SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 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	**20-420637**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2556 Wagener Road
Aiken, South Carolina 29801
(Address of principal executive offices) (Zip Code)

(888) 434-0945
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☒	Smaller Reporting Company ☐

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

There is no established trading market for the Common Stock of the registrant. As of November 13, 2009, there were 1,291,667 shares of common stock outstanding.

TABLE OF CONTENTS

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)

	September 30, 2009 (Unaudited)	December 31, 2008 (1)
Assets		
Current assets:		
Cash	$ 2,081	$ 4,760
Restricted cash	—	1,239
Trade accounts receivables, less allowances of $2,896 and $3,604 at September 30, 2009 and December 31, 2008, respectively	23,899	14,023
Inventories, net	29,202	39,992
Deferred tax assets	7,197	6,708
Other current assets	3,041	2,115
Total current assets	65,420	68,837
Property, plant and equipment, and alloy metals, net	255,777	178,880
Intangible assets, net	20,095	21,453
Goodwill	40,526	84,992
Other assets	1,534	1,325
TOTAL	$ 383,352	$ 355,487
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable	$ 12,517	$ 9,494
Accrued liabilities	20,471	17,662
Short-term borrowings	5,661	—
Current portion of long-term debt	1,590	—
Total current liabilities	40,239	27,156
Long-term debt	223,714	191,400
Pension and other employee benefit plans	10,560	10,917
Other liabilities	4,035	—
Deferred tax liabilities	16,565	27,709
Total liabilities	295,113	257,182
Commitments and contingencies		
Noncontrolling interest	12,012	—
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	122,336	101,729
Accumulated deficit	(46,737)	(4,047)
Accumulated other comprehensive income	628	623
Total shareholder's equity	76,227	98,305
TOTAL	$ 383,352	$ 355,487

(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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	$ 41,738	$61,143	$114,178	$183,177
Cost of goods sold	43,873	48,532	117,013	148,985
Gross profit (loss)	(2,135)	12,611	(2,835)	34,192
Selling, general and administrative expenses	3,981	5,006	12,029	14,358
Restructuring charges	27	—	752	—
Amortization of intangible assets	250	465	752	1,394
Goodwill impairment charge	—	—	44,466	—
Other operating (expense) income	98	—	(1,769)	319
Income (loss) from operations	(6,295)	7,140	(62,603)	18,759
Other non-operating (expense) income:				
Interest expense	(5,717)	(5,222)	(16,101)	(17,858)
Gain on bargain purchase	—	—	22,540	—
Other income (expense), net	285	(127)	1,413	(18)
Income (loss) before income tax benefit (expense)	(11,727)	1,791	(54,751)	883
Income tax benefit (expense)	3,980	(792)	11,635	(446)
Net income (loss)	(7,747)	999	(43,116)	437
Less: Net loss attributable to the noncontrolling interest	(229)	—	(426)	—
Net income (loss) attributable to AGY Holding Corp.	$ (7,518)	$ 999	$ (42,690)	$ 437

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

AGY Holding Corp. and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in thousands, unless otherwise noted)

	(Unaudited) Nine Months Ended September 30, 2009	2008
Cash flow from operating activities:		
Net (loss) income	$(43,116)	$ 437
Adjustments to reconcile (net loss) net income to net cash (used in) provided by operating activities:		
Goodwill impairment charge	44,466	—
Depreciation	8,858	8,343
Alloy metals depletion, net	4,830	8,964
Amortization of debt issuance costs	535	543
Amortization of intangibles with definite lives	752	1,394
Gain on sale, disposal or exchange of property and equipment and alloy metals	(450)	(750)
Gain on early extinguishment of debt	(1,138)	—
Effect of adopting ASC 805 for acquisition-related costs	1,098	—
Stock compensation	607	805
Gain on bargain purchase for majority interest business acquisition	(22,540)	—
Deferred income tax (benefit) expense	(11,633)	700
Changes in assets and liabilities (net of effect of assets acquired and liabilities assumed in acquisition):		
Trade accounts receivable	(4,347)	(2,157)
Inventories	13,292	(33)
Other assets	637	244
Accounts payable	248	(470)
Accrued liabilities	(1,242)	4,051
Pension and other employee benefit plans	(357)	912
Net cash (used in) provided by operating activities	(9,500)	22,983
Cash flows from investing activities:		
Purchases of property and equipment and alloy metals	(10,074)	(36,726)
Adjustment of Continuous Filament Mat business purchase price	—	2,300
Proceeds from the sale of property and equipment and alloy metals	11,074	1,326
(Increase) decrease in restricted cash	13,056	(20)
Payment for majority interest business acquisition, net of cash acquired	(18,153)	—
Other investing activities	—	(848)
Net cash used in investing activities	(4,097)	(33,968)
Cash flows from financing activities:		
Proceeds from Revolving Credit Facility borrowings	46,825	60,500
Payments on Revolving Credit Facility borrowings	(45,475)	(53,400)
Purchases of Senior Secured Notes	(1,793)	—
Proceeds from AGY Asia Credit Facility	3,635	—
Payments on Shanghai Grace Fabric Corporation loan	(12,309)	—
Payments on capital leases	—	(221)
Capital contribution	20,000	—
Net cash provided by financing activities	10,883	6,879
Effect of exchange rate changes on cash	35	15
Net decrease in cash	(2,679)	(4,091)
Cash, beginning of period	4,760	5,204
Cash, end of period	$ 2,081	$ 1,113

AGY Holding Corp. and Subsidiaries

Consolidated Statements of Cash Flows
(Dollars in thousands, unless otherwise noted)

	(Unaudited) Nine Months Ended September 30, 2009	2008
Supplemental disclosures of cash flow information:		
Cash paid for interest	$11,156	$12,538
Cash paid for income taxes	$ 146	$ —
Supplemental disclosures of non cash financing/investing activities:		
Construction in-progress included in accounts payable	$ 1,010	$ 1,490

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

AGY Holding Corp. and Subsidiaries

Consolidated Statements of Changes in Shareholder's Equity
For the Nine Months Ended September 30, 2009 and 2008
(Dollars in thousands, unless otherwise noted)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholder's Equity	Noncontrolling Interest	Net Income (Loss)
	Shares	Amount						
BALANCE — December 31, 2007	1,291,667	$ —	$100,102	$ (4,217)	$ 155	$ 96,040	$ —	
Comprehensive income:								
Net income	—	—	—	437	—	437	—	$ 437
Foreign currency translation adjustment	—	—	—	—	15	15	—	
Total comprehensive income	—	—	—	437	15	452	—	
Stock compensation	—	—	805	—	—	805	—	
BALANCE — September 30, 2008 (Unaudited)	1,291,667	$ —	$100,907	$ (3,780)	$ 170	$ 97,297	$ —	
BALANCE — December 31, 2008	1,291,667	$ —	$101,729	$ (4,047)	$ 623	$ 98,305	$ —	
Comprehensive loss:								
Net (loss)	—	—	—	(42,690)	—	(42,690)	(426)	$(43,116)
Foreign currency translation adjustment	—	—	—	—	5	5	7	
Total comprehensive loss	—	—	—	(42,690)	5	(42,685)	(419)	
Capital contribution		—	20,000	—	—	20,000	12,431	
Stock compensation	—	—	607	—	—	607	—	
BALANCE — September 30, 2009 (Unaudited)	1,291,667	$ —	$122,336	$ (46,737)	$ 628	$ 76,227	$ 12,012	

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. Since this acquisition, the Company operates as two reportable segments (each a single operating segment) consisting of AGY U.S manufacturing operations ("AGY US") and AGY Asian manufacturing operations ("AGY Asia").

Basis of 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 November 13, 2009, the date it filed its report on Form 10-Q for the quarter ended September 30, 2009 with the SEC, and has no other material subsequent events to report than the one disclosed in Note 19.

Adoption of new accounting standards

In June 2009, the Financial Accounting Standards Board "FASB" issued Accounting Standards Codification ("ASC") 105 (formerly Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162*). ASC 105 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 ASC 105, the Codification supersedes all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. ASC 105 was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of the Codification in the third quarter of 2009 did not have an effect on our results of operations, cash flows, or financial position. However, because the Codification completely replaces existing standards, it did affect the way GAAP is referenced within the consolidated financial statements and accounting policies.

In May 2009, the FASB issued ASC 855 (formerly Statement of Financial Accounting Standards ("SFAS") No. 165, *Subsequent Events*), 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 ASC 855, which we adopted for the quarter ended June 30, 2009, we have disclosed the date through which subsequent events are reported.

In April 2009, the FASB issued three staff positions ("FSPs") intended to provide additional guidance and enhanced disclosures for fair value measurements and impairment of debt securities. The first, which amended ASC 825 (formerly FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*), requires that publicly traded companies make the same disclosures about the fair value of financial instruments for interim reporting periods as are required in annual financial statements. The second, which amended ASC 320 (formerly FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*), provides guidance on how to determine whether an available-for-sale, or held-to-maturity, security is other-than-temporarily-impaired, and requires the impairment to be split between (i) its credit loss (the difference between the discounted cash flows to be collected and the amortized cost basis of the security), which is reported in earnings, and (ii) impairment from other factors, which is reported in other comprehensive income. The third, which amended ASC 820 (formerly FSP 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*), provides guidance to help determine whether a market is inactive, and to determine whether transactions in that market are not orderly. These amendments were effective for interim and annual reporting periods ending after June 15, 2009. There was no impact from the adoption of the provisions of these FSPs on our results of operations, cash flows, or financial position.

Effective January 1, 2009, we adopted the provisions of ASC 805 (formerly FSP FAS 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, ASC 805 requires that all acquisition-related costs be expensed as incurred. At December 31, 2008, under the prior guidance of SFAS No. 141 (R), 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 nine months ended September 30, 2009) the $1,098 of acquisition-related costs incurred and deferred at December 31, 2008. We also expensed $1,530 of incremental advisory, legal and accounting fees that we incurred during the nine months ended September 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 ASC 805 to the accounting for this acquisition.

On January 1, 2009, we adopted ASC 810 (formerly SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51)*, 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. ASC 810 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 ASC 810 had no impact on our results of operations, cash flows or financial position, as all our subsidiaries were wholly owned on January 1, 2009. The previously described business combination consummated on June 10, 2009, included noncontrolling interest classified between liabilities and stockholder's equity on the consolidated balance sheet and separately presented in the statement of operations.

On January 1, 2009, we adopted ASC 815 (formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133)*, which requires enhanced disclosures about an entity's derivative and hedging activities. ASC 815 does not change the accounting for derivative instruments. See Note 14 to the interim consolidated financial statements for enhanced disclosures required by ASC 815.

AGY HOLDING CORP. AND SUBSIDIARIES

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

Effective January 1, 2008, we adopted ASC 820 (formerly FASB Statement No. 157, *Fair Value Measurements)*, for financial assets and liabilities. The initial adoption of ASC 820 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 ASC 820 related to our nonfinancial assets and liabilities. However, there were no nonfinancial assets and liabilities requiring initial measurement or subsequent remeasurement during the nine months ended September 30, 2009. As discussed in Notes 6 and 16, the Company recorded a goodwill impairment charge in the three and six-month period ended June 30, 2009, and has included the additional disclosures required by ASC 820 in Notes 6 and 16.

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. 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 evaluating 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.

In August 2009, the FASB issued ASU No. 09-5, "*Fair Value Measurements and Disclosures (Topic 820) — Measuring Liabilities at Fair Value*," which amends ASC 820. ASU No. 09-5 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value utilizing one or more of the following techniques: (1) a valuation technique that uses quoted prices for identical or similar liabilities when traded as assets; or (2) another valuation technique that is consistent with the principles of ASC 820, such as a present value technique or market approach. ASU No. 09-5 is effective for the first reporting period, including interim periods, beginning after issuance. We are currently evaluating the impact the adoption of ASU No. 09-5 will have on our results of operations, cash flows, or financial position.

In October 2009, the FASB issued Accounting Standards Update ("ASU") No. 09-13, "*Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements — a Consensus of the FASB Emerging Issues Task Force*", which amends ASC 605. ASU

AGY HOLDING CORP. AND SUBSIDIARIES

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

No. 09-13 establishes a selling price hierarchy, whereby vendor-specific objective evidence ("VSOE"), if available, should be utilized. If VSOE is not available, then third party evidence should be utilized; if third party evidence is not available, then an entity should use the estimated selling price for the good or service. ASU No. 09-13 eliminates the residual method and requires allocation at the inception of the contractual arrangement. ASU No. 09-13 also requires additional disclosures surrounding multiple-deliverable revenue arrangements. ASU No. 09-13 is effective, on a prospective basis, for revenue arrangements entered into after June 15, 2010, with early adoption permitted. We are currently evaluating the impact the adoption of ASU No. 09-13 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 (together, "Grace"), AGY Cayman, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Company, completed its acquisition of 70% of the outstanding shares of Main Union Industrial Ltd. (renamed AGY Hong Kong Ltd.), a company incorporated in Hong Kong and a previously wholly-owned subsidiary of Grace Technology Investment Co., Ltd., a company incorporated in the British Virgin Islands and previously 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 provides 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 Asia" and is also our second operating segment) 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 the put option will be exercised in 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, or other liquidity.

Fair Value Determination and Allocation of Consideration Transferred

As noted above, the Company paid $20,000 in cash and assumed $39.0 million of debt of the acquired business for a total purchase price of approximately $71,398, assuming a 100% controlling interest. The acquisition is being accounted for under the purchase method of accounting and AGY Asia is included in the Company's consolidated financial statements from the June 10, 2009 acquisition date. The preliminary allocation of purchase price to the fair value of the acquired assets less liabilities assumed, indicated that a bargain purchase might result. In the second quarter, however, management was not able to complete a comprehensive review of the fair value of the assets acquired and liabilities assumed in a manner deemed adequate to recognize the bargain purchase gain at that time. During the third quarter of 2009, with the assistance of an independent third-party valuation specialist, management reassessed the fair value of all the assets acquired and all the liabilities assumed and concluded that a bargain purchase gain of approximately $22,540 resulted at the acquisition date. Accordingly, the Company recognized the gain as a component of non-operating income in the nine-month period ended September 30, 2009. Management believes that the Company was able to negotiate a bargain purchase price as a result of the current economic environment.

AGY HOLDING CORP. AND SUBSIDIARIES

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

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

Net assets acquired and liabilities assumed (in millions):

Cash and restricted cash	$ 2.7
Trade accounts receivables (i)	5.5
Inventories	2.5
Other currents assets	1.5
Property, plant and equipment and alloy metals	91.6
Other assets	1.4
Current liabilities	(7.3)
Other noncurrent liabilities	(4.0)
Total net assets	$93.9

(i) The fair value of the trade receivables at the acquisition date represents the gross contractual amounts receivable less an $84 reserve to account for the best estimate at the acquisition date of the contractual cash flows not expected to be collected.

The previously described put and call options are redemption features which result in the classification of the noncontrolling interest as temporary equity in the accompanying consolidated balance sheet at September 30, 2009, presented between total liabilities and shareholder’s equity. The fair value of the noncontrolling interest at the acquisition date of approximately $12,431, was determined by management with the assistance of an independent third-party valuation specialist. The determination of the fair value of the noncontrolling interest included consideration of the purchase price paid by the Company for its 70% interest and the estimated fair value of the put and call options between the parties (considering exercise of the options exercised in 2011 based on achievement of financial performance targets), discounted to present value using an industry weighted average cost of capital.

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 ASC 805 on January 1, 2009, the Company wrote-off (classified as “other operating expense” in the statement of operations for the nine months ended September 30, 2009) the $1,098 of acquisition-related costs incurred and deferred at December 31, 2008. During the three and nine months ended September 30, 2009, the Company also expensed $188 and $1,530, respectively of incremental advisory, legal and accounting fees that were incurred in 2009 in connection with the acquisition.

AGY Holding Corp. and Subsidiaries

Notes to Unaudited Consolidated Financial Statements—(Continued)
(Dollars in thousands, unless otherwise noted)

AGY Asia Results of Operations

The following table presents the amount of unaudited net sales, loss from operations and net loss of AGY Asia included in our interim consolidated statements of operations from the date of the acquisition for the three and nine months ended September 30, 2009 (excluding the $22,540 income recognized for the bargain purchase gain):

	Three Months ended September 30, 2009	Nine Months ended September 30, 2009
Net sales	$ 6,360	$ 7,741
Loss from operations	(412)	(961)
Net loss	(761)	(1,419)

Pro Forma Results

The following table presents the estimated unaudited pro forma consolidated results as if the business combination occurred as of January 1, 2009 and January 1,2008, respectively. 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 and January 1, 2008, respectively:

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net sales	$ 122,605	$ 201,273
(Loss) income from operations	(64, 492)	18,697
Net loss	(45,945)	(2,121)

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 ASC 420. The Company paid in full the balance due for such contract termination costs to OC during the third quarter of 2008.

AGY HOLDING CORP. AND SUBSIDIARIES

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

3. Inventories, net

Inventories, net of reserves for excess, obsolete, and lower of cost or market adjustments of $3,130 and $1,482 as of September 30, 2009 and December 31, 2008, respectively, consist of the following:

	September 30, 2009	December 31, 2008
Finished goods and work in process	$ 19,482	$ 30,180
Materials and supplies	9,720	9,812
	$ 29,202	$ 39,992

4. Property, Plant and Equipment and Alloy Metals

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

	September 30, 2009	December 31, 2008
Land	$ 11,561	$ 861
Buildings and leasehold improvements	37,491	15,029
Machinery and equipment	130,588	73,000
Alloy metals (net of depletion)	113,321	117,924
	292,961	206,814
Less – Accumulated depreciation	(41,775)	(33,138)
	251,186	173,676
Construction-in-progress	4,591	5,204
	$ 255,777	$ 178,880

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 $91,611 (including $10,700 of land use rights, $20,750 of buildings and leasehold improvements, $49,323 of machinery and equipment and construction-in-progress, and $10,838 of alloy metals).

Depreciation expense was $8,858 and $8,343 in the nine months ended September 30, 2009 and 2008, respectively, and depletion of alloy metals was $4,830 and $8,964 (net of recoveries and excluding expense to process such recoveries), in the nine months ended September 30, 2009 and 2008, respectively.

During the first nine months of 2009, the Company sold alloy metals and recognized a gain of $462, classified as “other operating income”. During the first nine months of 2008, the Company sold land and recognized a gain of $930, classified as “other operating income”.

(Dollars in thousands, unless otherwise noted)

5. Intangible Assets

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

	September 30, 2009	December 31, 2008	Estimated Useful Lives
Intangible assets subject to amortization:			
Customer relationships – U.S.	$ 4,800	$ 4,800	11 years
Process technology	10,200	10,200	18 years
Deferred financing fees	5,075	5,145	5 to 8 years
Covenant not to compete	—	2,018	3 years
Sub-Total	20,075	22,163	
Less – Accumulated amortization	(5,593)	(6,323)	
	14,482	15,840	
Trademarks – not amortized	5,613	5,613	
Net intangible assets	$ 20,095	$ 21,453	

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

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

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

6. Goodwill Impairment Charge

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. The Company utilized the valuation hierarchy provided in ASC 820-10 to measure at fair value this goodwill as discussed in Note 16. 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. Management continually monitors and evaluates current business performance and its business outlook in determining whether there are events or circumstances requiring the Company to re-evaluate its goodwill for impairment. Significant changes in demand levels within the Company's respective markets, changes in production costs including raw materials, metal alloy, energy and direct labor, may have a material impact on the results of future valuations, and if adverse, could cause the Company to recognize additional impairment, which would be disclosed. After the review of current market conditions and of the Company's financial forecasts, management determined that no additional impairment needed to be recognized during the third quarter of 2009. The Company will conduct its annual impairment testing of goodwill and trademarks as of October 31.

AGY HOLDING CORP. AND SUBSIDIARIES

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

7. Restructuring Initiatives

During the first nine months 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 nine months ended September 30, 2009, the Company recorded $752 in restructuring charges that related primarily to severance and outplacement costs for the salaried positions that the Company eliminated.

	Severance Costs	Others	Total
Balance as of December 31, 2008	$ —	$ —	$ —
Restructuring costs incurred	724	28	752
Payments	(684)	(28)	(712)
Balance as of September 30, 2009	$ 40	$ —	$ 40

8. Accrued Liabilities

Accrued liabilities consist of the following:

	September 30, 2009	December 31, 2008
Vacation	$ 2,130	$ 2,371
Real and personal property taxes, (excluding pre-petition)	5,029	4,216
Pre-petition real and personal property taxes	—	999
Payroll and benefits	1,636	1,057
Unpaid severance costs	40	—
Variable compensation accrual	—	3,629
Amount due for pension and retiree medical reimbursement	344	1,540
Accrued interest	7,200	2,444
Current portion of pension and other employee benefits	1,055	1,055
Accrued non refundable PRC value added tax	865	—
Other	2,172	351
Total accrued liabilities	$ 20,471	$ 17,662

AGY HOLDING CORP. AND SUBSIDIARIES

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

In August 2009, the United Bankruptcy Court approved the stipulation of final settlement for disputed real and personal property tax claims resulting from the Company, under prior ownership, emerging from bankruptcy in 2004. As a result of the approved settlement for the years 2002 to 2004, the Company recognized a net gain of approximately $415 during the three months and nine months ended September 30, 2009, classified in cost of good sold, and $1,239 of restricted cash in escrow for such disputed taxes was simultaneously released.

9. Debt

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

	September 30, 2009	December 31, 2008
Senior secured notes	$ 172,000	$ 175,000
Senior secured revolving credit facility	17,750	16,400
AGY Asia credit facility – non-recourse	41,215	—
Total debt	230,965	191,400
Less – Current portion AGY Asia	7,251	—
Total long-term debt	$ 223,714	$ 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 AGY Asia, as described in Note 2, the Company amended its credit agreement in order to obtain the necessary approval of the revolving credit lenders. In the amendment, certain provisions of the credit agreement were modified or added: the availability reserve in the borrowing base calculation increased from $7,500 to $10,000; the foreign subsidiary indebtedness of AGY Asia or its subsidiaries is permitted provided that it is non-recourse indebtedness; the investment associated with the purchase of the remaining 30% is permitted provided that the Company's excess availability under the facility is at least $10,000 for 60 days prior to the consummation date and $12,500 immediately following such consummation; and it is an event of default under the credit agreement if the Company defaults under its obligations regarding the acquisition of the remaining 30% of AGY Asia. In addition, the applicable margin for any utilization of the revolver in excess of $25,000 increased from 1.75% to 3.0% for Eurodollar loans and from 0.75% to 2.0% for base rate loans. No other 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 September 30, 2009 and December 31, 2008, we had $17,750 and $16,400 borrowings, respectively, outstanding under the Credit Facility. The weighted average interest rate for cash borrowings outstanding as of September 30, 2009, was 2.2%. At September 30, 2009 and December 31, 2008, we also issued approximately $2,193 and $450, respectively, of standby letters of credit primarily for collateral required for utilities, fixed-rate natural gas purchases and workers' compensation obligations. Borrowing availability at September 30, 2009 and December 31, 2008, was approximately $20,100 and $23,150, respectively.

AGY HOLDING CORP. AND SUBSIDIARIES

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

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

The Credit Facility contains customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on indebtedness, liens, investments, mergers and consolidations, dividends and other payments in respect to capital stock, transactions with affiliates, and optional payments and modifications of subordinated and other debt instruments. The Credit Facility also includes customary events of default, including a default upon a change of control. The Company was in compliance with all such covenants at September 30, 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 September 30, 2009 and December 31, 2008, the estimated fair value of the Notes was $136,955 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.

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

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

AGY HOLDING CORP. AND SUBSIDIARIES

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

AGY Asia Credit Facility- Non-recourse

The bank debt of $38,967 assumed in the acquisition of AGY Asia was refinanced as discussed below. On July 10, 2009, AGY Shanghai entered into a financing arrangement with the Bank of Shanghai ("AGY Asia Credit Facility"). The arrangement consists of a five-year term loan in the aggregate amount of approximately $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 at the time of the refinancing 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 nine-month LIBOR plus 3.0%. Term loan borrowings may be made in both local currency and US dollars, up to certain limits. At September 30, 2009, we had approximately $35,500 borrowings outstanding under the term loan.

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
	$40.5

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.

At September 30, 2009, we had approximately $5,700 borrowings outstanding under the working capital loan.

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 September 30, 2009.

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

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 approximately $12,400 outstanding under this loan at the acquisition date and at June 30, 2009 was repaid in full in July 2009, using, in part, restricted cash for such repayment. There is no similar financing agreement in place since the refinancing on July 10, 2009, discussed above.

AGY HOLDING CORP. AND SUBSIDIARIES

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

Maturities of Long-Term Debt

Maturities of long-term debt at September 30, 2009 consist of the following:

	North America	China – Non-recourse	Total
2010	$ —	$ 2,754	$ 2,754
2011	17,750	7,152	24,902
2012	—	8,795	8,795
2013	—	9,967	9,967
2014	172,000	5,296	177,296
	$189,750	$ 33,964	$223,714

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 nine months ended September 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 Asia 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 nine months ended September 30, 2009 and 2008, are as follows:

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	Pension Benefits		Post-Retirement Benefits		Pension Benefits		Post-Retirement Benefits	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	$ —	$ —	$ 112	$ 105	$ —	$ —	$ 336	$ 314
Interest cost	68	74	109	105	205	220	327	315
Amortization of unrecognized gains	—	—	(3)	—	—	—	(9)	—
Total net periodic benefit cost	$ 68	$ 74	$ 218	$ 210	$ 205	$ 220	$ 654	$ 629

Expected net employer contributions for the defined benefit plan for the year ending December 31, 2009 are $1,239. Expected net employer contributions for the postretirement benefit plan for the year ending December 31, 2009 are $451.

(Dollars in thousands, unless otherwise noted)

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 nine months ended September 30, 2009 and 2008, the Company contributed $448 and $608, 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 $607 and $805 at September 30, 2009 and 2008, respectively. No additional stock options or restricted stock were granted, exercised, forfeited or expired during the nine months ended September 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 nine months ended September 30, 2009 and 2008 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net (loss) income attributable to AGY Holding Corp.	$(7,518)	$ 999	$(42,690)	$437
Currency translation adjustments	11	23	5	15
Comprehensive (loss) income attributable to AGY Holding Corp.	$(7,507)	$1,022	$(42,685)	$452
Net loss attributable to noncontrolling interest	$ (229)	$ —	$ (426)	$—
Currency translation adjustments	6	—	7	—
Comprehensive loss attributable to noncontrolling interest	$ (223)	$ —	$ (419)	$—
Net (loss) income	$(7,747)	$ 999	$(43,116)	$437
Currency translation adjustments	17	23	12	15
Comprehensive (loss) income, including portion attributable to noncontrolling interest	$(7,730)	$1,022	$(43,104)	$452

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 ASC 815*s*, and are therefore exempted from the related accounting requirements. At September 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 94% of our estimated natural gas purchase requirements in the fourth quarter of 2009 and approximately 60% of fiscal year 2010 requirements. Because the natural gas commitments for the third quarter 2009, as anticipated, exceeded our utilization, we recognized a loss of $58 in the consolidated financial statements during the second quarter of 2009 and for the nine months ended September 30, 2009.

AGY HOLDING CORP. AND SUBSIDIARIES

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

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 September 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 nine months ended September 30, 2009 and 2008, total lease costs of alloy metals were approximately $2,736 and $6,273, respectively, and were classified as a component of cost of goods sold.

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

***Metal Consignment Facility* —** AGY had a consignment agreement in place with Bank of Nova Scotia, as assignee of Bank of America, N.A., which was assignee of Fleet Precious Metals Inc., to lease platinum, one of the alloy metals used in our manufacturing operations 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 was 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 were 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 contained 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 did not contain any financial covenants. Bank of Nova Scotia or we could terminate the consignment agreement at any time upon 30 days prior written notice. At September 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 $34,000 and $26,000, respectively, as calculated under the facility. Unused availability at September 30, 2009 and December 31, 2008, was approximately 5,600 and 3,200 ounces of platinum, respectively, with a notional value of $35,600 and $43,600, 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 September 30, 2009 and December 31, 2008, there were no outstanding letters of credit securing the agreement. All of the leases outstanding at September 30, 2009 had initial terms of one to twelve months, maturing no later than October 7, 2009 (with future minimum rentals of approximately $19 until maturity in October 2009). Effective October 7, 2009, we terminated the Metal Consignment Facility with Bank of Nova Scotia and entered into a new master lease agreement with Deutsche Bank as discussed below.

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. This master lease agreement allowed us to enter into leases of alloy metal with terms of one to nine 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. Effective October 24, 2008, we terminated the OC master lease agreement.

AGY HOLDING CORP. AND SUBSIDIARIES

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

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 September 30, 2009 and December 31, 2008, we leased approximately 12,700 and 19,050 ounces of platinum, respectively, and 2,200 and 3,300 ounces of rhodium, respectively, under the Master Lease Agreement, with a notional value of approximately $15,800 and $21,800. All of the leases outstanding at September 30, 2009 had initial terms of one to twelve months, maturing no later than October 28, 2009 (with future minimum rentals of approximately $82 until maturity in October 2009).

In connection with the termination of the Metal Consignment Facility with Bank of Nova Scotia on October 7, 2009, the Master Lease Agreement was also terminated and we entered into a new master lease agreement (the "New Master Lease Agreement") with DB. The New Master Lease Agreement has a three-year term and allows AGY to enter into leases of alloy metals, up to 51,057 ounces of platinum and up to 3,308 ounces of rhodium, with terms of one to twelve months. Lease costs are determined by the quantity of metal leased, multiplied by a benchmark value of the applicable precious metal and a margin above the lease rate index based on DB's daily precious metal rates. The New Master Lease Agreement is secured by a security interest in rhodium up to a value that is the lesser of 35% of the leased platinum or $24.4 million. The New Master Lease Agreement contains customary events of default, including, without limitation, nonpayment of lease payments, inaccuracy of representations and warranties in any material respect and a cross-default provision with any credit facility or leasing facility greater than $500, including the Credit Facility and the Notes. There are no financial maintenance covenants included in the New Master Lease Agreement.

16. Fair Value Measurements

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

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

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

At September 30, 2009, assets or liabilities measured at fair value in periods subsequent to their initial recognition only include the goodwill associated with the purchase of AGY Holding Corporation by KAGY Holding Company, Inc. in April 2006 that was partially impaired during the three months ended June 30, 2009. The valuation methodologies used to determine fair value, with the assistance of a third party valuation specialist, were:

- Market approach: The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business).
- Income approach: The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts.

Since there were unobservable inputs, management concluded that this was a Level 3 fair value measurement.

($ in millions) Description	Fair Value Measurements as of September 30, 2009 Total	Level 1	Level 2	Level 3
Goodwill	$40.5	—	—	$40.5

In accordance with the provisions of ASC 350-20, the goodwill with a carrying amount of approximately $85 million was written down to the fair value of $40.5 million, resulting in an impairment charge of $44.5 million, which was included in earnings for the second quarter of 2009 and the nine-month period ending September 30, 2009.

17. 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 nine months ended September 30, 2009 and 2008, was approximately $1,505 and $831, respectively. The following is a schedule by year of minimum future rental payments at September 30, 2009:

10/1/09 to 12/31/09	$ 283
2010	1,198
2011	1,107
2012	1,062
2013	1,056
Thereafter	1,652
	$6,358

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

18. Segment Information

Since the acquisition of AGY Asia on June 10, 2009 as discussed in Note 2, the Company has two reportable segments, each a separate operating segment. The AGY US segment includes the US manufacturing operations and its sale of advanced glass fibers that are used worldwide as reinforcing materials in numerous high-value applications and end-markets through AGY Holding Corp., its wholly owned domestic and French subsidiaries. The AGY Asia segment includes the manufacturing operations of the Company's 70% controlling ownership of AGY Hong Kong Limited and its sale of advanced glass fibers that are used primarily in the Asian electronics markets. The Company's operating segments are managed separately based on differences in their manufacturing and technology capabilities, products and services and their end-markets as well as their distinct financing agreements. The financial results for our operating segments are prepared using a management approach, which is consistent with the basis and manner in which we internally segregate financial information for the purpose of making internal operating decisions. We evaluate the performance of our operating segments based on operating profit. Corporate and certain other expenses are not allocated to the operating segments, except to the extent that the expense can be directly attributable to the operating segment.

AGY HOLDING CORP. AND SUBSIDIARIES

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

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

Three Months Ended September 30, 2009

	AGY US	AGY Asia	Corporate and Other	Total
Net sales to external customers	$ 35,500	$ 6,238	$ —	$ 41,738
Intersegment sales	—	122	(122)	—
Total net sales	35,500	6,360	(122)	41,738
Operating loss	(5,497)	(563)	(235)	(6,295) (i)
Depreciation and amortization	2,749	1,206	—	3,955
Alloy metals depletion, net	(57)	122	—	65
Carrying amount of goodwill and intangible assets	60,621	—	—	60,621
Total assets	$278,570	$104,782	$ —	$383,352

(i) Operating loss for the three months ended September 30, 2009 within the corporate and other segment includes primarily, $188 of acquisition-related costs (discussed in Note 2), stock compensation expense and the management fees payable to our sponsor.

Nine Months Ended September 30, 2009

	AGY US	AGY Asia	Corporate and Other	Total
Net sales to external customers	$106,559	$ 7,619	$ —	$114,178
Intersegment sales	—	122	(122)	—
Total net sales	106,559	7,741	(122)	114,178
Operating loss	(13,090)	(1,112)	(48,401)	(62,603) (i)
Depreciation and amortization	7,979	1,631	—	9,610
Alloy metals depletion, net	4,708	122	—	4,830
Carrying amount of goodwill and intangible assets	60,621	—	—	60,621
Total assets	$278,570	$104,782	$ —	$383,352

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

19. Subsequent events

As discussed in Note 15, in connection with the termination of the Metal Consignment Facility with Bank of Nova Scotia on October 7, 2009, we also terminated the Master Lease Agreement and entered into a new three-year term Master Lease Agreement with DB, which allows AGY to enter into leases of alloy metals, up to 51,057 ounces of platinum and up to 3,308 ounces of rhodium, with terms of one to twelve months. The New Master Lease Agreement is secured by a security interest in rhodium up to a value that is the lesser of 35% of the leased platinum or $24.4 million.

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.

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

Business Combination

On June 10, 2009, 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 (together, "Grace"), AGY Cayman, a company incorporated in the Cayman Islands and a wholly-owned subsidiary of the Company, completed its acquisition of 70% of the outstanding shares of Main Union Industrial Ltd. (renamed AGY Hong Kong Ltd.), a company incorporated in Hong Kong and a 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 Asia") and financed this consideration through the sale of additional equity to the Company's private equity sponsors.

The details of this business combination, accounted for under the purchase method of accounting, the allocation of the purchase price and the impact of AGY Asia, which has been included in our consolidated financial statements since 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 nine months 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 nine months ended September 30, 2009 and 2008 (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net Sales				
AGY US	$ 35,500	$61,143	$106,559	$183,177
AGY Asia	6,360	—	7,741	—
	41,860	61,143	114,300	183,177
Intersegment sales	(122)	—	(122)	—
Total net sales	41,738	61,143	114,178	183,177
Cost of goods sold	43,873	48,532	117,013	148,985
Gross profit (loss)	(2,135)	12,611	(2,835)	34,192
Selling, general and administrative expenses	3,981	5,006	12,029	14,358
Restructuring charges	27	—	752	—
Amortization of intangible assets	250	465	752	1,394
Goodwill impairment charge	—	—	44,466	—
Other operating (expense) income, net	98	—	(1,769)	319
Income (loss) from operations	(6,295)	7,140	(62,603)	18,759
Gain on bargain purchase	—	—	22,540	—
Other non-operating (expense) income, net	285	(127)	1,413	(18)
Interest expense	(5,717)	(5,222)	(16,101)	(17,858)
(Loss) income before income taxes	(11,727)	1,791	(54,751)	883
Income tax benefit (expense)	3,980	(792)	11,635	(446)
Net (loss) income	(7,747)	999	(43,116)	437
Less: Net loss attributable to noncontrolling interest	(229)	—	(426)	—
Net (loss) income attributable to AGY Holding Corp.	$ (7,518)	$ 999	$ (42,690)	$ 437

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net Sales				
AGY US	85.1 %	100.0 %	93.3 %	100.0 %
AGY Asia	15.2 %	— %	6.8 %	— %
	100.3 %		100.1 %	
Intersegment sales	(0.3)%	— %	(0.1)%	— %
Total net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	105.1 %	79.4 %	102.5 %	81.3 %
Gross profit (loss)	(5.1)%	20.6 %	(2.5)%	18.7 %
Selling, general and administrative expenses	9.5 %	8.2 %	10.5 %	7.8 %
Restructuring charges	0.1 %	— %	0.7 %	— %
Amortization of intangible assets	0.6 %	0.8 %	0.7 %	0.8 %
Goodwill impairment charge	— %	— %	38.9 %	— %
Other operating (expense) income, net	0.2 %	— %	(1.5)%	0.1 %
Income (loss) from operations	(15.1)%	11.6 %	(54.8)%	10.2 %
Gain on bargain purchase	— %	— %	19.8 %	— %
Other non-operating (expense) income, net	0.7 %	(0.2)%	1.2 %	0.0 %
Interest expense	(13.7)%	(8.5)%	(14.0)%	(9.7)%
(Loss) income before income taxes	(28.1)%	2.9 %	(48.0)%	0.5 %
Income tax benefit (expense)	9.5 %	(1.3)%	10.2 %	(0.3)%
Net (loss) income	(18.6)%	1.6 %	(37.8)%	0.2 %
Less: Net loss attributable to noncontrolling interest	(0.6)%	— %	(0.4)%	— %
Net (loss) income attributable to AGY Holding Corp.	(18.0)%	1.6%	(37.4)%	0.2 %

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Statement of operations data:				
Net (loss) income	$(7,747)	$ 999	$(43,116)	$ 437
Interest expense	5,717	5,222	16,101	17,858
Income tax (benefit) expense	(3,980)	792	(11,635)	446
Depreciation and amortization	3,955	3,106	9,610	9,737
EBITDA	$(2,055)	$10,119	$(29,040)	$28,478

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
EBITDA	$(2,055)	$10,119	$(29,040)	$28,478
Adjustments to EBITDA:				
Alloy depletion charge, net (a)	65	3,093	4,830	8,964
Non-cash compensation charges (b)	58	223	607	805
Management fees (c)	188	188	563	563
Acquisition-related costs expensed in accordance with ASC 805 (d)	188	—	2,628	—
Gain on early extinguishment of debt (e)	—	—	(1,138)	—
Restructuring charges (f)	27	—	752	—
Cost associated with the exit of Anderson facility (g)	—	16	—	639
Goodwill impairment charge (h)	—	—	44,466	—
Gain on bargain purchase (i)	—	—	(22,540)	—
Disposition of assets (gain) & others (j)	(227)	—	(616)	(930)
Adjusted EBITDA	(1,756)	13,639	512	38,519
Less: Adjusted EBITDA attributable to the noncontrolling interest	(300)	—	(263)	—
Adjusted EBITDA attributable to AGY Holding Corp.	$(2,056)	$13,639	$ 249	$38,519

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Adjusted EBITDA allocated to AGY Holding Corp. segment breakdown:				
AGY US and Corporate	$(2,757)	$13,639	$ (365)	$38,519
AGY Asia	701	—	614	—
	$(2,056)	$13,639	$ 249	$38,519

(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 Asia 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 ASC 805; the remainder, or $1,530, constitute incremental acquisition-related costs incurred and expensed during the nine months ended September 30, 2009.
(e) Reflects the elimination of the net gain on early extinguishment of debt associated with the $3,000 (face value) 11% senior secured second lien notes ("Notes") repurchase made by the Company in February 2009.
(f) Reflects the elimination of the restructuring charges associated with reductions in our salaried workforce in 2009 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 the elimination of the gain on bargain purchase associated with AGY Asia business combination.
(j) 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 September 30, 2009 compared to three months ended September 30, 2008

Net sales. Net sales decreased $19.4 million, or 31.8%, to $41.7 million for the three months ended September 30, 2009, compared to $61.1 million during the comparable quarter of 2008. This decrease is primarily due to lower demand across all business segments and lower inventory levels held by several of our customers. This decrease was partly offset by the impact of our acquisition of AGY Asia on June 10, 2009, which contributed $6.2 million of incremental revenue and was favorably impacted by a continuous improvement in the Asian electronics market. The 41.8% decrease in revenue generated by the AGY US operating segment was primarily due to $19.4 million of lower volumes, while an unfavorable product mix and pricing pressure accounted for $6.2 million of the decrease in year-over-year revenue. The construction, industrial and electronics market revenues of the US operating segment were down 40%, 29% and 32%, respectively, compared to the third quarter of 2008, as a result of soft market conditions. Aerospace sales for this segment decreased by 24% compared to the third quarter of 2008 reflecting continued de-stocking initiatives by several customers, and decreased aircraft retrofit activity. Defense revenue in the third quarter of 2009 decreased by 74% compared to the comparable period of 2008. Defense revenue in 2008 was favorably impacted by the volumes associated with the Mine Resistant Ambush Protected ("MRAP") program, which was completed in March 2009.

Gross profit/loss. We reported a consolidated gross loss of $2.1 million for the three months ended September 30, 2009, compared to a gross profit of $12.6 million for the three months ended September 30, 2008. The gross loss reported in the third quarter of 2009 was driven largely by our AGY US operating segment, which was negatively impacted by $8.2 million of lost margin on lower sales and a $5.3 million impact associated with an unfavorable product mix and pricing pressure in certain markets. Additionally, the AGY US segment results were negatively impacted by approximately $7.0 million of costs including the under-absorption of overhead costs, associated with management's decision to curtail production capacity and lower inventory levels. These negative variances were partially offset by $3.3 million of cost reductions.

Selling, general and administrative expenses. Selling, general and administrative costs were $4.0 million during the third quarter of 2009, compared to $5.0 million reported during the third quarter of 2008. This decrease was the result of (i) $1.1 million decrease in compensation expense associated with the AGY US operating segment, and (ii) a $0.4 million decrease in discretionary spending, partially offset by (iii) $0.6 million of incremental expenses associated with the AGY Asia acquisition compared to the third quarter of 2008. As a result of the decrease in revenue, selling, general and administrative costs increased from 8.2% of net sales for the three months ended September 30, 2008 to 9.5% of net sales for the three months ended September 30, 2009.

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

Interest expense. Interest expense increased $0.5 million from $5.2 million in the third quarter of 2008 to $5.7 million for the three months ended September 30, 2009. The increase was primarily due to $0.6 million of incremental interest expense associated with the AGY Asia acquisition.

Income tax benefit. Income tax benefit increased $4.8 million from a $0.8 million tax expense for the three months ended September 30, 2008 to a $4.0 million tax benefit for the three months ended September 30, 2009, due to the higher pre-tax loss recognized in the third quarter of 2009. In addition, the effective tax rate decreased from 44.2% for the third quarter of 2008 to 33.9% for the third quarter of 2009, which approximates the statutory rate.

Net income (loss). As a result of the aforementioned factors, we reported a net loss attributable to AGY Holding Corp. of $7.5 million for the three months ended September 30, 2009, compared to net income of $1.0 million for the three months ended September 30, 2008.

Nine months ended September 30, 2009 compared to Nine months ended September 30, 2008

Net sales. Net sales decreased $69.0 million, or 37.7%, to $114.2 million for the nine months ended September 30, 2009, compared to $183.2 million during the comparable period of 2008. This decrease is primarily due to lower demand across all business segments resulting from the global economic downturn and lower inventory levels held by several of our customers, partly offset by the impact of AGY Asia, which contributed $7.6 million of incremental revenue since the acquisition date on June 10, 2009. The 41.8% decrease in revenue generated by our AGY US operating segment was primarily due to $71.6 million of lower volumes, while an unfavorable product mix accounted for $5.0 million of the decrease in year-over-year revenue. The electronics, construction and industrial market revenues of the U.S operating segment were down 45%, 47% and 33%, respectively, compared to the same period in 2008, as a result of soft market conditions. Aerospace sales decreased by 30% compared to the nine months ended September 30, 2008 reflecting softer demand, lower inventory levels in the supply chain, and decreased aircraft retrofit activity. Defense revenue decreased 47% in the nine months ended September 30, 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 reported a consolidated gross loss of $2.8 million for the nine months ended September 30, 2009, compared to a gross profit of $34.2 million for the nine months ended September 30, 2008. The gross loss reported for the nine months ended September 30, 2009 was driven largely by our AGY US operating segment, which was negatively impacted by $30.3 million of lost margin on lower sales and a $4.5 million impact associated with an unfavorable product mix associated with lower shipments to defense and aerospace markets. Additionally, the AGY US segment results were negatively impacted by approximately $9.7 million of expenses including the under-absorption of overhead costs and lower manufacturing efficiencies associated with management’s decision to curtail production capacity and lower inventory levels. These negative variances were partially offset by $7.1 million of 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 $14.4 million during the nine months ended September 30, 2008 to $12.0 million during the nine months ended September 30, 2009. This decrease reflects (i) $3.2 million of lower expenses for our AGY US operating segment including a reduction in the salaried workforce and lower discretionary spending, partially offset by (ii) $0.8 million of incremental expenses associated with AGY Asia since the acquisition on June 10, 2009. As a result of the decrease in revenue, selling, general and administrative costs increased from 7.8% of net sales for the nine months ended September 30, 2008 to 10.5% of net sales for the nine months ended September 30, 2009.

Restructuring charges. For the nine months ended September 30, 2009, we recognized $0.8 million in restructuring charges in the AGY US segment, 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 $0.6 million to $0.8 million during the nine months ended September 30, 2009, when compared to the nine months ended September 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. See further disclosures in Notes 6 and 16 of our interim consolidated financial statements.

Other operating expense. During the nine months ended September 30, 2009, we recognized other operating expense of $1.8 million, compared to other operating income of $0.3 million during the comparable period in 2008. The $1.8 million expense in 2009 primarily consisted of (i) $2.6 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 ASC 805, partially offset by (ii) a $0.5 million book gain recognized on the sale of excess alloy metals during the nine months ended September 30, 2009. During the nine months ended September 30, 2008, other operating income of $0.3 million was primarily the result of $0.9 million from the sale of an unused portion of land and building at the Aiken facility, partially offset by $0.6 million relating to the Anderson contract termination costs.

Gain on bargain purchase. After reassessing, with the assistance of an independent third-party valuation specialist, the fair value of the acquired assets less liabilities assumed associated with the AGY Asia acquisition, management concluded that a bargain purchase of approximately $22.5 million resulted at the June 10, 2009 acquisition date. Accordingly, the gain was recognized retrospectively to the Company's second quarter of 2009 and in the nine-month period ended September 30, 2009.

Other non-operating income. During the nine months ended September 30, 2009, other non-operating income of $1.4 million was due primarily to the net $1.1 million gain on the early extinguishment of debt associated with the purchase of $3 million (face value) of our Notes. During the nine months ended September 30, 2008, other non-operating expense was non significant.

Interest expense. Interest expense decreased $1.8 million from $17.9 million for the nine months ended September 30, 2008 to $16.1 million for the nine months ended September 30, 2009. The decrease was primarily due to (i) $2.2 million of non-recurring fees and expenses incurred in 2008 related to bondholders' consent solicitation for our Metal Consignment Facility amendment and the Company's S-4 Registration Statement, partially offset by (ii) $0.7 million of incremental interest expense associated with AGY Asia since the acquisition date on June 10, 2009.

Income tax benefit (expense). Income tax benefit increased $12.1 million from a $0.4 million tax expense for the nine months ended September 30, 2008 to a $11.6 million tax benefit for the nine months ended September 30, 2009 due to the higher pre-tax loss recognized in the nine-month period ended September 30, 2009. In addition, the effective tax rate decreased from 50.5% for the nine months ended September 30, 2008 to 21.2% for the nine months ended September 2009 primarily as a result of (i) the $44.5 million goodwill impairment charge recognized during the second quarter of 2009 that is not tax deductible, (ii) the $22.5 million gain on bargain purchase recognized in the nine-month period ended September 30, 2009, which is not recognized as taxable income, and (iii) management's determination that a significant portion of the acquisition transactional costs expensed in 2009 as result of adopting the provisions of ASC 805 was not tax deductible.

Net income (loss). As a result of the aforementioned factors, we reported a net loss attributable to AGY Holding Corp. of $42.7 million for the nine months ended September 30, 2009, compared to net income of $0.4 million for the nine months ended September 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES

AGY Holding Corp. and its Domestic Subsidiaries' Liquidity

Our domestic principal sources of liquidity are cash flows from operations and borrowings under our financing arrangements. Our domestic 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 September 30, 2009, in the US, we had total liquidity of $20.6 million, consisting of $0.5 million of unrestricted cash and approximately $20.1 million of borrowing availability under the Credit Facility associated with the AGY US operating segment.

AGY Asia's Liquidity

AGY Asia'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 ("AGY Asia Credit Facility"), which consists of an $11.7 million one-year working capital loan and a $40.5 five-year term loan. The need for liquidity in Asia will arise primarily from interest and principal payments on the AGY Asia Credit Facility and the funding of capital expenditures, alloy metals, strategic initiatives, normal recurring operating expenses and working capital requirements. There are no mandatory payments of principal on the working capital loan prior to its maturity in June 2010. 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.

At September 30, 2009, we had total liquidity of $12.6 million, consisting of $1.6 million of unrestricted cash and approximately $11.0 million of borrowing availability under the Asia 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 facilities for the US and the Asia segments, 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.

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. Working capital was $23.1 million and $36.9 million on September 30, 2009 and December 31, 2008, respectively. The $13.8 million decrease relates primarily to a $12.7 million decrease in inventory at the AGY US operating segment and a $1.1 million working capital decrease at the AGY Asia operating segment.

Other balance-sheet items.

Net Property, Plant and Equipment and Alloy Metals. Net property, plant and equipment and alloy metals increased $76.9 million from December 31, 2008 to September 30, 2009, primarily due to $91.6 million of net fair value of property, plant and equipment and alloy metals acquired in the AGY Asia business combination on June 10, 2009. Additional contributing factors were $13.7 million of depreciation and alloy metals depletion expenses, the sale of $10.8 million of excess alloy metals at book value, and $9.8 million of capital expenditures, including accrued construction in progress.

Long Term Debt. Long-term debt increased $32.3 million from December 31, 2008 to September 30, 2009 as a result of $34.0 million of long-term debt attributable to AGY Asia, and a $1.3 million increase in borrowings under our AGY US operating segment Credit Facility necessary to fund the operating cash flow requirements and capital expenditures made during the first nine months of 2009, partially offset by the purchase of $3.0 million (face value) of our Notes during the first quarter of 2009.

Nine months ended September 30, 2009 compared to nine months ended September 30, 2008.

Cash used by operating activities was $9.5 million for the nine months ended September 30, 2009, compared to cash provided by operating activities of $23.0 million for the nine months ended September 30, 2008. The $32.5 million decrease in operating cash flows during the nine months ended September 30, 2009 was driven largely by the $17.7 million loss (as adjusted for non-cash items) recognized during the period compared to the $20.4 million income (as adjusted for non-cash items) recognized during the nine months ended September 30, 2008. This decrease on a year-over-year basis was partially offset by a global $13.3 million reduction in inventory based on lower volumes and working capital initiatives, a $2.2 million increase in accounts receivable attributable to an increase in days of sales outstanding resulting primarily from a change in customers’ region and product mix and a $5.5 million decrease in other net current liabilities and assets, due principally to lower employee related liabilities as a result of headcount reductions during 2009.

Cash used in investing activities was $4.1 million for the nine months ended September 30, 2009, compared to $34.0 million for the nine months ended September 30, 2008. This decrease was primarily due to (i) the purchase of $28.2 million of alloy metals for the nine months ended September 30, 2008, compared to the sale of $11.1 million of excess alloy for the nine months ended September 30, 2009 and (ii) a $13.1 million decrease in restricted cash primarily associated with the refinancing of AGY Asia in July 2009, partly offset by (iii) the $18.2 million payment for the majority interest of AGY Asia, net of cash acquired in September 2009.

Cash provided by financing activities was $10.9 million for the nine months ended September 30, 2009, compared to $6.9 million for the nine months ended September 30, 2008. This increase was due primarily to (i) a $20.0 million equity infusion by Kohlberg & Company, LLC to fund the AGY Asia acquisition, partially offset by (ii) the $1.8 million cash outflow for the repurchase of $3.0 million of Notes (face value) in the first quarter of 2009, and (iii) the $8.4 million decrease in AGY Asia borrowings since the acquisition on June 10, 2009, and (iv) a $5.8 million decrease in AGY US revolver borrowings for the nine months ended September 30, 2009 compared to the same period 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 does not contain any financial maintenance covenants. The Credit Facility also includes customary events of default, including a default upon a change of control. The Company was in compliance with all such covenants at September 30, 2009.

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

As of September 30, 2009, we had utilized approximately $2.2 million of the Credit Facility for the issuance of standby letters of credit and had $17.8 million cash borrowings outstanding, leaving $20.1 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. In the amendment, certain provisions of the credit agreement were modified or added: the availability reserve in the borrowing base calculation increased from $7.5 million to $10 million; the foreign subsidiary indebtedness of AGY Hong Kong Ltd. or its subsidiaries is permitted provided that it is non-recourse indebtedness; the investment associated with the purchase of the remaining 30% is permitted provided that our excess availability under the facility is at least $10 million for 60 days prior to the consummation date and $12.5 million immediately following such consummation; and it is an event of default under the credit agreement if we default under our obligations regarding the acquisition of the remaining 30% of AGY Hong Kong Ltd. In addition, the applicable margin for any utilization of the revolver in excess of $25 million increased from 1.75% to 3.0% for Eurodollar loans and from 0.75% to 2.0% for base rate loans. No other 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.

The indenture does not contain any financial maintenance covenants.

In February 2009, we repurchased $3.0 million face amount of Notes for $1.8 million plus accrued interest and 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 September 30, 2009, the estimated fair value of the Notes was $137.0 million compared to a recorded book value of $172 million.

Asia

The bank debt of approximately $39.0 million assumed in the acquisition of AGY Asia was refinanced on July 10, 2009. At that date, AGY Shanghai entered into a financing arrangement with the Bank of Shanghai (“AGY Asia Credit Facility”). The arrangement consists of a five-year term loan in the aggregate amount of approximately $40.5 million, a one-year working capital loan in the aggregate amount of approximately $11.7 million and a one-year letter of credit facility in the amount of $2.0 million.

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 nine-month LIBOR plus 3.0%. Term loan borrowings may be made in both local currency and US dollars, up to certain limits. At September 30, 2009, we had approximately $35.5 million borrowings outstanding under the term loan, leaving $5.0 million available for additional borrowings.

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
	$40.5

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.

At September 30, 2009, we had approximately $5.7 million borrowings outstanding under the working capital loan, leaving $6.0 million available for additional borrowings.

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 and a default upon AGY Shanghai's failure to perform its obligations under financing or security agreements entered into with other financial institutions or any third party. AGY Shanghai was in compliance with all such covenants at September 30, 2009.

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

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 was repaid in July 2009, using, in part, restricted cash for such repayment.

FINANCIAL OBLIGATIONS AND COMMITMENTS

As of September 30, 2009, accounts payable obligations totaled $12.5 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 Asia Credit Facility, which is a non-recourse debt to AGY Holding Corp., includes an $11.7 million working capital loan facility when fully drawn that matures in June 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
	$40.5

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 Asia, we entered into an option agreement with Grace pursuant to which Grace granted AGY a call option and AGY granted Grace a put option in respect of the 30% interest held by Grace in AGY Asia, in each case until December 31, 2013, unless mutually extended. The option price is determined by a formula outlined in the agreement. The exercise of the call option requires certain minimum financial performance levels to be reached by AGY Asia and the put option 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 in 2011. If the acquisition of the noncontrolling interest is consummated, the Company intends to finance the consideration paid pursuant to the agreement through the sale of additional equity to its private equity sponsor, if available, or other available liquidity.

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 an aggregate $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 US dollars. Approximately 3% percent of our sales are denominated in currencies other than the US dollar. Although our level of foreign currency exposure is limited, we may utilize derivative financial instruments to manage foreign currency exchange rate risks.

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 September 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 November 13, 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

Exhibit Number	Description
10.1	Master Lease Agreement by and between DB Energy Trading LLC and AGY Holding Corp., dated as of September 28, 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.

SIGNATURES

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

AGY Holding Corp.

Date: November 13, 2009

By: /s/ Wayne T. Byrne

Wayne T. Byrne
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description
10.1	Master Lease Agreement by and between DB Energy Trading LLC and AGY Holding Corp., dated as of September 28, 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 for certain portions of the document, which portions have been omitted and filed separately with the Securities and Exchange Commission.

Exhibit 10.1

MASTER LEASE AGREEMENT

This Master Lease Agreement (this **"Master Lease Agreement")** is made this 28th day of September 2009 between the undersigned:

(1) **DB ENERGY TRADING LLC ("DB"),** a Delaware limited liability company, having its offices at 60 Wall Street, New York, NY 10036, hereinafter referred to as the **"Lessor."**

(2) **AGY HOLDING CORP.,** a Delaware corporation, having its offices at 2556 Wagener Road, Aiken, South Carolina, 29801, hereinafter referred to as the **"Lessee."**

Each a "Party" and together the "Parties"

Whereas:

1. Pursuant to a tripartite agreement entered into on October 25, 2008, between Lessor, Lessee and Owens Corning (the **"Tripartite Agreement"**), Lessor acquired the CFM Metal and Lessee agreed to enter into that certain Master Lease Agreement dated October 25, 2008, covering such CFM Metal (the **"CFM Master Lease Agreement"**);
2. In connection with this Master Lease Agreement, the Sale and Purchase Agreement, and the transactions contemplated hereby and thereby, Lessor and Lessee intend, shortly after the date hereof, to terminate such CFM Master Lease Agreement (including each lease governed by the CFM Master Lease Agreement) in accordance with its terms; and
3. Lessor and Lessee desire that this Master Lease Agreement shall supplant the CFM Master Lease Agreement, and intend that this Master Lease Agreement provide for the lease of both the CFM Metal, as well as the Yarns Metal, in each instance, on the terms and subject to the conditions of this Master Lease Agreement.

IT IS AGREED as follows**:**

1. Interpretation

1.1 The headings do not affect the interpretation of this Agreement and the schedules form part of this Agreement.

1.2 In this Agreement, all capitalized terms shall have the meaning set forth in the Schedule 1 to this Agreement.

2. General Obligations

2.1 During the Lease Commitment Period the Parties agree, so long as no Default exists and is then continuing, to enter into Leases from time to time whereby the Lessor shall make available to the Lessee under each Lease the Metal Amount contained in one Unit for use at the Lessee's Facilities, provided that the total Metal Amounts in all outstanding Leases shall not exceed the Maximum Lease Amount.

2.2 A Lease executed by each of the Lessor and Lessee substantially in the form of Schedule 2 incorporating the Lease details as set out in clause 3 shall be exchanged between the Parties in respect of the Metal Amount in each Unit.

2.3 Any renewal or amendments to a Lease shall only be effective if confirmed in writing between the Parties.

2.4 The Lessee shall maintain an Inventory of all current Leases and shall supply the Lessor with an updated Inventory every calendar month or promptly on request.

2.5 This Master Lease Agreement, each Lease and all amendments thereto shall constitute a single contract.

2.6 The Lessee shall settle each Lease on the Termination Date applicable to that Lease, as determined in accordance with clause 7.

2.7 Provided that no Lease Term shall have a Lease Expiration Date later than the end of the Lease Commitment Period, the Lessee shall, so long as no Default exists and is then continuing, be entitled to renew any Lease by giving notice in writing (the "**Renewal Notice**") of such to the Lessor no less than two (2) Business Days prior to the relevant Lease Expiration Date. Upon receipt of a Renewal Notice, such Lease shall promptly be renewed. Notwithstanding the previous sentence, no Renewal Notice shall be effective if, at the time such Renewal Notice is given, a Default exists and is then continuing and no Lease shall be renewed if the effect of any renewal would be to extend the Lease Expiration Date for that Lease to a date falling (x) less than one month following the original Lease Expiration Date for that Lease or (y) more than twelve months after the original Commencement Date of that Lease.

2.8 The Lessee shall not sublease any of the Metal or the Units to any third party or allow the Metal or Units to be removed from the Facilities, except as otherwise permitted pursuant to this Agreement, or until the relevant Lease has been settled in accordance with clause 7.2.

2.9 Without in anyway limiting the Lessor's rights under this Master Lease Agreement or under any Lease, in the event that the Master Lease Agreement or any Lease is subsequently characterized as a capitalized lease or a secured financing, the Lessee shall hereby be deemed to have granted to Lessor a first priority security interest in the Units listed in the Inventory, whether in its possession or control and wherever located, which security interest shall attach upon delivery by Lessor of such leased Metal to the Lessee in accordance with this Master Lease Agreement. The Lessee hereby authorizes Lessor to prepare and file any security that Lessor deems necessary in order to perfect and maintain such security.

2.10 As of the date hereof, in consideration for Lessor's agreement hereunder to enter into Leases hereunder from time to time, Lessee hereby grants to Lessor a continuing security interest in all of the Lessee's right, title and interest, whether now existing or hereafter arising or acquired, in and to (i) the Unallocated Rhodium Account (as such term is defined in the Sale and Purchase Agreement); (ii) all Rhodium therein or represented thereby; and (iii) all proceeds thereof as security for the payment and performance in full of all of its obligations under this Agreement; provided, that Lessor hereby acknowledges and agrees that the aggregate dollar value of such security interest shall in no event exceed the dollar value of the lesser of (a) thirty-five percent (35%) of the aggregate dollar value of the Platinum subject to one or more Yarns Leases in accordance with the terms hereof, and (b) $24,400,000 (the **"Security Interest"**). Such Security Interest shall remain in full force and effect until, and shall terminate upon, indefeasible payment and performance in full of all of such obligations. Lessee agrees to promptly execute and deliver, and hereby authorizes Lessor to file without Lessee's signature (to the extent permitted by applicable law), all further instruments and documents as Lessor may reasonably request, in order to perfect, preserve and protect the Security Interest granted or purported to be granted hereby or to enable Lessor to exercise and enforce its rights and remedies hereunder with respect to such Security Interest, including financing or continuation statements, or amendments thereto. If any default by Lessee of its obligations under this Agreement shall have occurred and be continuing, Lessor may exercise in respect of such Security Interest, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the UCC, as enacted in the State of New York (the **"UCC"**), including, without limitation, exercising its control over any "account" (as such term is defined in the UCC), and without notice except as specified below or, if notice cannot be waived under the UCC, as required to be provided by the UCC, sell the collateral that is the subject of the Security Interest or any part thereof in one or more parcels at public or private sale, at any of Lessor's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as Lessor may deem commercially reasonable.

2.11 Both parties acknowledge Lessor retains absolute and unencumbered title to the Units and Metal leased hereunder. Other than any interests created by the Lessee in favor of the Lessor, at no time shall the Lessee have, or have the ability to create in favor of any third party, any property or other interest in the Units or the leased Metal or otherwise dispose of or encumber any of the Units or the leased Metal until the relevant Lease has been settled in accordance with clause 7.2.

2.12 The Lessor shall not be liable in any way for the maintenance or performance of the Units.

3. Lease Details

3.1 During the Lease Commitment Period the Lessee may request the Lessor enter into a new Lease or renew an existing Lease by sending a request for such in writing to the Lessor in accordance with clause 2.7 hereof.

3.2 Where the Parties agree to enter into a new Lease or renew an existing Lease each new or renewed Lease shall be executed by both Parties and shall contain the following information:

(a) The Unit identification/ serial number in which the Metal is contained;

(b) the Metal Amount;

(c) the Location;

(d) the Commencement Date;

(e) the Lease Expiration Date;

(f) the Lease Fee; and

(g) whether it is a CFM Lease or a Yarn Lease

3.3 Notwithstanding clause 3.2 hereof, the Parties hereto acknowledge and agree that the Lessee shall have no obligation hereunder to pay any Lease Fee associated with any Rhodium Amount in any Yarns Lease, as such Rhodium Amount is offset by the Unallocated Rhodium Account.

3.4 In the event of any inconsistency between the terms of this Master Lease Agreement and the terms of any Lease or amendment thereto that has been executed by both parties, the terms of the Lease or such executed amendment shall prevail.

4. Lease Fee

4.1 The Lease Fee for the Metal will be payable on each Payment Date, where a Payment Date means the tenth (10th) day of the next following calendar month in respect of each calendar month during a Lease and the Termination Date of that Lease. In the event that a Payment Date does not fall on a Business Day, the Payment Date shall be the first Business Day preceding such Payment Date.

4.2 In the event that the period between the Commencement Date and the first Payment Date and/or the period between the penultimate Payment Date and the Termination Date is not a full calendar month, the Lease Fee shall be apportioned accordingly.

4.3 The Lessee shall pay to the Lessor on each Payment Date a monthly fee ("**Lease Fee**") for each Metal Amount that is the subject of a Lease calculated (on the basis of a 360-day year and actual days per month) by multiplying:

(Metal Amount) X (Value of the Metal) X (Lease Rate Index + Margin) X (actual days/ 360)

Where:

the "**Value**" means the Benchmark Value for the relevant Metal on the day that is two Business Days prior to the Commencement Date of the relevant Lease;

the **"Lease Rate Index"** means, in the case of Platinum, the offered rate for Platinum as published two Business Days prior to the commencement of the applicable Lease Term on Deutsche Bank's Daily Precious Metal Rates Sheet "DBRates.xls"; and in the case of Rhodium, the offered rate for Rhodium as published two Business Days prior to the commencement of the applicable Lease Term on Deutsche Bank's Daily Precious Metal Rates Sheet "DBRates.xls"; and

the "**Margin**" for (x) Platinum is the number of basis points determined in accordance with the pricing matrix set out in table 1 in Schedule 6 hereto and (y) for Rhodium is **[***]** basis points.

The Adjusted EBITDA figure that shall be used for the purposes of determining the relevant Platinum Margin that shall apply for a particular Lease and that shall be used in calculating the Lease Fee applicable thereto shall be determined in accordance with table 2 in Schedule 6 to this Master Lease Agreement. For the avoidance of doubt, table 2 of Schedule 6 provides that the Adjusted EBITDA figure that shall be used to determine the Platinum Margin for a Lease shall be determined as follows: whenever a Lease commences or is renewed (in accordance with clause 2.7 above), the Lessor shall determine the Platinum Margin that shall apply to such Lease or such renewed Lease by reference to the Adjusted EBITDA contained in the quarterly financial statements of the Lessee that are published in the Quarter (the "**Relevant Quarter**") immediately preceding the Quarter in which such Lease commences or is renewed, which such quarterly financial statements reflect the performance of the Lessee and contain the Adjusted EBITDA for the Quarter immediately preceding the Relevant Quarter. The Parties agree that Adjusted EBITDA is equivalent to the definition of "Consolidated Cash Flow" in the Indenture dated as of October 25, 2006, by and among the Lessee, the Guarantors party thereto (as such term is defined in the Indenture) and U.S. Bank National Association. The term "**Quarter**" shall have the meaning given to such term in table 2 of Schedule 6 hereto.

5. Delivery

The Metal Amount set out in the Lease shall be deemed to have been delivered by the Lessor to the Lessee on the Lease Commencement Date to the Location specified in such Lease.

6. Change Outs and Refabrication and Fabrication of Metal

6.1 Change Out for any Yarns Lease:

(a) Where acting as a reasonable and prudent operator the Lessee determines that a Unit under a Yarns Lease needs to be refurbished (a "**Change Out**"), it shall notify the Lessor in writing as soon as practicable of the intended date of such Change Out specifying the serial number of the Unit to be Changed Out, and the day preceding each Change Out shall be a "**Change Out Date.**"

(b) Provided that the Lessee is replacing a Unit that is to be Changed Out (an "**Old Unit**") with a replacement Unit (a "**New Unit**") on the Change Out Date, then the Lessee may, in lieu of terminating the relevant Lease, at the same time as notifying the Lessor of the intended Change Out notify the Lessor that it intends to amend the relevant Lease so the Unit identification/serial number of the Old Unit (as contained in the terms of the Lease which relates to the Old Unit) is deleted and replaced with the Unit Identification/ serial number of the New Unit, and in such event:

(i) at 2pm (New York time) on the Change Out Date the New Unit shall be deemed to be delivered by the Lessee, and full and unencumbered title in the New Unit shall be automatically transferred from the Lessee to the Lessor in consideration of full and unencumbered title to the Old Unit passing from the Lessor to the Lessee; and

(ii) the Lessee shall amend the Inventory accordingly, with such updated reporting to be provided to Lessor on a monthly basis, or upon such other frequency as Lessor may reasonably request.

(c) Lessee hereby acknowledges and agrees that if Change Outs within any month exceed 15% of total Metal, Lessee will immediately provide Lessor an updated Inventory listing.

6.2 Refabrication and Fabrication for any CFM Lease:

(a) For any CFM Lease, Lessee shall be allowed to refabricate a Unit into a new Unit (**"Refabrication"**); provided, that Lessee gives the Lessor at least five (5) days prior written notice of its intention to refabricate one or more Units, specifying in each instance the serial number of the Unit to be refabricated.

(b) In the event that the leased Metal under any CFM Lease includes Unallocated Metal, Lessee shall be allowed to fabricate the Unallocated Metal into a Unit (**"Fabrication"**); provided, that Lessee gives the Lessor at least five (5) days prior written notice of its intention to fabricate one or more Units.

(c) In connection with the Refabrication or Fabrication of each Unit, as applicable, Lessee hereby agrees and acknowledges that it shall:

(i) Conduct such Refabrication or Fabrication itself or obtain the prior written consent of Lessor to use a third party reasonably agreeable to Lessor, which such consent shall not be unreasonably delayed, conditioned, or withheld;

(ii) In the event such Refabrication or Fabrication is conducted at a location other than the Facilities, be responsible for all shipping and other costs and expenses, including the purchase of any additional metal required to conduct such Refabrication or Fabrication (**"Additional Metal"**);

(iii) in the event such Refabrication or Fabrication is conducted by a third party at a location other than the Facilities, ensure that Lessor and third party have entered into a collateral access agreement for the benefit of Lessor in form and substance reasonably agreeable to Lessor (and, for the avoidance of doubt, such Refabrication or Fabrication shall not occur until such time as the collateral access agreement has been entered into by the Lessor), provided that the Parties agree that for so long as the Waiver Letter between the Lessor and Owens Corning is in effect, then any Refabrications or Fabrications being performed by Owens Corning or an affiliate thereof shall not be subject to the foregoing provisions of this paragraph;

(iv) In the event that any Additional Metal is required to conduct any Refabrication or Fabrication, that such Additional Metal shall not be subject to any Lien or third party right and if such Additional Metal becomes commingled with any leased Metal, that ownership and title to any Additional Metal used in connection with such Refabrication or Fabrication shall pass to Lessor, free and clear of any Liens and neither the Lessee nor any other third party shall retain any property or other interest in or Lien over, the leased Metal or the Additional Metal; and

(v) Upon completion of any refabricated or fabricated Unit, notify Lessor of the serial number of such new Unit and shall deliver to Lessor an updated Inventory.

7. Termination and Return

7.1 Each Lease shall terminate on the Termination Date which shall be the earlier of:

(a) The Lease Expiration Date relevant to that Lease;

(b) The Change Out Date, if not replaced pursuant to clause 6.1(b); or

(c) The Early Termination Date;

7.2 Upon the termination of a Lease the Lessee shall settle the lease:

(a) by physical delivery of the Unit containing the leased Metal on the Termination Date to the Lessor, which shall occur or shall be deemed to have occurred at the same Location of delivery of such Unit; or

(b) in lieu of physically delivering the Unit containing the leased Metal, the Lessee may purchase or cause a third party to purchase the relevant Unit containing the leased Metal, in which case:

(i) The Lessee shall transfer consideration for such purchase, on the date to be agreed in writing between the Lessor and the Lessee, to the Lessor in an amount in immediately available funds equal to:

(A) (i) the Benchmark Value of that Metal Amount determined as of two Business Days prior to the Termination

Date; or (ii) an amount of unallocated Platinum delivered to the Lessor's account as specified at the time, equal to the Platinum Amount in that Lease; plus

(B) (to the extent not already covered in (A)(i) above) unallocated Rhodium equal to the Rhodium Amount,

(the "**Consideration**"); and

(ii) full and unencumbered title in the Unit shall be transferred to the Lessee on receipt by the Lessor of the Consideration.

(c) When terminating a Yarns Lease, the Lessee may without prior notice to the Lessor set off any amount of Rhodium owed to the Lessor pursuant to clause 7.2(b)(i)(B) against the same amount of Rhodium held in the Unallocated Rhodium Account (as defined in the Sale and Purchase Agreement).

7.3 Notwithstanding anything herein to the contrary, in the event of:

(a) a Default pursuant to clause 8; or

(b) the failure by Lessee to comply with this clause 7, with such failure remaining uncured for two (2) Business Days; or

(c) there shall occur, in the opinion of the Lessor, a material adverse change in the business, assets or condition (financial or otherwise) of the Lessee which is reasonably likely to materially and adversely affect the ability of the Lessee to perform its obligations under this Master Lease Agreement and/or any Lease thereunder,

then, in any such event, the Lessor shall have the right (but not the obligation) to terminate this Master Lease Agreement and any Leases entered into hereunder by delivery of written notice of such termination to Lessee specifying, inter alia, the date on which such termination is to be effective (such date, an "**Early Termination Date**" and the occurrence of such an event, an "**Early Termination**") and demand the return of any Metal leased to Lessee under this Master Lease Agreement; provided, however, that any Default under clause 8.1 (e) shall constitute an automatic termination event without any need for Lessor to deliver written notice of such termination or demand and the Early Termination Date, in such circumstances, shall occur on the date on which the Default under clause 8.1(e) occurs.

7.4 In the event that the Lessee makes physical return of any leased Metal in accordance with 7.2(a) the Lessee shall, from the Termination Date until the Unit containing the Metal has been fully recovered by the Lessor, afford the Lessor unencumbered access to the Location for the purpose of such recovery and the Lessee shall afford the Lessor any assistance reasonably requested to facilitate the recovery of the relevant Unit. In the event of an Early Termination the Lessee shall be liable for all reasonable costs of such recovery which shall be payable promptly on receipt by the Lessee of reasonable written proof that such costs were incurred.

8. Default

8.1 It is hereby understood and agreed that in the event Lessee shall:

(a) fail to return to Lessor any Metal upon termination of the Lease Term or,

(b) fail to pay any amount due pursuant to this Master Lease Agreement, and such failure shall remain unremedied for five (5) days; or

(c) make any representation or warranty hereunder that is incorrect in any material respect; or

(d) shall breach in any manner any covenant or undertaking hereunder, or shall fail to perform or observe, in any respect, any other term or provision contained in this agreement and such breach of covenant or failure to perform or serve shall remain unremedied for ten (10) days; or

(e) (1) dissolve (other than pursuant to a consolidation, amalgamation or merger); (2) become insolvent or unable to pay its debts or fail or admit in writing its inability generally to pay its debts as they become due; (3) make a general assignment, arrangement or composition with or for the benefit of its creditors; (4)(A) institute or have instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or organisation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official, or (B) have instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and such proceeding or petition is instituted or presented by a person or entity not described in clause (A) above and either (I) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (II) is not dismissed, discharged, stayed or restrained in each case within 15 days, or such other time period as may agreed to by the Lessor in its sole discretion provided the Lessee is defending such proceedings in good faith, of the institution or presentation thereof; (5) have a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (6) seek or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (7) have a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 15 days thereafter; (8) cause or subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (1) to (7) above (inclusive); or (9) take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or

(f) suffer the occurrence of any loss, theft or destruction of, or damage to, any of the Metal leased hereunder or Units that is not covered by a policy of insurance under which Lessor has been named the loss payee, or the occurrence of any attachment of a Lien on any of the Metal leased hereunder or Units which is not discharged within ten (10) days after the date of such attachment; or

(g) suffer a default or an event of default under any credit facility or any other consignment or leasing facility of a notional principal amount of $500,000 or more to which the Lessee is a party which results in the obligations of the Lessee thereunder becoming accelerated (whether automatically or at the election of the lender or lessor, as applicable); or

(h) suffer a default under any Specified Agreements;

then a Default shall have occurred in respect of the Lessee.

8.2 Without prejudice to any other remedy at law, in the event of an Early Termination triggered by the provisions set out in clause 8.1, Lessee shall pay to Lessor all reasonable costs and out-of-pocket expenses of physical recovery of the Metal and Units.

9. Representation and Undertakings

9.1 The Lessor represents and warrants to the Lessee on the date of this Master Lease Agreement and on each day for the duration of the Master Lease Agreement that it has the power to enter into and exercise its rights and perform and comply with its obligations under this Master Lease Agreement, each Lease, and each Specified Agreement, and this Master Lease Agreement, each Lease, and each Specified Agreement are or will be valid, legally binding and enforceable against the Lessor, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to creditors' rights generally, and (ii) the availability of injunctive relief and other equitable remedies:

9.2 The Lessee represents and warrants to the Lessor on the date of this Master Lease Agreement and on each day for the duration of the Master Lease Agreement that:

(d) it has the power and authority to own its assets and to conduct its business as presently conducted;

(e) it has the power to enter into and exercise its rights and perform and comply with its obligations under this Master Lease Agreement, each Lease and each Specified Agreement, and this Master Lease Agreement, each Lease and each Specified Agreement, are or will be valid, legally binding and enforceable against the Lessee, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to creditors' rights generally, and (ii) the availability of injunctive relief and other equitable remedies;

(f) all actions required to be taken and conditions required to be fulfilled (including the obtaining of any necessary consents) have been taken or fulfilled in all respects in order to enable it lawfully to enter into, exercise its rights and perform and comply with its obligations under the Master Lease Agreement, each Lease and each Specified Agreement;

(g) its entry into, exercise of its rights and/or performance of or compliance with its obligations under this Master Lease Agreement, each Lease and each Specified Agreement do not and will not violate:

(i) any law to which it is subject; or

(ii) any of its organizational documents; or

(iii) any material agreement to which it is a party or to which its properties are bound;

or

(iv) any order or decree which is binding upon Lessee.

9.3 The Lessee shall permit agents or representatives of Lessor to inspect, during normal business hours and upon reasonable notice, or at its own discretion should the Lessee be in Default, any Unit containing leased Metal hereunder and/or the Lessee's books and records solely as they relate to such Unit, and Lessee agrees to make and deliver to Lessor abstracts or reproductions of such portions of such books and records at the reasonable request of the Lessor (collectively, the **"Metal Information"**); provided that the Lessor shall keep confidential, and shall cause its agents and representatives to keep confidential, and shall not, and shall not permit its agents or representatives to, directly or indirectly, without the prior written consent of the Lessee, disclose to any third party or otherwise any Metal Information except: (i) to the extent the Metal Information is already in the public domain; or (ii) to the extent reasonably required, to its directors, agents, officers and employees or the directors, agents, officers or employees of other members of the Deutsche Bank AG group of companies; or (iii) to the extent reasonably required, to its professional advisers; or (iv) as may be required by any applicable law, court, stock exchange, regulation or regulator.

9.4 The Lessee shall not create or permit the creation of any Lien of any kind with respect to the Metal or the Units, and shall defend Lessor's interest in such against any claims and demands of any persons at any time claiming the same or any interest therein. The Lessee shall notify Lessor as soon as reasonably practicable of the occurrence of any loss, theft or destruction of the Metal or the Units of which it is aware.

9.5 Until such time as the leased Metal is returned, recovered or repossessed to Lessor or purchased by Lessee, Lessee shall afford the Units containing the Metal no less safekeeping protection than it affords its own property.

9.6 Lessee shall procure insurance coverage reasonably satisfactory to the Lessor for the Units containing leased Metal in such amounts and covering such risks as is usually carried by companies engaged in a similar business; Lessee shall provide Lessor with a certificate evidencing such insurance, naming Lessor as the loss payee, and stating that Lessor shall be given at least thirty (30) days prior written notice in the event of termination or expiration of the policy. Lessee shall be responsible for all loss, damage, or disappearance of the Metal or Units from any cause whatsoever from the time the Metal is made available to the Lessee at the Facilities until the Lease is settled in accordance with clause 7.2 of this agreement. The leased Metal shall be received by the Lessor at the end of the relevant lease in substantially the same condition as it was received by the Lessee; provided that such Metal shall be required to meet the standards set forth on Schedule 4 and Schedule 5 hereto, as applicable.

9.7 The Lessor gives no warranty or any assurance whatsoever relating to the quality, fitness for any purpose or relating in any way to the performance of the Metal or a Unit.

10. Lessee Covenants

10.1 The Lessee covenants:

(a) that it shall not, without Lessor's prior written agreement, enter into any lease agreement or financing agreement with any third party for Metal or Units to be used in the operation of its glassfiber yarns or its continuous filament mat business in the Facilities during the duration of this Master Lease Agreement.

(b) that it shall not enter into any lease, financing, security or other agreement in relation to the Metal or Units which would or might interfere with the Lessor's absolute and unencumbered title in the Metal or Units or restrict the Lessor's ability to regain possession of the Metal or Units.

(c) that each month during the Lease Commitment Period, the Lessee shall provide the Lessor with a certified inventory of the Metal and Units held at the Facilities and shall promptly inform the Lessor of any damage to or loss of Metal or Units.

(d) that the Lessee shall permit agents or representatives of Lessor to inspect, during normal business hours and upon reasonable notice, or at its own discretion should the Lessee be in Default, any Metal leased to the Lessee hereunder and the Units and/or the Metal Information request of the Lessor.

11 Force majeure

If the performance of any obligation under this Master Lease Agreement is prevented by an event beyond the control and without the fault or negligence of the Party affected thereby including acts of God or the public enemy; acts, laws, orders or regulations or any government or department or agency thereof; wars or other civil or military disturbances, such Party will be excused from such performance to the extent of the duration of such interference or the direct effects thereof; provided, however, that the duration of any such period in which such Party will be excused from performance will not exceed one (1) month and provided further that the Lessee shall continue to pay the Lease Fee provided that Metal had been previously delivered by the Lessor to the Lessee. If this period of one month is exceeded, then the parties will meet in order to decide whether and under what condition this Master Lease Agreement can be performed.

12 Indemnities

12.1 The Lessee shall within five (5) Business Days of notice by the Lessor indemnify in full and hold harmless, the Lessor, its officers, employees, agents, advisors, consultants and legal counsel and the Lessor's successors and assigns, (each an **"Indemnified Person"**) from and against any and all claims (whether or not successful, compromised or settled), actions, liabilities, demands, proceedings or judgments which may be instituted, made, threatened, alleged, asserted or established (each a **"Claim"**) in any jurisdiction against or otherwise involving an Indemnified Person and from all losses, costs, damages, charges or expenses (including legal expenses reasonably incurred) (each an **"Expense"**) which an Indemnified Person suffers or incurs from time to time (including all Expenses reasonably incurred in disputing any Claim and/or in establishing a right to be indemnified pursuant to this clause 12 and/or in seeking advice regarding any Claim or in any way related to or in connection with this indemnity), in any such case arising out of, based upon or in connection with, whether directly or indirectly;

(a) the operation of the Lessee's business including the use of any Units;

(b) any tax obligations not relating directly to the receipt of the Lease Fees.

13 Amendments

This Master Lease Agreement (together with the details of each Lease and any amendments thereto) constitutes the entire understanding between the parties with respect to Leases of Metal, and this Master Lease Agreement may not be amended except in writing signed by both parties. Notwithstanding the previous sentence, upon delivery of an Inventory by Lessee to Lessor in accordance with the terms hereof and without any additional action by either of the Parties, (a) Schedule 3 hereto shall be deemed to have been updated and (b) this Agreement shall be automatically amended to incorporate such update.

14 Notices

14.1 All notices hereunder shall be in writing and deemed given when received (by mail or facsimile) at the respective parties address set forth below:

To Lessor:

DB
c/o Deutsche Bank AG London branch
1 Winchester House
Great Winchester Street
London EC2N 2DB

Tel: +44 20 7545 3745
Facsimile: +44 20 7545 1280

Attn: Precious Metals Department

With a copy to:

DB Energy Trading LLC
60 Wall Street, 36th Floor
New York, New York 10035
Attention: Commodities Legal
Tel.: (212) 250 8992
Facsimile: (212) 767 4565

To Lessee:

AGY Holding Corp.
Attn: Chief Financial Officer
2556 Wagener Road
Aiken SC 29801

Tel: 803.643.1257
Fax: 803.643.1180
Attn: Chief Financial Officer

Each Party's designated address may be changed by notice to the other Party which shall be effective upon receipt.

15 Assignment

The Lessee may not assign, transfer or dispose of any of its rights or delegate its obligations in any way under this Master Lease Agreement or any Lease.

16 Settlement of Dispute

16.1 Dispute Resolution. If there shall be any dispute, controversy or claim **("Dispute")** between the parties arising out of, relating to, or connected with this Master Lease Agreement or any Lease, the breach, termination or invalidity hereof, or the provisions contained herein or omitted herefrom, the parties shall use their best efforts to resolve the matter on an amicable basis and in a manner fair and equitable to the parties. If one Party notifies the other Party that a Dispute has arisen and the parties are unable to resolve such Dispute within ten (10) days from such notice, then the matter shall be referred to the Chief Operating Officer of the Commodities Business within the Global Markets Division of Deutsche Bank AG, London Branch and the Chief Executive Officer of Lessee, who shall act by unanimous consent on all such matters. No recourse to arbitration under this Master Lease Agreement shall take place unless and until such representatives of the parties have been unable to resolve the Dispute within ten (10) days after the expiration of the ten (10) day period referred to above.

16.2 Arbitration. The parties irrevocably agree that any Disputes, that are not resolved in accordance with clause 15.1 hereof shall be finally settled by arbitration in New York City, New York, by three arbitrators appointed and proceeding in accordance with the Rules of Arbitration (the **"ICC Rules"**) of the International Chamber of Commerce (the **"ICC"**) as the exclusive means of resolving such disputes. For purposes of appointing such arbitrators, each Party shall appoint one arbitrator. The third arbitrator shall be selected by the two Party-appointed arbitrators or, failing agreement within five (5) days after the Party-appointed arbitrators have been confirmed, by the ICC in accordance with the ICC Rules. In addition:

(a) All submissions and awards in relation to arbitration under this Master Lease Agreement shall be made in English and all arbitration proceedings and all pleadings shall be in English.

(b) Any monetary award shall be made in U.S. Dollars.

(c) Any award shall be final and not subject to appeal and the parties hereby waive all challenge to any award by the arbitrators under this clause 15. The decision of the arbitrators shall be final and binding on the parties and may be presented by any Party for enforcement in any court of competent jurisdiction. In any such enforcement action, irrespective of where it is brought, no Party will (and the parties hereby waive any right to) seek to invalidate or modify the decision of the arbitrators or otherwise to invalidate or circumvent the procedures set forth in this clause15. Further, the parties understand and agree that the provisions of this clause 15 may be specifically enforced by injunction or otherwise in any court of competent jurisdiction.

(d) The fees and expenses, if any, of the arbitrators shall be shared by the Parties in inverse proportion to their respective success on the merits and such allocation of fees and expenses shall be calculated by the arbitrators and shall be conclusive and binding on the Parties.

(e) Except as may be required by applicable law, stock exchange rules, governmental authorities, or in connection with the ordinary course operation of their respective businesses, the parties agree to maintain confidentiality as to all aspects of the arbitration, including its existence and results, except that nothing herein shall prevent any Party from disclosing information regarding the arbitration for purposes of enforcing the judgment of the arbitral tribunal or in any court proceedings involving the Parties. The Parties further agree to obtain the arbitral tribunal's agreement to preserve the confidentiality of the arbitration.

(f) Notwithstanding the foregoing Dispute Resolution and Arbitration provisions, the Parties acknowledge that remedies contained in the foregoing Dispute Resolution and Arbitration provisions and at law may be inadequate to protect a Party (the "**Affected Party**") against any breach of this Agreement by the other Party or by the other Party's professional advisers, directors, officers, servants or employees and without prejudice to any other rights and remedies otherwise available to the Affected Party, the non-Affected Party agrees to the granting of injunctive relief in the Affected Party's favour without proof of actual damages provided, however, that the Affected Party shall not be relieved from proving any breach hereunder. In such circumstances, the Parties submit to the non-exclusive jurisdiction of the federal and state courts of New York.

17 Governing Law.

This Master Lease Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to its conflict of laws principles.

18 Counterparts.

This Master Lease Agreement may be signed by facsimile or other electronic method of transmission and in any number of counterparts with the same effect as if the signatures thereto and hereto were original and upon the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Master Lease Agreement to be executed by their duly authorized representative as of the date first above written.

DB ENERGY TRADING LLC,
as Lessor

By: ______________________________

Name:

Position:

Date:

AGY HOLDING CORP.,
as Lessee

By: ______________________________

Name:

Position:

Date:

Schedule 1

Definitions

"Benchmark Value" means the spot rate announced by Johnson Matthey Base Price at 9:30 a.m. (London time) as at a certain date.

"Business Day" means a day where the banks are open for business in London and New York.

"CFM Lease" means a Lease where the leased Metal is utilized solely in the Lessee's CFM manufacturing operation.

"CFM Lease Metal" means the CFM Metal that is utilized in the Lessee's Continuous Filament Mat (CFM) manufacturing operation.

"CFM Metal" means Metal that is utilized in the Lessee's Continuous Filament Mat (CFM) manufacturing operation.

"Change Out Date" has the meaning given in clause 6.1(a).

"Commencement Date" means the date the Metal is delivered or is deemed to be delivered to the Lessee at the Location.

"Consideration" means the Consideration transferred by the Lessee to the Lessor in accordance with clause 3.3 of the Sale and Purchase Agreement.

"Default" means any event or circumstance specified in clause 8.

"Dispute" has the meaning set forth in clause 16.1.

"Facilities" means the Lessee's plants located at Aiken, South Carolina, and Huntingdon, Pennsylvania, each individually a "**Facility**."

"Inventory" means the record of each of the Leases as set out in Schedule 3 to this Agreement and as amended from time to time.

"Lease" means a lease agreement between Lessor and Lessee for the Metal contained in one Unit entered into pursuant to this Master Lease Agreement.

"Lease Commitment Period" means the period commencing on the Closing Date (as such term is defined in the Sale and Purchase Agreement) and ending thirty-six (36) months thereafter.

"Lease Expiration Date" means, with respect to each Lease, the date set out in the Lease terms applicable to that Lease, which such date shall occur no more than twelve months after the Commencement Date of that Lease.

"Lease Fee" has the meaning set forth in clause 4.3.

"Lease Rate Index" has the meaning set forth in clause 4.3.

"Lease Term" means, the period from and including the Commencement Date to and including the Termination Date.

"Lessee" has the meaning set forth in the introductory paragraph to this Master Lease Agreement.

"Lessor" has the meaning set forth in the introductory paragraph to this Master Lease Agreement.

"Lien" means any mortgage, pledge, hypothecation, right of others, claim, security interest, encumbrance, adverse claim or interest, easement, covenant, encroachment, servitude, option, lien, put or call right, right of first refusal, voting right, charge or other restrictions or limitations of any nature whatsoever.

"Location" means the Facilities where the Lessor delivers or is to be deemed to have delivered the leased Metal to the Lessee.

"Margin" has the meaning set forth in clause 4.3.

"Master Lease Agreement" means this agreement.

"Maximum Lease Amount" means 51,057 troy ounces of Platinum and 3,308 troy ounces of Rhodium.

"Metal" means the Platinum or Rhodium contained in any of the Units that are subject to a Lease.

"Metal Amount" means (i) the amount of Platinum (in the case of a lease of Yarns Metal) or (ii) the amount of Platinum and Rhodium (in the case of a lease of CFM Metal), in each instance contained in a Unit in Troy ounces as set out in the Inventory.

"Platinum" means platinum meeting the standards set forth in Schedule 4 for Grade 99.95% pure platinum.

"Platinum Amount" means the amount of Platinum contained in a Unit in Troy ounces as set out in the Inventory.

"Renewal Notice" has the meaning given in clause 2.6.

"Rhodium" means rhodium meeting the standards set forth in Schedule 5 for Grade 99.90% pure rhodium.

"Rhodium Amount" means the amount of Rhodium contained in a Unit in Troy ounces as set out in the Inventory.

"Sale and Purchase Agreement" means the Sale and Purchase Agreement entered into between the Lessee and DB on or around 25th September 2009.

"Specified Agreements" means (i) in relation to the Lessee, that certain insurance policy issued by Factory Mutual naming DB as the sole loss payee in respect of the Metal or Units and (ii) any other agreement between the parties relating to Metal or Units.

"Termination Date" has the meaning given in clause 7.1.

"Unallocated Metal Account" means that certain pool account maintained by Owens Corning for AGY's CFM metal, with such account located at Owens Corning's Concord, North Carolina, facility.

"Unit" means each bushing together with the attached furnace each identified by the serial numbers noted in each Lease (which such serial numbers shall be updated to reflect any subsequent change out, fabrication or refabrication in accordance with the terms of this Agreement).

"Waiver Letter" means the waiver letter entered into by and between the Lessor, the Lessee and Owens Corning on or around the date of this Master Lease Agreement.

"Yarns Lease" means a Lease where the leased Metal is utilized solely in the Lessee's glassfiber yarn manufacturing operation and not in the Lessee's CFM manufacturing operation.

"Yarns Metal" means Metal that is utilized in the Lessee's glassfiber yarn manufacturing operation.

Schedule 2

Form Lease

In accordance with the Master Lease Agreement dated as of (as amended supplemented otherwise modified, renewed or replaced from time to time, between the undersigned **(the "Master Lease Agreement")** we hereby confirm the following Lease terms applicable to the following quantity of Metal.

Capitalized terms used but not defined otherwise shall have the meanings attributed to them in the Master Lease Agreement.

Lease Terms

Unit identification/serial number	:
Metal Amount	:
Location	:
Commencement Date	:
Lease Expiration Date	:
CFM Lease/Yarn Lease	:
Lease Fee	:
Payment Date	:

Lessee hereby represents and warrants to the Lessee that as of the commencement of the Lease Term, the quantities of Metal referred to in each of the Leases were computed in accordance with the various schedules to the Master Lease Agreement and meet the purity and/or maximum level of contaminant criteria set forth in those schedules.

Agreed and accepted

[ ] ____________________

DB Energy Trading LLC____________________

Schedule 3

Inventory

Unit	Metal Amount in Troy ounces of Platinum	Rhodium Amount in Troy ounces of Rhodium

Schedule 4

Platinum Pure Metal Standards

[Rest of the page intentionally left blank]

Schedule 5

Rhodium Pure Metal Standards

[Rest of the page intentionally left blank]

Schedule 6

1. **Platinum Margin Pricing Matrix**

Adjusted EBITDA	Platinum Margin
Less than USD [***]	[***] bps
Greater than or equal to USD [***]	[***] bps
Greater than or equal to USD [***]	[***] bps
Greater than USD [***]	[***]bps

2. **Relevant Quarterly Financial Statements for the relevant Quarter**

Quarter (in any calendar year) in which Leases are entered into or renewed	Relevant Quarterly Financial Statements for purposes of determining relevant Adjusted EBITDA for determining applicable Lease Fee
From first day in January to last day in March ("**Quarter 1**")	Quarterly financial statements published in Quarter 4 in the previous year (the "**Relevant Quarter**"), which detail the performance of the Lessee and the Adjusted EBITDA of the Lessee for the Quarter immediately preceding the Relevant Quarter.
From first day in April to last day in June ("**Quarter 2**")	Audited quarterly financial statements published in Quarter 1 of that year (the "**Relevant Quarter**"), which detail the performance of the Lessee and the Adjusted EBITDA of the Lessee for the Quarter immediately preceding the Relevant Quarter.
From first day in July to last day in September ("**Quarter 3**")	Quarterly financial statements published in Quarter 2 of that year (the "**Relevant Quarter**"), which detail the performance of the Lessee and the Adjusted EBITDA of the Lessee for the Quarter immediately preceding the Relevant Quarter.
From first day in October to last day in December ("**Quarter 4**")	Quarterly financial statements published in Quarter 3 of that year (the "**Relevant Quarter**"), which detail the performance of the Lessee and the Adjusted EBITDA of the Lessee for the Quarter immediately preceding the Relevant Quarter.

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

Exhibit 31.1

CERTIFICATION

I, Douglas J. Mattscheck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AGY Holding Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepting accounting principles;

c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 13, 2009

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

Exhibit 31.2

CERTIFICATION

I, Wayne T. Byrne, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AGY Holding Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the Registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepting accounting principles;

c. Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 13, 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 September 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 September 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: November 13, 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 September 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 September 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: November 13, 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.