the first Completion Date shall be appointed as directors of the Company;



- (v) Grace shall deliver to AGY a legal opinion in an agreed form addressed to AGY and issued by a British Virgin Islands law firm as to (i) the due incorporation of Grace, (ii) the due execution of this Agreement by Grace, and (iii) the due authorization of this Agreement by Grace, and due authorization by Grace of the sale and purchase of the Transferred Option Interest;
  - (vi) AGY shall pay to Grace the Call Option Price or the Put Option Price (or, if AGY has validly elected to acquire the Option Interest in two stages pursuant to Clause 4.1(b), the portion of Put Option Price payable for the Transferred Option Interest, calculated pursuant to Clause 3.4(c)), as the case may be, by telegraphic transfer to such account as shall be notified by Grace to AGY pursuant to the equity transfer agreement.
  - (vii) Upon receiving written evidence of the delivery to Grace of the Option Price or the Put Option Price (or, if AGY has validly elected to acquire the Option Interest in a two stages pursuant to Clause 4.1(b), the portion of Put Option Price payable for the Transferred Option Interest, calculated pursuant to Clause 3.4(c)), as the case may be, the Company shall issue a share certificate in respect of the Transferred Option Interest to AGY.
- 4.3 Without prejudice to any other remedy which may be available to them, neither Party shall be obliged to complete this Agreement or perform any obligations under Clause 4.2 unless they are satisfied (acting reasonably) that the requirements of Clause 4.2 will be complied with by the other Party in all respects. Nothing in this Clause 4.3 shall entitle any Party not to complete this Agreement or not to perform any obligations under Clause 4.2 by reason of such Party's own inability or failure to comply with any requirements of Clause 4.2.

## 5. Warranties and Indemnities

### 5.1 Warranties

Grace represents, warrants and undertakes to and with AGY and its successors in title that each of the following statements (the "**Warranties**") is true, accurate and complete in all respects and not misleading as at the date of this Agreement, and will continue to be so on each day up to and including Completion with reference to the facts and circumstances subsisting from time to time:

- (a) Grace has the right and authority and has taken all action necessary to enter into and perform this Agreement and all other agreements to be executed at or before Completion;
- (b) this Agreement constitutes its legal, valid and binding obligations enforceable in accordance with their terms;
- (c) all authorisations required in connection with its entry into and performance of this Agreement and to ensure the legality, validity, binding effect and enforceability of this Agreement have been obtained or effected and are in full force and effect;





- (d) Grace is the sole legal and beneficial owner of the Option Interest and is entitled to sell and transfer and will sell and transfer the full legal and beneficial ownership of the Option Interest to AGY free from all encumbrances and with all rights attaching to each Transferred Option Interest as at the Completion related thereto;
- (e) there are no encumbrances on, over or affecting any of the Option Interest and there is no agreement or commitment to give or create any encumbrance and no claim has been made by any person to be entitled to any encumbrance which has not been waived in its entirety or satisfied in full;
- (f) the Option Interest comprises 30% of the Shares issued and outstanding as of the date of this Agreement and all of the Shares constituting the Option Interest are fully paid up or credited as fully paid up;
- (g) no consent of any third party is required to be obtained in respect of the sale of the Option Interest or any portion thereof; and
- (h) the information relating to the Option Interest and all information disclosed regarding the Warranties as provided to AGY by Grace and its directors, officers, employees, agents and advisers is true, complete, accurate and not misleading.

5.2 Reliance on Warranties

Grace acknowledges and accepts that AGY is entering into this Agreement in reliance upon each of the Warranties and that the Warranties have also been given as representations with the intention of inducing AGY to enter into this Agreement.

5.3 Indemnity

Grace undertakes to indemnify, defend and hold harmless AGY from and against any and all losses, diminution in value, damages, liabilities, claims, proceedings, costs and expenses (including the fees, disbursements and other charges of counsel incurred by AGY in any action between AGY and Grace or between AGY and any third party, in connection with any investigation or evaluation of a claim or otherwise) (collectively, "Losses") resulting from or arising out of any breach by Grace of any representation, warranty, covenant or agreement in this Agreement, including, without limitation, any such Losses incurred by AGY in connection with:

- (a) the settlement of any claim that any of the Warranties are untrue or misleading or have been breached;
- (b) any legal proceedings in which AGY claims that any of the Warranties are untrue or misleading or have been breached and in which judgment is given for AGY; or
- (c) the enforcement of any such settlement or judgment.



5.4 Separate Warranties

Each of the Warranties shall be construed as a separate Warranty and (save as expressly provided to the contrary) shall not be limited or restricted by reference to or inference from the terms of any other Warranty or any other terms of this Agreement.

5.5 Grace's Obligation to Disclose

Grace undertakes that it will from time to time and at any time, whether before or after Completion, forthwith disclose in writing to AGY any event, fact or circumstance which may become known to it after the date of this Agreement and which is materially inconsistent with any of the Warranties or which could reasonably be expected materially to affect a purchaser for value of the Option Interest or which may entitle AGY to make any claim under this Agreement. No such disclosure shall limit or otherwise affect any claims, rights or other remedies that AGY may have against Grace or any of its Affiliates under this Agreement or otherwise (including claims with respect to matters so disclosed), all of which are hereby reserved.

6. Survival

Any provision of this Agreement which is capable of being performed after but which has not been performed at or before a Completion shall remain in full force and effect notwithstanding such Completion (except insofar as they set out obligations which have been fully performed at such Completion). For the avoidance of doubt, the Warranties will survive each Completion.

7. Public Announcement and Confidentiality

7.1 Treatment of confidential information exchanged by and among the Parties and their Affiliates and the making of public announcements and disclosures regarding the terms of this Agreement and the transactions contemplated hereby shall be governed by Clause 5 of the Framework Agreement, which is hereby incorporated into this Agreement by this reference.

7.2 This Clause 7 shall survive the last Completion under this Agreement.

8. Entire Agreement

This Agreement, the Framework Agreement, the Shareholders' Agreement and the Share Sale Agreement constitutes the entire agreement and understanding between the Parties and their respective Affiliates in connection with the subject matter of this Agreement and supersede all previous term sheets, proposals, representations, warranties, agreements or undertakings relating thereto whether oral, written or otherwise and neither Party has relied on any such term sheets, proposals, representations, warranties, agreements or undertakings. Nothing in this Clause 8 shall impair or limit any rights or remedies of the Parties and their Affiliates under this Agreement or any agreements related hereto or relieve any Party or other Person from liability for fraud or wilful misrepresentation.



**9. Remedies Cumulative**

The rights of the parties under this Agreement are cumulative and do not exclude or restrict any other rights (except as otherwise provided in this Agreement).

**10. No Waiver**

No waiver of any provision of this Agreement shall be effective unless set forth in a written instrument signed by the Party waiving such provision. No failure or delay by a Party in exercising any right, power or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy. Without limiting the foregoing, no waiver by a Party of any breach by the other Party of any provision hereof shall be deemed to be a waiver of any subsequent breach of that or any other provision hereof.

**11. Severance**

If any provision of this Agreement is not or ceases to be legal, valid, binding and enforceable under the law of any jurisdiction, neither the legality, validity, binding effect or enforceability of the remaining provisions under that law nor the legality, validity, binding effect or enforceability of that provision under the law of any other jurisdiction shall be affected.

**12. Amendments**

No amendment to this Agreement will be effective unless in writing and executed by all the Parties.

**13. Further Assurance; AGY Sale Process**

- (a) Each of the Parties hereto shall, at his or its (as the case may be) own expense, execute, sign, perfect, do all such further instrument, assurance, acts and things as the other Party may, in his/its or their absolute discretion, require from time to time for facilitating the exercise of all powers, authorities and discretions vested in the other Party and/or giving full effect to the terms and conditions of this Agreement, including without limitation, ensuring that this Agreement is enforceable.
- (b) If the Board of Directors of AGY Parent determines to solicit bids to sell AGY Parent, then AGY will notify Grace of such determination and invite Grace to participate in the sale process as a potential bidder.

**14. Counterparts**

This Agreement may be executed in any number of counterparts and by different Parties on separate counterparts, each of which is an original but, together, they constitute one and the same agreement.



**15. Successors**

This Agreement is binding on and shall inure to the benefit of the Parties and their respective successors and permitted assigns.

**16. Assignment**

No Party may assign any of the rights or obligations of that Party under this Agreement save that AGY may assign its rights, benefits, and obligations under this Agreement provided the New Funding Arrangements (as defined in the Share Sale Agreement) have been completed (a) to an Affiliate, (b) to any Person that acquires, whether by purchase of assets, merger, consolidation, reorganization, or other corporate-level transaction, by operation of law or otherwise, all or substantially all of AGY's assets; or (c) by way of security to a lender pursuant to financing arrangements.

**17. Tax**

- 17.1 Registration fees, stamp duty and any other taxes which may arise as a result of the sale of the Option Interest from Grace to AGY shall be borne in equal proportions between Grace and AGY.
- 17.2 The Parties, their Affiliates and their respective representatives may disclose to any and all Persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that relate to such tax treatment and tax structure, all as contemplated by U.S. Treasury Regulations section 1.6011-4(b).

**18. Notices**

Any notice or other communication (and all supporting documents required in respect of Completion) to be given under this Agreement shall be in writing in English. Such documents may be sent by post or delivered by hand or given by facsimile or by courier to the address or fax number from time to time designated, the initial address and fax number so designated by each Party are set out below. Any such notice or communication shall be sent to the Party to whom it is addressed and must contain sufficient reference and/or particulars to render it readily identifiable with the subject-matter of this Agreement. If so delivered by hand or given by facsimile such notice or communication shall be deemed received on the date of dispatch and if so sent by post shall be deemed received three (3) Business Days after the date of dispatch (in the case of local mail) and five (5) Business Days after the date of dispatch (in the case of overseas mail or courier). Each Person making a communication hereunder by facsimile shall promptly confirm by email to the person to whom such communication was addressed.

To AGY

Name : AGY Cayman  
Address : c/o AGY Holding Corp. 2556 Wagener Road Aiken, SC 29801 U.S.A.  
Fax : 1-803-643-4085  
For the attention of : Chief Executive Officer



To Grace

Name : Grace Technology Investment Co. Ltd.  
Address : P.O. Box 975, offshore Incorporation Centre Road Town, Tortola, British Virgin Islands, British  
West Indies  
Fax : +886 2 25082113  
For the attention of : Cheng Taishan (郑台珊)

To the Company

Name : Main Union Industrial Ltd.  
Address : Suite 1112A, Ocean Centre, Harbour City, 5 Canton Road, Kowloon, Hong Kong  
Fax : 1-803-643-4085  
For the attention of : Douglas Mattscheck

**19. Governing Law and Dispute Resolution**

- (a) Governing Law This Agreement is governed by and will be construed in accordance with Hong Kong law.
- (b) Dispute Resolution Any disputes or claim arising out of or in connection with or relating to this Agreement, or the breach, termination or invalidity hereof shall be finally resolved in accordance with Clause 6 of the Framework Agreement, which is hereby incorporated into this Agreement by reference.

[Remainder of Page Intentionally Blank]



**Schedule 1**

**A. Form of Call Option Notice**

To: Grace Technology Investment Co. Ltd.  
P.O. Box 975, offshore Incorporation Centre Road Town,  
Tortola,  
British Virgin Islands,  
British West Indies

Attn: Cheng Taishan (郑台珊)

Date: [●]

Dear Sirs,

We refer to the Option Agreement (the “**Agreement**”) dated the \_\_\_\_\_ day of \_\_\_\_\_, 2009 made between you and us.

We give you notice that we require you to sell to us in accordance with the terms and conditions of the Agreement, the Option Interest (as defined in the Agreement).

Yours faithfully,

For and on behalf of  
AGY (Cayman)

---



**B. Form of Put Option Notice**

To: AGY (Cayman)  
c/o AGY Holding Corp. 2556 Wagener Road  
Aiken, SC 29801 U.S.A.

Attn: [●]

Date: [●]

Dear Sirs,

We refer to the Option Agreement (the “**Agreement**”) dated the \_\_\_\_\_ day of \_\_\_\_\_, 2009 made between you and us.

We give you notice that we require you to purchase from us in accordance with the terms and conditions of the Agreement, the Option Interest (as defined in the Agreement).

Yours faithfully,

For and on behalf of  
Grace Technology Investment Co. Ltd.

---



**EXECUTED** by the parties

**SIGNED** for and on behalf of )  
**AGY (Cayman)** )

In the presence of:- )  
Date: )

**SIGNED** for and on behalf of )  
**Grace Technology Investment Co., Ltd.** )

In the presence of:- )  
Date: )

**SIGNED** for and on behalf of )  
**Main Union Industrial Ltd.** )

In the presence of:- )  
Date: )





**Exhibit 10.5**

AMENDMENT NO. 3 AND CONSENT

THIS AMENDMENT NO. 3 AND CONSENT (this "Amendment"), is dated as of June 8, 2009, and is entered into by and among AGY HOLDING CORP., a Delaware corporation ("Parent Borrower"), the other Borrowers, KAGY HOLDING COMPANY, INC., a Delaware corporation ("Holdings"), the Subsidiary Guarantors, the Lenders, and UBS AG, STAMFORD BRANCH, as administrative agent (in such capacity, "Administrative Agent") for the Lenders (Parent Borrower, the other Borrowers, Holdings, the Subsidiary Guarantors, the Lenders and the Administrative Agent, each, individually, a "Party", and, collectively, the "Parties").

RECITALS:

WHEREAS, the Parties are parties to that certain Credit Agreement, dated as of October 25, 2006 (as amended, supplemented, amended and restated or otherwise modified prior to the date hereof, the "Credit Agreement");

WHEREAS, (i) a wholly-owned Cayman Islands subsidiary of Parent Borrower, AGY (Cayman) ("AGY Cayman Sub"), has entered into a Share Sale Agreement, dated as of March 12, 2009 (the "Share Sale Agreement"), by and among AGY Cayman Sub, Grace Technology Investment Co., Limited ("Grace"), and Grace THW Holding Limited ("Grace Guarantor"), an executed copy of which Parent Borrower has provided to the Administrative Agent, pursuant to which, among other things, AGY Cayman Sub has agreed to purchase 70% of the share capital of Main Union Industrial Limited, a Hong Kong corporation ("Main Union"), from Grace at completion (the "Initial Grace Purchase"), and (ii) pursuant to the Share Sale Agreement, AGY Cayman Sub agreed to enter into an Option Agreement, to be dated as of June 8, 2009 (the "Grace Option Agreement"), with Grace and Main Union, a draft of which Parent Borrower has provided to the Administrative Agent, pursuant to which, among other things, (A) AGY Cayman Sub would have an option to purchase from Grace, and (B) Grace would have the option to sell to AGY Cayman Sub, in each of the foregoing instances, upon the terms and subject to the conditions disclosed therein, the remaining 30% of the share capital of Main Union (the "Secondary Grace Purchase"), and together with the Initial Grace Purchase, the "Grace Transaction");

WHEREAS, Main Union, in turn, owns 100% of the share capital of Shanghai Grace Technology Co., Ltd., a wholly-owned foreign enterprise organized under the laws of the Peoples' Republic of China (the "PRC Affiliate"; the PRC Affiliate, Main Union, Grace Guarantor, Grace and AGY Cayman Sub being, collectively, the "Grace Companies");

WHEREAS, Parent Borrower has guaranteed the obligations of AGY Cayman Sub under the Grace Option Agreement (the "Secondary Grace Purchase Guaranty"), as well as certain other obligations of AGY Cayman Sub (as set forth on Schedule I to this Amendment) under a Framework Agreement, dated as of March 12, 2009 (the "Framework Agreement"), by and among Grace Guarantor, Grace, Parent Borrower, AGY Cayman Sub, Main Union, and the PRC Affiliate, an executed copy of which Parent Borrower has provided to the Administrative Agent (the "Additional Parent Borrower Guaranties"); and

WHEREAS, the Parties hereby agree to amend, and to provide certain consents with respect to, the Credit Agreement, upon the terms and subject to the conditions set forth herein.



NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereto agree as follows:

#### SECTION 1. DEFINITIONS

1.1. All capitalized terms used herein (including in the introductory paragraph and Recitals set forth above) and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

#### SECTION 2. CONDITIONS TO EFFECTIVENESS

The amendments and consent set forth in Section 4 of this Amendment shall be effective on the date on which all of the following conditions precedent of this Section 2.1 shall have been satisfied or waived (the "Effective Date") on or prior to June 11, 2009:

2.1. Administrative Agent shall have received this Amendment, executed and delivered by a duly authorized officer of each of the Parties hereto.

2.2. The Administrative Agent, on behalf of the Lenders, shall have received the amendment fee due and payable pursuant to Section 5.1 of this Amendment.

2.3. Borrower shall have paid Administrative Agent for all reasonable out-of-pocket expenses incurred by it and invoiced on or prior to the Effective Date in connection with the Credit Agreement (including the negotiation, preparation and administration of this Amendment), including the reasonable fees, charges and disbursements of counsel for the Administrative Agent.

2.4. The Administrative Agent shall have received an Officer's Certificate substantially in the form Exhibit A hereto.

2.5. Funds affiliated with Kohlberg and Company and its related co-investors shall have contributed an aggregate amount of not less than \$20,000,000 to the common equity of Parent Borrower, which shall in turn have been contributed to the equity of AGY Cayman Sub (the "Initial Grace Equity Contribution").

#### SECTION 3. REPRESENTATIONS AND WARRANTIES

Each Loan Party represents and warrants to the Administrative Agent and each of the Lenders that:

3.1. The execution, delivery and performance of this Amendment and the consummation of the transactions contemplated hereby (including the Grace Transaction) by each Loan Party and each of its Subsidiaries are within its power and have been duly authorized by all necessary action on the part of such Loan Party or Subsidiary.

3.2. This Amendment has been duly executed and delivered by each Loan Party and constitutes a legal, valid and binding obligation of such Loan Party, enforceable against each of the Loan Parties in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.



3.3. The execution, delivery and performance of this Amendment and the consummation of the transactions contemplated hereby (including the Grace Transaction) (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate the Organizational Documents of any Company, (c) will not violate any Requirement of Law, (d) will not violate or result in a default or require any consent or approval under (i) the Senior Second Lien Note Documents or (ii) any other indenture, agreement or other instrument binding upon any Company or its property, or give rise to a right thereunder to require any payment to be made by any Company, except, in the case of sub-clause (ii), for violations, defaults or the creation of such rights that could not reasonably be expected to result in a Material Adverse Effect, and (e) will not result in the creation or imposition of any Lien on any property of any Company, except Liens created by the Loan Documents and Permitted Liens.

3.4. Attached hereto as Schedule II is an accurate organizational chart showing the ownership structure of Holdings, Parent Borrower and each Subsidiary, after giving effect to the Initial Grace Purchase.

3.5. No information, report, financial statement, certificate, exhibit or schedule furnished by or on behalf of any Company to the Administrative Agent or any Lender in connection with the preparation, negotiation or execution of this Amendment or the consummation of the Grace Transaction, taken as a whole, contained or contains any material misstatement of fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were or are made, not misleading as of the date such information is dated or certified; provided that to the extent any such information, report, financial statement, exhibit or schedule was based upon or constitutes a forecast or projection, each Company represents only that it acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

3.6. In connection with the Grace Transaction, no Company (other than a Grace Company) is assuming or becoming liable with respect to, or will assume or become liable with respect to, any Indebtedness or other liability (including any material tax or pension type liability) of the business, person or properties acquired or of the sellers thereof, other than the obligations of Parent Borrower under the Secondary Grace Purchase Guaranty and the Additional Parent Borrower Guaranties.

3.7. No Default or Event of Default has occurred and is continuing.

3.8. Each of the representations and warranties made by any Loan Party set forth in Article III of the Credit Agreement or in any other Loan Document is true and correct in all material respects (except that each representation and warranty that is qualified as to "materiality" or "Material Adverse Effect" is true and correct in all respects) on and as of the date of this Amendment with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date.



SECTION 4. AMENDMENTS TO CREDIT AGREEMENT; CONSENT

4.1. Section 1.01 of the Credit Agreement is hereby amended by adding the following definitions in their proper alphabetical order:

“Additional Equity Proceeds’ shall mean the aggregate amount of net cash proceeds received by Parent Borrower pursuant to an issuance of its common stock (net of all taxes, fees, commissions, costs and other expenses incurred in connection with such issuance) conducted during any period commencing on the sixtieth (60th) day preceding an acquisition of the share capital of Main Union pursuant to the Secondary Grace Purchase and ending on the date of such acquisition, exclusive of any proceeds of the Initial Grace Equity Contribution.”

“Additional Parent Borrower Guaranties’ shall have the meaning assigned thereto in Amendment No. 3.

“AGY Cayman Sub’ shall have the meaning assigned thereto in Amendment No. 3.”

“Amendment No. 3’ shall mean Amendment No. 3 and Consent, dated as of June 8, 2009, by and among Parent Borrower, the other Borrowers, Holdings, the Subsidiary Guarantors, the Lenders and the Administrative Agent.”

“Framework Agreement’ shall have the meaning assigned thereto in Amendment No. 3.

“Initial Grace Equity Contribution’ shall have the meaning assigned thereto in Amendment No. 3.

“Initial Grace Purchase’ shall have the meaning assigned thereto in Amendment No. 3.”

“Main Union’ shall have the meaning assigned thereto in Amendment No.3.”

“Non-Recourse Indebtedness’ means Indebtedness:

(a) as to which neither Holdings nor any of its Subsidiaries (other than Main Union and its Subsidiaries) (i) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (ii) is directly or indirectly liable as a guarantor or otherwise, or (iii) constitutes the lender, except, in each case, to the extent constituting an Investment permitted under clause (h) or (i) of Section 6.04;

(b) no default (including any rights that the holders of the Indebtedness may have to take enforcement action against Main Union or any of its Subsidiaries) that would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than Indebtedness under this Agreement) of Holdings or any of its Subsidiaries (other than Main Union and its Subsidiaries) to declare a default on such other Indebtedness or cause the payment of such other Indebtedness to be accelerated or payable prior to its stated maturity; and



(c) as to which the lenders thereunder have been notified in writing that they will not have any recourse to the stock or assets of Holdings or any of its Subsidiaries (other than Main Union and its Subsidiaries).”

“‘Secondary Grace Purchase’ shall have the meaning assigned thereto in Amendment No. 3.”

“‘Secondary Grace Purchase Guaranty’ shall have the meaning assigned thereto in Amendment No. 3.”

4.2. Section 1.01 of the Credit Agreement is hereby further amended by modifying clause (ii) of the definition of “Alternate Base Rate” to read in its entirety as follows:

“‘Alternate Base Rate’ shall mean, for any day, a rate per annum (rounded upward, if necessary, to the nearest 1/100th of 1%) equal to the greatest of (a) the Base Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus 0.50%, and (c) the Adjusted LIBOR Rate for an Interest Period of one month beginning on such day (or if such day is not a Business Day, on the immediately preceding Business Day), plus 1.0%. If the Administrative Agent shall have determined (which determination shall be conclusive absent manifest error) that it is unable to ascertain the Federal Funds Effective Rate for any reason, including the inability of failure of the Administrative Agent to obtain sufficient quotations in accordance with the terms of the definition thereof, the Alternate Base Rate shall be determined without regard to clause (b) of the preceding sentence until the circumstances giving rise to such inability no longer exist. Any change in the Alternate Base Rate due to a change in the Base Rate, the Federal Funds Effective Rate or the Adjusted LIBOR Rate shall be effective on the effective date of such change in the Base Rate, the Federal Funds Effective Rate or the Adjusted LIBOR Rate, respectively.”

4.3. Section 1.01 of the Credit Agreement is hereby further amended by modifying clause (ii) of the definition of “Applicable Margin” to read in its entirety as follows:

“‘Applicable Margin’ shall mean, for any day, with respect to any Loan, (i) 0.75% on ABR Loans and (ii) 1.75% on Eurodollar Loans, *provided* that, at any time during which the outstanding amounts of the Loans and LC Exposure exceeds \$25,000,000, the rate that is applicable to such excess amounts consisting of (x) ABR Loans shall be 2.00% and (y) Eurodollar Loans (including, for the avoidance of doubt, LC Exposure) shall be 3.00%.”

4.4. Section 1.01 of the Credit Agreement is hereby further amended by modifying clause (v) of the definition of “Borrowing Base” by inserting therein the amount “\$10,000,000” in lieu of the amount “\$7,500,000”.

4.5. Clause (e) of Section 6.01 of the Credit Agreement is hereby amended by inserting therein the amount “\$20,000,000” in lieu of the amount “\$10,000,000”.

4.6. Clause (f) of Section 6.01 of the Credit Agreement is hereby amended to read in its entirety as follows:

“(f)(x) Indebtedness incurred by Foreign Subsidiaries in an aggregate principal amount not to exceed \$10,000,000 at any time outstanding and (y) other Indebtedness incurred by Main Union or any Foreign Subsidiary that is a Subsidiary of Main Union in connection with the Grace Transaction provided that the Indebtedness incurred in connection with this clause (y) shall be Non-Recourse Indebtedness;”



4.7. Clause (h) of Section 6.01 of the Credit Agreement is hereby amended to read in its entirety as follows:

“(h) Contingent Obligations of any Loan Party in respect of Indebtedness otherwise permitted under this Section 6.01, other than Contingent Obligations of a Loan Party in respect of Indebtedness of a Foreign Subsidiary except to the extent such Contingent Obligations in respect of Indebtedness of a Foreign Subsidiary are permitted as an Investment under clause (h) or (i) of Section 6.04.”

4.8. Clause (o) of Section 6.02 of the Credit Agreement is hereby amended by deleting the reference to “Section 6.01(g)” therein and substituting therefor “Section 6.01(f).”

4.9. Clause (e) of Section 6.04 of the Credit Agreement is hereby amended by adding the following clause at the end thereof:

“, and investments by Parent Borrower in respect of either the Secondary Grace Purchase Guaranty or the Additional Parent Borrower Guaranties to the extent payments with respect thereto are subject to, and limited to, satisfaction of the conditions set forth in Section 6.04(i)(ii)”

4.10. Clause (h) of Section 6.04 of the Credit Agreement is hereby amended to read in its entirety as follows:

“(h) other Investments in an aggregate amount not to exceed \$10,000,000 at any time outstanding; *provided* that, of such \$10,000,000, the aggregate amount of Investments, directly or indirectly, in AGY Cayman Sub or any of its Subsidiaries does not exceed \$5,000,000 at any time outstanding; and”

4.11. Section 6.04 of the Credit Agreement is hereby amended by inserting immediately after clause (h) thereof a new clause to read in its entirety as follows:

“(i) other Investments made by the Borrower or any Subsidiary

(i) in the amount of \$20,000,000 in respect of the Initial Grace Purchase to the extent funded by the Initial Grace Equity Contribution, and

(ii) in an amount not exceeding the sum of \$18,000,000 and the amount of Additional Equity Proceeds in respect of the acquisition or acquisitions, in the aggregate, of the share capital of Main Union pursuant to the Secondary Grace Purchase; *provided* that (A) for the period of sixty (60) days ending on the date on which each such acquisition is consummated, Excess Availability shall not have been less than \$10,000,000 at the end of any day during such period, (B) immediately after giving effect to each such acquisition, Excess Availability shall not be less than \$12,500,000, (C) as a result of each such acquisition,



no Company (other than a Grace Company) shall assume or become liable with respect to any Indebtedness or other liability (excluding the Secondary Grace Purchase Guaranty and the Additional Parent Borrower Guaranties, but including any material tax or pension type liability) of a Grace Company, (D) no Default shall exist or would result from such acquisition, and (E) Parent Borrower shall have delivered to the Agents and the Lenders a certificate, dated as of such acquisition and in form and substance satisfactory to the Agents, certifying that the provisions set forth in clauses (A) through (D) of this Section 6.04(i)(ii) have been satisfied, with such supporting calculations as the Agents may reasonably request.”

4.12. Clause (b) of Section 6.10 of the Credit Agreement is hereby amended by adding the phrase “or the Grace Option Agreement, the Secondary Grace Purchase Guaranty, or the Additional Parent Guaranties,” immediately prior to the phrase “in each case in any manner that is adverse in any material respect to the interest of the Lenders”.

4.13. Clause (f) of Section 8.01 of the Credit Agreement is hereby amended by adding the phrase “, but inclusive of any failure to make payment in respect of either the Secondary Grace Purchase Guaranty or the Additional Parent Borrower Guaranties” after the phrase “other than the Obligations” in the second line thereof.

4.14. The Lenders hereby consent to the Grace Transaction and acknowledge and agree that, as a result of the Grace Transaction, none of the Grace Companies, in accordance with Sections 5.10 and 5.11 of the Credit Agreement, shall be required to become a Subsidiary Guarantor or grant to the Collateral Agent Liens on its assets; provided that (a) Voting Stock representing 66% of the total voting power of all outstanding Voting Stock of AGY Cayman Sub and (b) 100% of the Equity Interests (if any) not constituting Voting Stock of AGY Cayman Sub shall be pledged to the Collateral Agent in accordance with the terms of the Loan Documents. The Lenders also hereby authorize the Administrative Agent and the Co-Collateral Agents to execute and deliver such agreements, instruments and documents as may be reasonably necessary or appropriate to effect the consent set forth in this Section 4.14.

## SECTION 5. MISCELLANEOUS

5.1. Upon execution of this Amendment by the Lenders, Parent Borrower shall pay, without setoff, deduction or counterclaim, a non-refundable amendment fee to the Administrative Agent equal to the product of 50.0 basis points and the aggregate amount of the Lenders’ Revolving Commitments as of the date hereof, for the account of the Lenders based on their respective Revolving Commitments.

5.2. Headings. Section headings in this Amendment are for convenience of reference only, are not part of this Amendment and shall not affect the construction of, or be taken into consideration in interpreting, this Amendment. This Amendment shall constitute a “Loan Document” for purposes of the Credit Agreement.

### 5.3. Governing Law, Jurisdiction, Venue.

(a) Governing Law. This Amendment shall be construed in accordance with and governed by the law of the State of New York, without regard to conflicts of law principles that would require the application of the laws of another jurisdiction.



(b) Submission to Jurisdiction. Each Loan Party hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Amendment or any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the fullest extent permitted by applicable law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Amendment or any other Loan Document shall affect any right that the Administrative Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Amendment or any other Loan Document against any Loan Party or its properties in the courts of any jurisdiction.

(c) Waiver of Venue. Each Loan Party hereby irrevocably and unconditionally waives, to the fullest extent permitted by applicable Requirements of Law, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Amendment or any other Loan Document in any court referred to in Section 5.3(b). Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by applicable Requirements of Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

5.4. Counterparts. This Amendment may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single instrument. Delivery of an executed counterpart of a signature page of this Amendment by telecopier shall be effective delivery of a manually executed counterpart of this Amendment.

5.5. Continued Effectiveness. Except as expressly set forth in this Amendment, the terms of the Credit Agreement and each of the other Loan Documents remain unchanged, and all such Loan Documents shall remain in full force and effect and are hereby confirmed and ratified.

5.6. No Novation. This Amendment shall not be deemed or construed to be a satisfaction, reinstatement, novation or release of the Credit Agreement or of any of the other Loan Documents or a waiver by Lender of any of its rights and remedies under the Credit Agreement or any of the other Loan Documents, or any of them, or at law or in equity.

5.7. Reaffirmation. Each Loan Party hereby reaffirms each and every covenant, condition, obligation and provision set forth in the Loan Documents (except those conditions set forth in Section 4.01 of the Credit Agreement), as modified hereby. Each Loan Party has executed and delivered one or more of the Loan Documents in which such Loan Party has granted liens or security interests in certain of its property. Each Loan Party hereby ratifies and reaffirms all of its respective payment and performance obligations, contingent or otherwise, under the Loan Documents to which it is a party and, to the extent such Loan Party has granted liens or security interests in any of its property pursuant to any of the Loan Documents as security for the Obligations and the Secured





Obligations. Each Loan Party hereby ratifies and reaffirms such payment and performance obligations, grant of security interests and liens and confirms and agrees that such security interests and liens hereafter secure all of the Obligations and the Secured Obligations owed to the Administrative Agent, each Collateral Agent, the Issuing Bank and each Lender and any of its and their successors and assignees. Each Loan Party agrees that each of the Loan Documents remains in full force and effect and is hereby ratified and reaffirmed, and agrees that this Amendment shall not (a) operate as a waiver of any right, power or remedy of the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender under the Loan Documents or (b) constitute a waiver of any provision of any of the Loan Documents or serve to effect a novation of the Obligations and the Secured Obligations.

5.8. Waiver of Jury Trial. Each Loan Party hereby waives, to the fullest extent permitted by applicable Requirements of Law, any right it may have to a trial by jury in any legal proceeding directly or indirectly arising out of or relating to this Amendment, any other Loan Document or the transactions contemplated hereby (whether based on contract, tort or any other theory). Each Party hereto (a) certifies that no representative, agent or attorney of any other Party has represented, expressly or otherwise, that such other Party would not, in the event of litigation, seek to enforce the foregoing waiver and (b) acknowledges that it and the other Parties hereto have been induced to enter into this Amendment by, among other things, the mutual waivers and certifications in this Section.

[Remainder of page left intentionally blank]



IN WITNESS WHEREOF, the duly authorized representatives of the Parties have caused this Amendment to be executed and acknowledge that they have read and understood this Amendment.

AGY HOLDING CORP.

By: \_\_\_\_\_  
Name:  
Title:

KAGY HOLDING COMPANY, INC.

By: \_\_\_\_\_  
Name:  
Title:

AGY AIKEN LLC

By: \_\_\_\_\_  
Name:  
Title:

AGY HUNTINGDON LLC

By: \_\_\_\_\_  
Name:  
Title:



UBS AG, STAMFORD BRANCH, as  
Administrative Agent

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

UBS LOAN FINANCE LLC, as Lender

By: \_\_\_\_\_  
Name:  
Title:

BANK OF AMERICA, N.A., as a Lender

By: \_\_\_\_\_  
Name:  
Title:



**Exhibit 31.1**

**CERTIFICATION**

I, Douglas J. Mattscheck, Chief Executive Officer and President of AGY Holding Corp., 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: August 19, 2009

/s/ Douglas J. Mattscheck

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



Exhibit 31.2

CERTIFICATION

I, Wayne T. Byrne, Chief Financial Officer of AGY Holding Corp., 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: August 19, 2009

/s/ Wayne T. Byrne

Wayne T. Byrne  
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 June 30, 2009 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 June 30, 2009 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 and President  
(Principal Executive Officer)

Dated: August 19, 2009

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 June 30, 2009 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 June 30, 2009 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Wayne T. Byrne

\_\_\_\_\_  
Wayne T. Byrne  
Chief Financial Officer  
(Principal Financial Officer)

Dated: August 19, 2009

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.