
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended June 30, 2012

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

For the transition period from _____ to _____

Commission file number 333-150749

AGY HOLDING CORP.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-0420637
(I.R.S. Employer
Identification No.)

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

There is no established trading market for the Common Stock of the registrant. The total number of shares of the registrant's common stock, par value \$0.01 per share, outstanding as of August 13, 2012 was 100.

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PART I – FINANCIAL INFORMATION

ITEM 1. – Consolidated Financial Statements

AGY Holding Corp. and Subsidiaries

Consolidated Balance Sheets

(Dollars in thousands except per share amounts)

	June 30, 2012 <u>(Unaudited)</u>	December 31, 2011
<u>Assets</u>		
Current assets:		
Cash	\$ 3,125	\$ 2,268
Trade accounts receivable, less allowances of \$2,557 and \$2,703 at June 30, 2012 and December 31, 2011, respectively	21,219	17,572
Inventories, net	28,168	30,795
Deferred tax assets	2,799	3,370
Other current assets	2,847	1,865
Total current assets	58,158	55,870
Property, plant and equipment, and alloy metals, net	155,926	165,052
Restricted cash	1,500	—
Intangible assets, net	17,776	17,185
Other assets	404	494
TOTAL	<u>\$ 233,764</u>	<u>\$ 238,601</u>
 <u>Liabilities, Obligation Under Put/Call for Noncontrolling Interest and Shareholder's Deficit</u>		
Current liabilities:		
Accounts payable	\$ 16,838	\$ 14,627
Accrued liabilities	17,286	11,896
Short-term borrowings	11,727	12,820
Current portion of long-term debt	27,479	27,568
Total current liabilities	73,330	66,911
Long-term debt	199,655	197,000
Pension and other employee benefit plans	8,232	8,434
Deferred tax liabilities	4,808	5,378
Total liabilities	286,025	277,723
Commitments and contingencies		
Obligation under put/call for noncontrolling interest	4,090	—
Shareholder's equity (deficit):		
Common stock, \$.01 par value per share; 1,000 shares authorized; 100 shares issued and outstanding at June 30, 2012 and December 31, 2011	—	—
Additional paid-in capital	122,451	122,386
Accumulated deficit	(180,312)	(167,085)
Accumulated other comprehensive deficit	4,201	4,138
Total AGY Holding Corp. shareholder's deficit	(53,660)	(40,561)
Noncontrolling interest	(2,691)	1,439
Total shareholder's deficit	(56,351)	(39,122)
TOTAL	<u>\$ 233,764</u>	<u>\$ 238,601</u>

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

AGY Holding Corp. and Subsidiaries
Consolidated Statements of Operations

<i>(Dollars in thousands)</i>	(Unaudited)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net sales	\$ 46,544	\$ 50,006	\$ 93,600	\$ 94,938
Cost of goods sold	(38,140)	(46,258)	(80,492)	(88,140)
Gross profit	8,404	3,748	13,108	6,798
Selling, general and administrative expenses	(4,166)	(3,769)	(8,134)	(7,750)
Restructuring charges	(2,736)	(33)	(5,668)	(50)
Amortization of intangible assets	(251)	(251)	(502)	(502)
Other operating (expense) income	(185)	28	(346)	(126)
Income (loss) from operations	1,066	(277)	(1,542)	(1,630)
Other non-operating (expense) income:				
Interest expense	(5,957)	(5,886)	(11,815)	(11,645)
Other income, net	57	43	116	86
Loss before income tax expense	(4,834)	(6,120)	(13,241)	(13,189)
Income tax expense	(29)	(40)	(29)	(40)
Net loss	(4,863)	(6,160)	(13,270)	(13,229)
Less: Net loss attributable to the noncontrolling interest	33	40	43	221
Net loss attributable to AGY Holding Corp.	\$ (4,830)	\$ (6,120)	\$ (13,227)	\$ (13,008)

AGY Holding Corp. and Subsidiaries
Consolidated Statements of Comprehensive Loss

<i>(Dollars in thousands)</i>	(Unaudited)			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
Net loss attributable to AGY Holding Corp.	\$(4,830)	\$(6,120)	\$(13,227)	\$(13,008)
Pension and other postretirement benefit plans – net of tax of \$0	—	—	(54)	—
Foreign currency translation adjustments	70	615	117	1,073
Comprehensive loss attributable to AGY Holding Corp.	(4,760)	(5,505)	(13,164)	(11,935)
Net loss attributable to noncontrolling interest	(33)	(40)	(43)	(221)
Foreign currency translation adjustments	(8)	132	3	237
Comprehensive (loss) income attributable to noncontrolling interest	(41)	92	(40)	16
Net loss	(4,864)	(6,160)	(13,270)	(13,229)
Pension and other postretirement benefit plans – net of tax of \$0	—	—	(54)	—
Foreign currency translation adjustments	62	747	120	1,310
Comprehensive loss, including portion attributable to noncontrolling interest	<u>\$(4,802)</u>	<u>\$(5,413)</u>	<u>\$(13,204)</u>	<u>\$(11,919)</u>

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)

	(Unaudited)	
	Six Months Ended June 30,	
	2012	2011
Cash flow from operating activities:		
Net loss	\$(13,270)	\$(13,229)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,085	7,587
Alloy metals depletion, net	4,620	3,808
Amortization of debt issuance costs	417	378
Amortization of intangibles with definite lives	502	502
Loss (gain) loss on sale, disposal or exchange of property and equipment and alloy metals	60	1
Stock compensation	65	14
Changes in assets and liabilities:		
Trade accounts receivable	(3,646)	(6,300)
Inventories	2,627	(43)
Other assets	(867)	(193)
Accounts payable	2,147	2,219
Accrued liabilities	5,411	(181)
Pension and other employee benefit plans	(256)	(465)
Net cash provided by (used) in operating activities	<u>2,895</u>	<u>(5,902)</u>
Cash flows from investing activities:		
Purchases of property and equipment and alloy metals	(764)	(3,962)
Increase in restricted cash	(1,500)	—
Net cash used in investing activities	<u>(2,264)</u>	<u>(3,962)</u>
Cash flows from financing activities:		
Proceeds from Revolving Credit Facility borrowings	33,369	43,984
Payments on Revolving Credit Facility borrowings	(30,714)	(30,934)
Payment on AGY Asia Credit Facility borrowings	(1,049)	(2,655)
Debt issuance costs and others	(1,509)	(982)
Net cash provided by financing activities	<u>97</u>	<u>9,413</u>
Effect of exchange rate changes on cash	<u>129</u>	<u>(76)</u>
Net increase in cash	<u>857</u>	<u>(527)</u>
Cash, beginning of period	<u>2,268</u>	<u>3,132</u>
Cash, end of period	<u>\$ 3,125</u>	<u>\$ 2,605</u>
Supplemental disclosures of cash flow information:		
Cash paid for interest	<u>\$ 11,429</u>	<u>\$ 11,155</u>
Cash paid for income taxes	<u>\$ —</u>	<u>\$ 91</u>
Supplemental disclosures of non-cash financing/investing activities:		
Increase in minimum pension liability adjustment	<u>\$ 54</u>	<u>\$ —</u>
Construction in-progress included in accounts payable	<u>\$ 276</u>	<u>\$ 325</u>

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. GENERAL

Overview — As used in this Form 10-Q and in these notes, the terms “AGY”, the “Company”, “we,” “us,” or “our” mean AGY Holding Corp. and subsidiary companies. The accompanying unaudited interim consolidated financial statements are those of AGY Holding Corp. and subsidiary companies. Refer to Note 2 to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2011 (the “2011 Form 10-K”) for a discussion of our significant accounting policies.

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

Currently, the Company has two manufacturing facilities in the United States and one in the People’s Republic of China (“PRC” or “China”) and operates as two reportable segments (each a single operating segment) consisting of AGY U.S. manufacturing operations (“AGY US”) and AGY Asian manufacturing operations (“AGY Asia”).

Basis of Consolidation and Presentation — The accompanying unaudited interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The consolidated balance sheet as of December 31, 2011 was derived from audited 2011 consolidated financial statements. In the opinion of management, all adjustments (consisting of items of a normal recurring nature) considered necessary for a fair statement of financial condition and results of operations have been included. Interim operating results are not necessarily indicative of the results to be expected for any other interim period or for the full year.

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

The information included in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in our 2011 Form 10-K. The December 31, 2011 balances are derived from the audited financial statements in the 2011 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 2011 Form 10-K. Changes in facts and circumstances may have a significant impact on the resulting financial statements.

Operations and Liquidity Management — As of June 30, 2012, AGY US had total liquidity of \$18.7 million, consisting of \$0.6 million in unrestricted cash and approximately \$18.1 million of borrowing availability under the Senior Secured revolving credit facility (“Amended Credit Facility”), excluding \$6 million of availability that did not become effective until the amendment of the master lease agreement between the Company and Deutsche Bank Energy Trading LLC (“DB”), dated as of September 28, 2009 (the “Master Lease Agreement”) was consummated in July 2012. As further disclosed in Note 8, if our borrowing availability under the Amended Credit Facility falls below \$6.25 million, we will be subject to a springing financial maintenance covenant that would likely result in a default under the Amended Credit

Facility. The Company intends to manage its liquidity needs through enhancements to the gross margins from production process improvements, enhanced sales of higher margin products and other operations focused efforts.

The AGY Asia reporting segment has experienced declining operating profits, has significant debt service obligations coming due in 2012 and may require funding for the rebuilding of the furnace, located in Shanghai, PRC. As a result, in April 2012, we retained William Blair & Company, L.L.C. and its pan alliance partner Business Development Asia (HK) Ltd (“Blair” and “BDA” and together the “Advisor”) to provide certain investment banking services to evaluate and assist with a possible combination of AGY Asia with another party, a recapitalization of a significant portion of AGY Asia’s indebtedness or a change of control of AGY Asia in a transaction involving the Bank of Shanghai, which is the primary lender for the Asian operation. In connection with these potential transactions, several potential buyers have submitted non-binding offers and are currently conducting their due diligence analysis before submitting their final offers, which are expected during the third quarter of 2012.

We do not expect any possible transaction resulting from this engagement to impact the AGY US reporting segment as only approximately 1.5% of the reported revenue for AGY US was derived from products produced by AGY Asia over the last 12 months. Additionally, AGY US expects to maintain its commercial presence and sales channels for glass fibers produced in North America but sold to the Asian market, primarily for specialty electronics applications.

Adoption of New Accounting Standards — Effective January 1, 2012, the Company adopted ASU 2011-05, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. We elected to present net income (loss) and comprehensive income (loss) in two separate, but consecutive, statements. This is a change in presentation only and the adoption of ASU 2011-05 did not have an impact on the Company’s consolidated financial statements.

Recently Issued Accounting Standards — There were no accounting standards issued during 2012 that the Company believes would have a material impact on the financial statements.

2. INVENTORIES, NET

Inventories, net of reserves for excess, obsolete, and write-downs to lower of cost or market adjustments of \$2,298 and \$2,684 as of June 30, 2012 and December 31, 2011, respectively, consist of the following:

	June 30, 2012	December 31, 2011
Finished goods and work in process	\$19,298	\$ 21,275
Materials and supplies	8,870	9,520
	<u>\$28,168</u>	<u>\$ 30,795</u>

3. PROPERTY, PLANT AND EQUIPMENT AND ALLOY METALS

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

	June 30, 2012	December 31, 2011
Land and land use rights	\$ 12,421	\$ 12,456
Buildings and leasehold improvements	37,581	37,725
Machinery and equipment	105,608	105,893
Alloy metals (net of depletion)	69,750	74,411
	<u>225,360</u>	<u>230,485</u>
Less – Accumulated depreciation	(70,278)	(65,810)
	<u>155,082</u>	<u>164,675</u>
Construction-in-progress	844	377
	<u>\$155,926</u>	<u>\$ 165,052</u>

Depreciation expense was \$5,085 and \$7,587 in the six months ended June 30, 2012 and 2011, respectively.

Depletion of alloy metals was \$4,620 and \$3,808 (net of recoveries and excluding expense to process such recoveries) in the six months ended June 30, 2012 and 2011, respectively.

No alloy metals were sold during the first six months of 2011 and 2012.

During 2011, the Company determined the carrying value of the AGY Asia long-lived assets exceeded the fair value and recognized an impairment of \$37,898 at December 31, 2011. As of June 30, 2012, the Company determined that no additional impairment needed to be recorded.

4. RESTRICTED CASH

As of June 30, 2012, the Company had restricted cash of \$1.5 million that was posted as cash collateral in connection with the June 15, 2012 amendment of the Company's revolving credit facility. The cash collateral secures amounts remaining to be paid under the equipment lease that was financed by the previous revolving lender. The collateral requirement will be reduced by \$0.1 million at the end of each quarter beginning December 31, 2012 and ending in October 2015 when all of the scheduled lease payments have been made.

5. INTANGIBLE ASSETS

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

	June 30, 2012	December 31, 2011	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	7,586	6,077	4 to 8 years
Sub-total	<u>22,586</u>	<u>21,077</u>	
Less – Accumulated amortization	(10,423)	(9,505)	
	<u>12,163</u>	<u>11,572</u>	
Trademarks – not amortized	5,613	5,613	
Net intangible assets	<u>\$ 17,776</u>	<u>\$ 17,185</u>	

In June 2012, the Company entered into the Amended Credit Facility for AGY US and incurred approximately \$1.5 million in debt issuance costs. These costs are treated as additional deferred financing fees amortized by the straight-line method over the remaining life of the Amended Credit Facility, 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.

6. RESTRUCTURING INITIATIVES

AGY US

In the fourth quarter of 2011, we initiated actions in our AGY US segment to improve our cost structure and mitigate the adverse impact of the decline in precious metals markets on our borrowings availability. The approved plan included (a) the severance of 13 salaried positions, and (b) the engagement of a global professional services firm to lead rapid operational improvement opportunities and to provide interim senior management services following the change in our leadership organization. These initiatives continued through the second quarter of 2012 and resulted in a restructuring charge of \$2.1 million in the second quarter of 2012 and \$5.0 million for the six months ended June 30, 2012. The remaining reserve of \$4.4 million at June 30, 2012 for the above initiatives is expected to be paid in 2012. Additionally, the Company recently announced its decision to initiate a process to sell its CFM business, including the wound products and conductive roving business located in its Huntingdon Pennsylvania facilities, and we expect to incur additional professional advisory services fees throughout 2012.

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

	Employee Related Costs	Professional services	Others	Total
Balance as of December 31, 2011	\$ 567	\$ 695	\$ —	\$ 1,262
Restructuring costs incurred	422	4,377	172	4,971
Payments	(626)	(1,122)	(66)	(1,814)
Balance as of June 30, 2012	<u>\$ 363</u>	<u>\$ 3,950</u>	<u>\$ 106</u>	<u>\$ 4,419</u>

AGY Asia

In the first quarter of 2012, our AGY Asia segment engaged a global professional services firm to lead the refinancing of the AGY Asia financing agreements or a change in control of AGY Asia. This initiative resulted in a restructuring charge of \$0.6 million in the second quarter of 2012 and \$0.7 million for the six months ended June 30, 2012. The remaining reserve of \$0.2 million at June 30, 2012 for the above initiatives is expected to be paid in 2012 and AGY Asia expects to incur additional professional advisory services throughout 2012.

7. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	June 30, 2012	December 31, 2011
Vacation	\$ 1,811	\$ 1,820
Real and personal property taxes	1,941	1,232
Payroll and benefits	1,463	1,835
Variable compensation	756	—
Restructuring reserve (Note 6)	4,591	1,262
Interest	2,495	2,567
Current portion of pension and other employee benefits	774	774
Amount due for pension and retiree medical reimbursement	1,317	1,182
Accrued nonrefundable PRC value added tax	736	620
Sponsor management fees	375	—
Other	1,027	604
Total accrued liabilities	<u>\$17,286</u>	<u>\$ 11,896</u>

8. DEBT

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

	June 30, 2012	December 31, 2011
Senior secured notes	\$172,000	\$ 172,000
Senior secured revolving credit facility	27,655	25,000
AGY Asia credit facility – non-recourse	39,206	40,388
Total debt	238,861	237,388
Less – Short-term debt and current portion of long-term debt –		
AGY Asia	(39,206)	(40,388)
Total long-term debt	<u>\$199,655</u>	<u>\$ 197,000</u>

Senior Secured Notes

Interest on our Senior Secured Notes due 2014 (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 the indebtedness of the Company, including the Amended Credit Facility, or the indebtedness of any restricted subsidiaries.

As of June 30, 2012 and December 31, 2011, the estimated fair value of the Notes was \$80,800 and \$82,560, respectively, compared to a recorded book value of \$172,000 for both periods. The fair value of the Notes is estimated on the basis of quoted market prices; however, trading in these securities is limited and may not reflect fair value. The fair value is subject to fluctuations based on, among other things, the Company's performance, its credit rating and changes in interest rates for debt securities with similar terms.

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

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

Senior Secured Revolving Credit Facility

On June 15, 2012, the Company entered into the Second Amended Credit Facility that provides for an expanded credit facility of up to \$60,000 and matures on the earlier of June 15, 2016 or 90 days prior to the maturity date of the senior secured notes ("Amended Credit Facility").

Availability under the facility is determined by a borrowing base equal to the sum of: (i) an advance rate against eligible accounts receivable of up to 85%, 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 \$40,000 of eligible alloy inventory, plus (iv) subject to the extension, replacement or renewal of on terms and conditions satisfactory to Agent, the lesser of (x) 70% of the net orderly liquidation value of eligible equipment plus 50% of the fair market value of eligible real estate, (y) an amount equal to \$6 million on the Closing Date and reduced by \$375,000 on the day after the last day of each full Fiscal Quarter thereafter and (z) 15% of the Borrowing Base (which amount was not included in the calculation of the Borrowing Base until July 25, 2012, when the Master Lease Agreement was amended), minus (v) 100% of mark-to-market risk on certain interest hedging arrangements, minus (vi) a reserve of \$2.5 million, and minus (vii) other reserves as the lender may determine in its permitted discretion. This amended definition of the borrowing base calculation resulted in lower reserves and higher advance rates on certain of our assets when compared to the definition that was in effect prior to the amendment of the credit facility as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 30, 2012.

The interest rate for borrowings is LIBOR plus 4.0% or Base Rate plus 3.0% and may be adjusted downward to LIBOR plus 3.5% or Base Rate plus 2.5%, depending on the Company's fixed charge coverage ratio. In addition, there are customary commitment and letter of credit fees under the Amended Credit Facility.

All obligations under the Amended Credit Facility are guaranteed by Holdings. The Company's obligations under the Amended 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.

Proceeds from the Amended Credit Facility loan were used to repay all amounts and terminate all commitments outstanding under our previous \$50,000 Amended Credit Facility and to pay fees and expenses in connection with the refinancing.

The Company incurred approximately \$1,500 in issuance costs, which will be expensed over the life of the Amended Credit Facility.

The Amended 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.

In addition, the agreement contains a "springing financial maintenance covenant." Specifically, if any revolving credit facility commitments are outstanding and after the occurrence of (a) a default or an event of default, or (b) the availability under the facility falling below the greater of \$6,250 and 12.5% of the Borrowing Base (as defined) as of the last day of the most recent fiscal month ended, the Company must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for each period of four fiscal quarters ended during, or on the last day of, the fiscal quarter immediately before the events listed in (a) and (b) above.

The agreement governing the Amended 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 but not limited to failure to pay principal or interest or other amounts when due, breach of certain covenants or representations including breach of the springing covenant, cross-defaults to certain other agreements and indebtedness in excess of specified amounts, a change of control, or default under our obligation regarding the AGY Asia option exercise. The Company was in compliance with all such covenants as of June 30, 2012.

On July 25, 2012, the Company amended the Amended Credit Facility to, among other things, permit the amendment of the Master Lease Agreement, to require delivery of certain additional reports and to add a minimum Fully Adjusted EBITDA financial covenant, as defined in the Amended Master Lease Agreement, which is measured as of each calendar quarter end based on the last four quarters Fully Adjusted EBITDA. Had the minimum Fully Adjusted EBITDA covenant been in effect as of June 30, 2012, the Company would have been in compliance with such covenant as of June 30, 2012.

As of June 30, 2012, our borrowing base, calculated in accordance with the terms of the Amended Credit Facility, was \$48,700. As of June 30, 2012, the Company had issued letters of credit totaling approximately \$2,900 and had cash borrowings of \$27,700 under the facility. The weighted average interest rate for cash borrowings outstanding as of June 30, 2012 was 4.4%. Borrowing availability after giving effect to the borrowing base at June 30, 2012 was approximately \$18,100, which as mentioned previously excludes the \$6,000 advance on eligible equipment and real estate that became available in July 2012.

As of December 31, 2011, our borrowing base, calculated in accordance with the terms of the Amended Credit Facility, was \$40,700. As of December 31, 2011, the Company had issued letters of credit totaling approximately \$2,900 and had cash borrowings of \$25,000 under the facility. The weighted average interest rate for cash borrowings outstanding as of December 31, 2011 was 3.4%. Borrowing availability after giving effect to the borrowing base at December 31, 2011 was approximately \$12,800.

AGY Asia Credit Facility- Non-recourse

The AGY Asia financing arrangement ("AGY Asia Credit Facility") consists of a term loan with an original maturity of five years and a one-year working capital loan with original commitments of approximately \$43,300 and \$12,500, respectively, converted at the then-current exchange rate. Proceeds from the loans were used principally to repay the \$37,600 outstanding at the time of the refinancing under AGY Asia's prior credit agreements.

In April 2012, the remaining unused commitment of approximately \$2,500 under the term loan and the working capital loan was terminated by the AGY Asia lender. As a result, there is no remaining availability under the AGY Asia Credit Facility.

Term loan

The term loan is secured by AGY Asia's building, alloy metals and equipment and bears interest annually at the rate of either the five-year lending rate as published by the People's Bank of China, plus a margin, or six-month LIBOR plus 3.0%. Term loan borrowings may be made in both local currency and US dollars, up to certain

limits. At June 30, 2012 and December 31, 2011, AGY Asia had borrowings of approximately \$27,500 under the term loan, consisting of a local currency loan of RMB 148,500, or approximately \$23,500 converted at the period-end exchange rate, and a U.S.-dollar-denominated loan of \$4,000. The weighted average interest rate for cash borrowings outstanding as of June 30, 2012 was 6.8%.

There are semi-annual mandatory payments of principal on the term loan borrowings. At June 30, 2012, the remaining mandatory payments of principal were as follows:

2012	\$10,538
2013	12,567
2014	4,374
	<u>\$27,479</u>

In April and July 2012 AGY Asia and its lender amended the term loan amortization to defer initially until July 2012 and then subsequently until October 2012, the \$5.1 million required principal payment originally due in April 2012. In addition, the lender has the right to accelerate the loan repayment at any time if the lender deems that no substantial progress on AGY Asia refinancing, recapitalization or change of control is being made. There is no assurance that we will be able to permanently revise the term loan amortization schedule on terms acceptable to us or at all. If AGY Asia is unable to reach agreement with its lender to modify the term loan amortization schedule beyond October 2012, then AGY Asia may default under its loan agreement and the total outstanding debt of \$27,500 million may be accelerated. As a result of this uncertainty, all the outstanding borrowings under the term loan were classified as current liabilities as of June 30, 2012 and December 31, 2011.

Working Capital Loan

The working capital loan facility is secured by existing and future equipment and assets acquired by AGY Asia and bears interest annually at the rate of either the one-year lending rate as published by the People's Bank of China, or three-month LIBOR plus 3.0%. Working capital loan borrowings may be made in both local currency and US Dollars, up to certain limits.

In July 2012, AGY Asia received an extension of the working capital loan facility to October 2012. However, there is no assurance that we will be able to obtain an extension of the commitment beyond October 2012 on terms acceptable to us or at all.

At June 30, 2012 and December 31, 2011, the Company had borrowings of approximately \$11,500 outstanding under the working capital loan consisting of (i) a local currency loan of RMB 66,500, or approximately \$10,500 converted at the period-end exchange rate, and (ii) a U.S.-dollar-denominated loan of \$1,000. The weighted average interest rate for cash borrowings outstanding as of June 30, 2012, was 7.0%.

During the second quarter of 2011, AGY Asia entered into a letter of credit ("LC") discounting arrangement whereby certain trade receivables backed by LCs may be discounted with recourse and borrowed against at a nominal interest cost. At June 30, 2012, AGY Asia had discounted LCs with a face value of approximately \$237 (which amount is recorded in trade receivables at June 30, 2012), receiving proceeds of approximately \$213 and maintaining equity of approximately \$24 in such receivables. At June 30, 2012, proceeds of \$213 received from discounting were recorded as short-term debt payable.

In July 2012, the lender declined extending the letter of credit facility in support of trade supplier payments that was previously in place.

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 Asia was in compliance with all such covenants at June 30, 2012.

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

Maturities of Long-Term Debt

As discussed above, we classified all AGY Asia borrowings outstanding under the term loan as current as of June 30, 2012 due to the uncertainty of AGY Asia's ability to make required principal payments and/or to consummate a refinancing, which would create an event of default and activate an acceleration clause. As a result, maturities of long-term debt at June 30, 2012 only relate to AGY US and consist of the following:

	North America	China – Non-recourse	Total
2013	\$ —	\$ —	\$ —
2014	\$ 199,655	\$ —	\$199,655
	<u>\$ 199,655</u>	<u>\$ —</u>	<u>\$199,655</u>

9. TRANSACTIONS WITH RELATED PARTIES

As discussed in Note 11 of our 2011 Form 10-K, the Company has a management agreement with the principal shareholder of Holdings pursuant to which this party provides management and other advisory services to the Company. This agreement requires AGY to pay an annual management fee of \$750 and to reimburse this party for out-of-pocket expenses incurred in connection with its services.

In the fourth quarter of 2011 the Company entered into an agreement with the principal shareholder of Holdings, pursuant to which this party agreed to guarantee in case of default, the Company's payment of up to approximately \$2.9 million for interim management and corporate advisory services to be rendered by a global professional services firm. Such fees, incurred since September 2011, have been accrued and expensed as of June 30, 2012 as restructuring costs (see Note 6).

10. CAPITAL STOCK AND EQUITY

The authorized capital stock of the Company consists of a total of 1,000 shares of common stock with a par value of \$0.01 per share. All 100 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 8, the payment of dividends is restricted by the Amended Credit Facility and the Notes and no dividends were paid in either the three months ended June 30, 2012 or 2011.

11. EMPLOYEE BENEFITS

Pension and Other Post-retirement Benefits

Pension Benefits — As described more fully in our 2011 Form 10-K, we have a reimbursement obligation to Owens Corning ("OC") under OC's defined benefit pension plan covering certain of our employees. Our obligation to OC is unfunded. We do not have a defined benefit pension plan.

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

Net periodic benefit costs for the three and six months ended June 30, 2012 and 2011, are as follows:

	<u>For the Three Months Ended June 30,</u>				<u>For the Six Months Ended June 30,</u>			
	<u>Pension</u>		<u>Post-Retirement</u>		<u>Pension</u>		<u>Post-Retirement</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Service cost	\$ —	\$ —	\$ 60	\$ 72	\$ 0	\$ —	\$ 120	\$ 144
Interest cost	25	39	62	55	50	78	124	137
Settlement	33	—	—	—	93	—	0	—
Amortization of unrecognized gains	26	12	(38)	(71)	50	24	(76)	(142)
Total net periodic benefit cost	<u>\$ 84</u>	<u>\$ 51</u>	<u>\$ 84</u>	<u>\$ 56</u>	<u>\$ 193</u>	<u>\$ 102</u>	<u>\$ 168</u>	<u>\$ 139</u>

Expected net employer contributions for the OC defined benefit plan for the year ending December 31, 2012 are \$218. Expected net employer contributions for the postretirement benefit plan for the year ending December 31, 2012 are \$556.

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. AGY may provide a voluntary matching employer contribution of 50% on up to 6% of each participant's before-tax salary deferral. In addition, AGY may make an employer contribution to the plan based on the Company's annual financial performance. Effective December 2011 and January 2012, the Company suspended matching contributions for hourly employees at its Aiken SC location and for all salaried employees, and for hourly employees at the Huntingdon PA location, respectively. For the six months ended June 30, 2012 and 2011, the Company contributed nil and \$293, respectively.

12. STOCK-BASED COMPENSATION

Our stock-based compensation includes stock options and restricted stock as described in our 2011 Form 10-K. Total stock-based compensation was \$65 and \$7 for the three months ended June 30, 2012 and 2011, respectively. During the six months ended June 30, 2012, no additional stock options or restricted stock were granted, exercised, or expired but 70,000 stock options were forfeited.

The following table summarizes the Company's activity in stock options:

	Number of options	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Remaining Exercise Price
Outstanding – January 1, 2012	1,020,000	4.3	\$ 8.40
Granted	—		
Exercised	—		
Expired or forfeited	(70,000)		
Outstanding – June 30, 2012	<u>950,000</u>	<u>3.8</u>	<u>\$ 8.54</u>
Exercisable – June 30, 2012	<u>513,333</u>	<u>3.8</u>	<u>\$ 10.00</u>

At June 30, 2012 the outstanding options had no intrinsic value.

13. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company from time to time enters into fixed-price agreements for the natural gas commodity requirements of our AGY US segment to reduce the variability of the cash flows associated with forecasted purchases of natural gas. Although these contracts are considered derivative instruments, they typically meet the normal purchases exclusion contained in ASC 815, and are therefore exempted from the related accounting requirements. At June 30, 2012, the Company had existing contracts for physical delivery of natural gas at its Aiken, SC and Huntingdon, PA facilities that fix the commodity cost of natural gas for approximately 60% and 80%, respectively, of its estimated natural gas purchase requirements in the next six months.

At June 30, 2012, the Company also had existing contracts for physical delivery of electricity at its Huntingdon, PA facility that fix the commodity cost of all of its estimated electricity purchase requirements through December 2013.

The Company also uses, on occasion, foreign currency derivatives to manage the risk associated with fluctuations in foreign exchange rates. At June 30, 2012 and December 31, 2011, respectively, the Company had no foreign currency hedging agreements in effect.

14. ALLOY METAL LEASES

The Company leases under short-term operating leases (with lease terms of twelve months or less) a significant portion of the alloy metals needed to support its manufacturing operations. During the six months ended June 30, 2012 and 2011, total lease costs of alloy metals were approximately \$2,123 and \$2,005, respectively, and were classified as a component of cost of goods sold. In July 2012, we entered into an amended and restated master lease agreement (the "Amended Master Lease Agreement") with DB, which extended the maturity date to May 31, 2013 from October 7, 2012. The Amended Master Lease Agreement 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 Amended Master Lease Agreement is secured by a security interest in rhodium up to a value that is the lesser of 35% of the leased platinum or \$24,400. The Amended Master Lease Agreement is guaranteed by AGY's domestic subsidiaries and 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 Amended Credit Facility and the Notes. In addition, the Amended Master Lease Agreement requires us to maintain minimum Fully Adjusted EBITDA (as defined in the Amended Master Lease Agreement) of not be less than \$16.5 million for the 12-month period ending June 30, 2012, \$17.25 million for the 12-month period ending September 30, 2012, \$17.75 million for the 12-month period ending December 31, 2012 and \$18.25 million for the 12-month period ending March 31, 2013. Had the Amended Master Lease Agreement been in effect as of June 30, 2012, the Company would have been in compliance with the minimum Fully Adjusted EBITDA covenant as of June 30, 2012.

At June 30, 2012, we leased approximately 49,751 ounces of platinum and 3,285 ounces of rhodium under the Master Lease Agreement, with a notional value of approximately \$81,500 and \$4,800, respectively. All of the leases outstanding at June 30, 2012 had initial terms of one to twelve months, maturing no later than October 2012 (with future minimum rentals of approximately \$850 until maturity in October 2012). Under the Amended Lease Agreement that was consummated in July 2012, the prior leases were terminated and we commenced new leases with terms of five to ten months, maturing no later than May 31, 2013 (with future minimum rentals of approximately \$4,400 until maturity in May 2013).

The Company is currently seeking a replacement lessor for DB to extend the lease facility beyond its new maturity date in May 2013, but there is no assurance that we will be able to obtain replacement financing on terms acceptable to us or at all. If we are unable to refinance the facility by May 31, 2013 in a manner acceptable to our senior secured revolving lenders, this will be an event of default under that agreement and the lenders may accelerate amounts due under that facility, which could then trigger a default under our senior second lien Notes.

15. 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 June 30, 2012, there were no assets or liabilities required to be measured at fair value in periods subsequent to their initial recognition.

At December 31, 2011, long-lived assets of AGY Asia were tested for impairment. Accordingly, the Company recorded an impairment charge of \$37.9 million based on the orderly liquidation value in exchange basis of the long-lived assets given the uncertainty for AGY Asia to operate as a going concern beyond 2012. The valuation methodologies used to determine fair value, with the assistance of a third party valuation specialist, were a market approach for those assets where a secondary market exists and a replacement cost approach for the remainder. Since there were primarily unobservable inputs, management concluded that this was a Level 3 fair value measurement.

The fair value of the Notes for AGY US was approximately \$80,800 and \$82,560 at June 30, 2012 and December 31, 2011, respectively. The debt fair value estimates are classified under Level 2 because such estimates are based on readily available market prices of our debt at June 30, 2012 and December 31, 2011, or similar debt with the same maturities, rating and interest rates.

16. NONCONTROLLING INTEREST

On June 10, 2009 the Company purchased a 70% controlling interest in AGY Asia. The 30% noncontrolling interest (“NCI”) was recorded at the acquisition date at a fair value of \$12,431, which was derived from an option agreement, pursuant to which the Company has the right to purchase the remaining 30% NCI at a stipulated multiple of earnings before interest, taxes, depreciation and amortization if certain financial performances are achieved. Grace Technology Investment Co., Ltd and Grace THW Holding Limited (together, “Grace”) have the right to put their remaining 30% ownership to the Company after the one-year anniversary of the execution of the AGY Asia Purchase Agreement at a stipulated multiple of earnings before interest, taxes, depreciation and amortization. The put option became exercisable upon the first anniversary of the completion date of the AGY Asia acquisition, June 10, 2010, and will expire on December 31, 2013.

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

At June 30, 2012 and December 31, 2011, the Company recorded the attribution of the NCI net loss and other comprehensive income according to ASC 810-10-65 and performed a subsequent measurement of the probable redemption amount per ASC 480-10-S99. As of June 30, 2012 and December 31, 2011 the equity instrument is redeemable but remains below its carrying value and was nil as of December 31, 2011. Therefore, only the redemption amount assessed as of the end of the period is classified in mezzanine equity and any NCI above this amount is presented in permanent equity.

Changes in noncontrolling interest are set forth below:

	<u>Mezzanine Equity</u>	<u>Permanent Equity</u>	<u>Total NCI</u>
Balance as of January 1, 2011	\$ 3,401	\$ 9,762	\$ 13,163
Net income attributable to NCI – AGY Asia	(12,240)	—	(12,240)
Other comprehensive income attributable to NCI – AGY Asia	516	—	516
Adjustment to NCI Redemption amount assessment	8,323	(8,323)	—
Balance as of December 31, 2011	<u>—</u>	<u>1,439</u>	<u>1,439</u>
Net (loss) attributable to NCI – AGY Asia	(43)	—	(43)
Other comprehensive income attributable to NCI – AGY Asia	3	—	3
Adjustment to NCI Redemption amount assessment	4,130	(4,130)	—
Balance as of June 30, 2012	<u>\$ 4,090</u>	<u>\$ (2,691)</u>	<u>\$ 1,399</u>

17. INCOME TAXES

During the three months and six months ended June 30, 2012, the Company’s effective tax rate was (0.6%) and (0.2%) respectively. This rate varied from the statutory rate of 34% due primarily to increases in the valuation allowance for domestic and foreign deferred tax assets which are not more-likely-than-not to be realized, losses on domestic and foreign subsidiaries with no tax benefit, state taxes and foreign rate differential. Generally, the Company can recognize deferred tax assets for the losses incurred until such time that the aggregate deferred tax assets exceed aggregate deferred tax liabilities that do not relate to assets with an indefinite useful life.

During the three months and six months ended June 30, 2011, the Company’s effective tax rate was (0.7%) and (0.3%) respectively. This rate varied from the statutory rate of 34% due primarily to increases in the valuation allowance for domestic and foreign deferred tax assets which are not more-likely-than-not to be realized, losses on domestic and foreign subsidiaries with no tax benefit, state taxes and foreign rate differential.

18. COMMITMENTS AND CONTINGENCIES

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

In addition to the alloy metal leases discussed in Note 14, we also lease other equipment and property under operating leases. Total rent expense for the six months ended June 30, 2012 and 2011, was approximately \$700 and \$820, respectively.

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.

19. SEGMENT INFORMATION

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

Three Months Ended June 30, 2012	<u>AGY US</u>	<u>AGY Asia</u>	<u>Corporate and Other</u>	<u>Total</u>
Total net sales	\$39,373	\$ 7,171	\$ —	\$46,544
Operating income (loss) (i)	2,945	459	(2,338)	1,066
Depreciation and amortization	2,311	482	—	2,793
Alloy metals depletion, net	1,043	116	—	1,159

- (i) Operating loss for the three months ended June 30, 2012 within the corporate and other segment primarily includes \$2,117 of restructuring expense for AGY US (discussed in Note 6), stock compensation expense, and the management fees payable to our sponsor.

Three Months Ended June 30, 2011	<u>AGY US</u>	<u>AGY Asia</u>	<u>Corporate and Other</u>	<u>Total</u>
Total net sales	\$42,207	\$ 7,799	\$ —	\$50,006
Operating loss (i)	(482)	435	(230)	(277)
Depreciation and amortization	2,490	1,495	—	3,985
Alloy metals depletion, net	2,031	158	—	2,189

- (i) Operating loss for the three months ended June 30, 2011 within the corporate and other segment primarily includes stock compensation expense and the management fees payable to our sponsor.

Six Months Ended June 30, 2012	<u>AGY US</u>	<u>AGY Asia</u>	<u>Corporate and Other</u>	<u>Total</u>
Total net sales	\$ 79,454	\$14,146	\$ —	\$ 93,600
Operating income (loss) (i)	2,873	1,004	(5,419)	(1,542)
Depreciation and amortization	4,696	891	—	5,587
Alloy metals depletion, net	4,404	216	—	4,620
Property, plant and equipment, and alloy metals, net	107,021	48,905	—	155,926
Carrying amount of intangible assets	17,776	—	—	17,776
Total assets	171,303	62,461	—	233,764

- (i) Operating loss for the six months ended June 30, 2012 within the corporate and other segment primarily includes \$4,971 of restructuring expense for AGY US (discussed in Note 6), stock compensation expense, and the management fees payable to our sponsor.

Six Months Ended June 30, 2011	<u>AGY US</u>	<u>AGY Asia</u>	<u>Corporate and Other</u>	<u>Total</u>
Total net sales	\$ 80,185	\$ 14,753	\$ —	\$ 94,938
Operating (loss) income (i)	(1,612)	423	(441)	(1,630)
Depreciation and amortization	5,119	2,970	—	8,089
Alloy metals depletion, net	3,516	292	—	3,808
Property, plant and equipment, and alloy metals, net	125,927	88,829	—	214,756
Carrying amount of intangible assets	18,055	—	—	18,055
Total assets	193,998	104,578	—	298,576

- (i) Operating loss for the six months ended June 30, 2011 within the corporate and other segment primarily includes the management fees payable to our sponsor and stock compensation expense.

20. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

As described in Note 8, an aggregate of \$172,000 of the Notes remain outstanding at June 30, 2012. The Notes are guaranteed, fully, unconditionally and jointly and severally, by each of AGY Holding Corp.'s existing and future wholly-owned domestic subsidiaries, other than immaterial subsidiaries (collectively, the "Combined Guarantor Subsidiaries").

For the purpose of this footnote:

- AGY Holding Corp. is referred to as "Parent";
- The Combined Guarantor Subsidiaries represent all subsidiaries other than the Combined Non-Guarantor subsidiaries defined below; and
- The "Combined Non-Guarantor Subsidiaries" as of June 30, 2012 include only the subsidiaries forming AGY Asia: AGY Cayman LLC, AGY Hong Kong Ltd and AGY Shanghai.

The following supplemental condensed consolidating financial information is presented on the equity method and reflects the Parent's separate accounts, the accounts of the Combined Guarantor Subsidiaries, the accounts of the Non-Guarantor Subsidiaries, the consolidating adjustments and eliminations and the total consolidated accounts for the dates and periods indicated.

Condensed Consolidating Balance Sheet

	As of June 30, 2012				
	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					
Total current assets	\$ 4,770	\$ 40,247	\$ 13,141	\$ —	\$ 58,158
Due from (to) affiliates	(60,367)	61,842	(1,475)	—	—
Property, plant and equipment, net	60,703	46,318	48,905	—	155,926
Intangible assets, net	3,411	14,365	—	—	17,776
Investment in unconsolidated entities	151,179	—	—	(151,179)	—
Other assets	1,500	—	404	—	1,904
Total	<u>\$161,196</u>	<u>\$ 162,772</u>	<u>\$ 60,975</u>	<u>\$(151,179)</u>	<u>\$ 233,764</u>
LIABILITIES, OBLIGATION UNDER PUT/CALL FOR NONCONTROLLING INTEREST AND SHAREHOLDER'S EQUITY					
Total current liabilities	\$ 15,201	\$ 15,122	\$ 43,007	\$ —	\$ 73,330
Long-term debt	199,655	—	—	—	199,655
Other long-term liabilities	—	12,903	137	—	13,040
Obligation under put/call for noncontrolling interest	—	—	4,090	—	4,090
Parent's shareholder's equity	(53,660)	134,747	16,432	(151,179)	(53,660)
Noncontrolling interest equity	—	—	(2,691)	—	(2,691)
Total	<u>\$161,196</u>	<u>\$ 162,772</u>	<u>\$ 60,975</u>	<u>\$(151,179)</u>	<u>\$ 233,764</u>

Condensed Consolidating Statements of Operations

	Three Months Ended June 30, 2012				
	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 39,373	\$ 7,437	\$ (266)	\$ 46,544
Cost of goods sold	—	(32,764)	(5,642)	266	(38,140)
Gross profit	—	6,609	1,795	—	8,404
Selling, general and administrative expenses	(221)	(3,228)	(717)	—	(4,166)
Restructuring charges	(2,117)	—	(619)	—	(2,736)
Amortization of intangible assets	—	(251)	—	—	(251)
Other operating expense	—	(185)	—	—	(185)
(Loss) income from operations	(2,338)	2,945	459	—	1,066
Interest expense	(5,278)	—	(679)	—	(5,957)
Equity losses (earnings) in unconsolidated entities	2,753	—	—	(2,753)	—
Other income, net	—	(50)	107	—	57
Loss before income tax expense	(4,863)	2,895	(113)	(2,753)	(4,834)
Income tax expense	—	(29)	—	—	(29)
Net loss	(4,863)	2,866	(113)	(2,753)	(4,863)
Less: Net loss attributable to the noncontrolling interest	33	—	33	(33)	33
Net loss attributable to AGY Holding Corp.	<u>\$(4,830)</u>	<u>\$ 2,866</u>	<u>\$ (80)</u>	<u>\$ (2,786)</u>	<u>\$ (4,830)</u>
Comprehensive (loss) income, including portion attributable to noncontrolling interest	<u>\$(4,864)</u>	<u>\$ 2,865</u>	<u>\$ (50)</u>	<u>\$ (2,753)</u>	<u>\$ (4,802)</u>

Six Months Ended June 30, 2012

	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 79,454	\$ 14,609	\$ (463)	\$ 93,600
Cost of goods sold	—	(69,451)	(11,504)	463	(80,492)
Gross profit	—	10,003	3,105	—	13,108
Selling, general and administrative expenses	(448)	(6,282)	(1,404)	—	(8,134)
Restructuring charges	(4,971)	—	(697)	—	(5,668)
Amortization of intangible assets	—	(502)	—	—	(502)
Other operating (expense) income	—	(346)	—	—	(346)
(Loss) income from operations	(5,419)	2,873	1,004	—	(1,542)
Interest expense	(10,503)	—	(1,312)	—	(11,815)
Equity losses (earnings) in unconsolidated entities	2,652	—	—	(2,652)	—
Other (expense) income, net	—	(46)	162	—	116
Loss before income tax expense	(13,270)	2,827	(146)	(2,652)	(13,241)
Income tax expense	—	(29)	0	0	(29)
Net loss	(13,270)	2,798	(146)	(2,652)	(13,270)
Less: Net loss attributable to the noncontrolling interest	43	—	43	(43)	43
Net loss attributable to AGY Holding Corp.	<u>\$(13,227)</u>	<u>\$ 2,798</u>	<u>\$ (103)</u>	<u>\$ (2,695)</u>	<u>\$ (13,227)</u>
Comprehensive (loss) income, including portion attributable to noncontrolling interest	<u>\$(13,270)</u>	<u>\$ 2,746</u>	<u>\$ (28)</u>	<u>\$ (2,652)</u>	<u>\$ (13,204)</u>

Condensed Consolidating Statements of Cash Flows

	Six Months Ended June 30, 2012				
	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Net loss	\$(13,270)	\$ 2,798	\$ (146)	\$ (2,652)	\$ (13,270)
Equity losses in unconsolidated entities	(2,652)	—	—	2,652	—
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:					
Depreciation, alloy metals depletion and amortization	417	9,101	1,106	—	10,624
Loss on sale, disposal of assets or exchange of property and equipment and alloy metals	—	60	—	—	60
Stock compensation	65	—	—	—	65
Change in assets and liabilities	3,690	1,488	238	—	5,416
Parents loans and advances	<u>12,152</u>	<u>(12,651)</u>	<u>499</u>	<u>—</u>	<u>0</u>
Net cash provided by operating activities	<u>402</u>	<u>796</u>	<u>1,697</u>	<u>—</u>	<u>2,895</u>
Cash flows from investing activities:					
Purchase of property, plant and equipment and alloy metals	—	(796)	32	—	(764)
Increase in restricted Cash	<u>(1,500)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,500)</u>
Net cash used in investing activities	<u>(1,500)</u>	<u>(796)</u>	<u>32</u>	<u>—</u>	<u>(2,264)</u>
Cash flows from financing activities:					
Net payments on Revolving Credit Facility	2,655	—	—	—	2,655
Net payment on AGY Asia Credit Facility borrowings	—	—	(1,049)	—	(1,049)
Debt issuances and others	<u>(1,509)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,509)</u>
Net cash used by financing activities	<u>1,146</u>	<u>—</u>	<u>(1,049)</u>	<u>—</u>	<u>97</u>
Effect of exchange rate changes on cash	<u>2</u>	<u>—</u>	<u>127</u>	<u>—</u>	<u>129</u>
Net increase in cash	<u>50</u>	<u>—</u>	<u>807</u>	<u>—</u>	<u>857</u>
Cash, beginning of period	504	—	1,764	—	2,268
Cash, end of period	<u>\$ 554</u>	<u>\$ —</u>	<u>\$ 2,571</u>	<u>\$ —</u>	<u>\$ 3,125</u>

Condensed Consolidating Balance Sheet

	As of June 30, 2011				
	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
ASSETS					
Total current assets	\$ 3,190	\$ 46,585	\$ 15,160	\$ —	\$ 64,935
Due from (to) affiliates	(32,927)	34,942	(2,015)	—	—
Property, plant and equipment, net	73,004	52,923	88,829	—	214,756
Intangible assets, net	2,687	15,368	—	—	18,055
Investment in unconsolidated entities	164,305	—	—	(164,305)	—
Other assets	19	222	589	—	830
Total	<u>\$210,278</u>	<u>\$ 150,040</u>	<u>\$ 102,563</u>	<u>\$(164,305)</u>	<u>\$ 298,576</u>
LIABILITIES, OBLIGATION UNDER PUT/CALL FOR NONCONTROLLING INTEREST AND SHAREHOLDER'S EQUITY					
Total current liabilities	\$ 7,046	\$ 13,348	\$ 25,289	\$ —	\$ 45,683
Long-term debt	203,000	—	20,496	—	223,496
Other long-term liabilities	—	15,620	366	—	15,986
Obligation under put/call for noncontrolling interest	—	—	6,138	—	6,138
Parent's shareholder's equity	232	121,072	43,233	(164,305)	232
Noncontrolling interest equity	—	—	7,041	—	7,041
Total	<u>\$210,278</u>	<u>\$ 150,040</u>	<u>\$ 102,563</u>	<u>\$(164,305)</u>	<u>\$ 298,576</u>

Condensed Consolidating Statements of Operations

	Three Months Ended June 30, 2011				
	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 42,207	\$ 8,212	\$ (413)	\$ 50,006
Cost of goods sold	—	(39,535)	(7,256)	533	(46,258)
Gross profit	—	2,672	956	120	3,748
Selling, general and administrative expenses	(199)	(2,929)	(521)	(120)	(3,769)
Restructuring charges	—	(33)	—	—	(33)
Amortization of intangible assets	—	(251)	—	—	(251)
Other operating (expense) income	—	28	—	—	28
Loss from operations	(199)	(513)	435	—	(277)
Interest expense	(5,259)	—	(627)	—	(5,886)
Equity losses in unconsolidated entities	(702)	—	—	702	—
Other income, net	—	(13)	56	—	43
Loss before income tax expense	(6,160)	(526)	(136)	702	(6,120)
Income tax expense	—	(40)	—	—	(40)
Net loss	(6,160)	(566)	(136)	702	(6,160)
Less: Net loss attributable to the noncontrolling interest	40	—	40	(40)	40
Net loss attributable to AGY Holding Corp.	<u>\$(6,120)</u>	<u>\$ (566)</u>	<u>\$ (96)</u>	<u>\$ 662</u>	<u>\$ (6,120)</u>
Comprehensive (loss) income, including portion attributable to noncontrolling interest	<u>\$(6,160)</u>	<u>\$ (560)</u>	<u>\$ 605</u>	<u>\$ 702</u>	<u>\$ (5,413)</u>

Condensed Consolidating Statements of Operations

	Six Months Ended June 30, 2011				
	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ 80,185	\$ 15,166	\$ (413)	\$ 94,938
Cost of goods sold	—	(75,102)	(13,571)	533	(88,140)
Gross profit	—	5,083	1,595	120	6,798
Selling, general and administrative expenses	(391)	(6,187)	(1,172)	—	(7,750)
Restructuring charges	—	(50)	—	—	(50)
Amortization of intangible assets	—	(502)	—	—	(502)
Other operating (expense) income	—	(6)	—	(120)	(126)
Loss from operations	(391)	(1,662)	423	—	(1,630)
Interest expense	(10,389)	—	(1,256)	—	(11,645)
Equity losses in unconsolidated entities	(2,449)	—	—	2,449	—
Other income, net	—	(10)	96	—	86
Loss before income tax expense	(13,229)	(1,672)	(737)	2,449	(13,189)
Income tax expense	—	(40)	—	—	(40)
Net loss	(13,229)	(1,712)	(737)	2,449	(13,229)
Less: Net loss attributable to the noncontrolling interest	221	—	221	(221)	221
Net loss attributable to AGY Holding Corp.	<u>\$(13,008)</u>	<u>\$ (1,712)</u>	<u>\$ (516)</u>	<u>\$ 2,228</u>	<u>\$ (13,008)</u>
Comprehensive (loss) income, including portion attributable to noncontrolling interest	<u>\$(13,229)</u>	<u>\$ (1,705)</u>	<u>\$ 566</u>	<u>\$ 2,449</u>	<u>\$ (11,919)</u>

Condensed Consolidating Statements of Cash Flows

	Six Months Ended June 30, 2011				
	<u>Parent</u>	<u>Combined Guarantor Subsidiaries</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flows from operating activities:					
Net loss	\$(13,229)	\$ (1,712)	\$ (737)	\$ 2,449	\$ (13,229)
Equity losses in unconsolidated entities	2,449	—	—	(2,449)	—
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:					
Depreciation, alloy metals depletion and amortization	378	8,635	3,262	—	12,275
Loss on sale, disposal of assets or exchange of property and equipment and alloy metals	—	1	—	—	1
Stock compensation	14	—	—	—	14
Change in assets and liabilities	(233)	(4,400)	(330)	—	(4,963)
Parents loans and advances	(1,244)	1,161	83	—	—
Net cash (used in) provided by operating activities	<u>(11,865)</u>	<u>3,685</u>	<u>2,278</u>	<u>—</u>	<u>(5,902)</u>
Cash flows from investing activities:					
Purchase of property, plant and equipment and alloy metals	—	(3,685)	(277)	—	(3,962)
Net cash (used in) provided by investing activities	<u>—</u>	<u>(3,685)</u>	<u>(277)</u>	<u>—</u>	<u>(3,962)</u>
Cash flows from financing activities:					
Net proceeds from Revolving Credit Facility	13,050	—	—	—	13,050
Net payments on AGY Asia Credit Facility	—	—	(2,655)	—	(2,655)
Debt issuance costs and others	(982)	—	—	—	(982)
Net cash provided (used) by financing activities	<u>12,068</u>	<u>—</u>	<u>(2,655)</u>	<u>—</u>	<u>9,413</u>
Effect of exchange rate changes on cash	6	—	(82)	—	(76)
Net increase (decrease) in cash	<u>209</u>	<u>—</u>	<u>(736)</u>	<u>—</u>	<u>(527)</u>
Cash, beginning of period	565	—	2,567	—	3,132
Cash, end of period	<u>\$ 774</u>	<u>\$ —</u>	<u>\$ 1,831</u>	<u>\$ —</u>	<u>\$ 2,605</u>

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

This Quarterly Report contains forward-looking statements with respect to our operations, industry, financial condition and liquidity. These statements reflect our management’s assessment of a number of risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors identified in this Quarterly Report and in our 2011 Annual Report on Form 10-K (the “2011 Form 10-K”) filed with the Securities and Exchange Commission. 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 2011 Form 10-K.

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

GENERAL

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

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

We believe the AGY US segment is making progress to improve operating efficiency, to expand its product offerings, its markets, and its customer base and to effectively manage its liquidity needs through enhancements to the gross margins and improved management of its working capital requirements.

The AGY Asia reporting segment has experienced declining operating profits, has significant debt service obligations coming due in 2012 and may require funding for the rebuilding of the furnace, located in the People’s Republic of China. As a result, in April 2012, we retained an Advisor to provide certain investment banking services to evaluate and assist with a possible combination of AGY Asia with another party, a recapitalization of a significant portion of AGY Asia’s indebtedness or a change of control of AGY Asia in a transaction involving the primary lender for the Asian operation. We do not expect any possible transaction resulting from this agreement to impact the AGY US reporting segment as only approximately 1.5% of the reported revenue for AGY US was derived from products produced by AGY Asia over the last 12 months. Additionally, AGY US expects to maintain its commercial presence and sales channels for glass fibers produced in North America but sold to the Asian market, primarily for specialty electronics applications. While we have reported the need to complete a rebuild of the furnace in Asia, we are evaluating alternatives to extend the life of the furnace.

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 2011 Form 10-K.

Effective January 1, 2012, the Company adopted ASU 2011-05, *Presentation of Comprehensive Income*, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. We elected to present net income (loss) and comprehensive income (loss) in two separate, but consecutive, statements. This is a change in presentation only and the adoption of ASU 2011-05 did not have an impact on the Company's consolidated financial statements.

Results of Operations

The following tables summarize our results of operations in dollars and as a percentage of net sales for the three and six months ended June 30, 2012 and 2011 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Sales				
AGY US	\$ 39,373	\$ 42,207	\$ 79,454	\$ 80,185
AGY Asia	7,437	8,212	14,609	15,166
	46,810	50,419	94,063	95,351
Intersegment sales	(266)	(413)	(463)	(413)
Total net sales	46,544	50,006	93,600	94,938
Cost of goods sold	(38,140)	(46,258)	(80,492)	(88,140)
Gross profit	8,404	3,748	13,108	6,798
Selling, general and administrative expenses	(4,166)	(3,769)	(8,134)	(7,750)
Restructuring charges	(2,736)	(33)	(5,668)	(50)
Amortization of intangible assets	(251)	(251)	(502)	(502)
Other operating (expense) income, net	(185)	28	(346)	(126)
Income (loss) from operations	1,066	(277)	(1,542)	(1,630)
Other non-operating income, net	57	43	116	86
Interest expense	(5,957)	(5,886)	(11,815)	(11,645)
Loss before income taxes	(4,834)	(6,120)	(13,241)	(13,189)
Income tax expense	(29)	(40)	(29)	(40)
Net loss	(4,863)	(6,160)	(13,270)	(13,229)
Less: Net loss attributable to noncontrolling interest	33	40	43	221
Net loss attributable to AGY Holding Corp.	<u>\$ (4,830)</u>	<u>\$ (6,120)</u>	<u>\$ (13,227)</u>	<u>\$ (13,008)</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net Sales				
AGY US	84.6 %	84.4 %	84.9 %	84.4 %
AGY Asia	16.0 %	16.4 %	15.6 %	16.0 %
	100.6 %	100.8 %	100.5 %	100.4 %
Intersegment sales	(0.6) %	(0.8) %	(0.5) %	(0.4) %
Total net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	(81.9) %	(92.5) %	(86.0) %	(92.8) %
Gross profit	18.1 %	7.5 %	14.0 %	7.2 %
Selling, general and administrative expenses	(9.0) %	(7.5) %	(8.7) %	(8.2) %
Restructuring charges	(5.9) %	(0.1) %	(6.0) %	(0.1) %
Amortization of intangible assets	(0.5) %	(0.5) %	(0.5) %	(0.5) %
Other operating (expense) income, net	(0.4) %	0.1 %	(0.4) %	(0.1) %
Income (loss) from operations	2.3 %	(0.5) %	(1.6) %	(1.7) %
Other non-operating income, net	0.1 %	0.1 %	0.1 %	0.1 %
Interest expense	(12.8) %	(11.8) %	(12.6) %	(12.3) %
Loss before income taxes	(10.4) %	(12.2) %	(14.1) %	(13.9) %
Income tax expense	(0.1) %	(0.1) %	— %	(0.0) %
Net loss	(10.5) %	(12.3) %	(14.1) %	(13.9) %
Less: Net loss attributable to noncontrolling interest	0.1 %	0.1 %	— %	0.2 %
Net loss attributable to AGY Holding Corp.	<u>(10.4) %</u>	<u>(12.2) %</u>	<u>(14.1) %</u>	<u>(13.7) %</u>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Statement of operations data:				
Net loss	\$ (4,863)	\$ (6,160)	\$ (13,270)	\$ (13,229)
Interest expense	5,957	5,886	11,815	11,645
Income tax expense	29	40	29	40
Depreciation and amortization	2,794	3,985	5,587	8,089
EBITDA	<u>\$ 3,917</u>	<u>\$ 3,751</u>	<u>\$ 4,161</u>	<u>\$ 6,545</u>
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
EBITDA	\$ 3,917	\$ 3,751	\$ 4,161	\$ 6,545
Adjustments to EBITDA:				
Alloy depletion charge, net (a)	1,159	2,189	4,620	3,808
Non-cash compensation charges (b)	29	7	65	14
Management fees (c)	192	189	383	377
Restructuring charges (d)	2,736	33	5,668	50
Adjusted EBITDA	8,033	6,169	14,897	10,794
Less: Adjusted EBITDA attributable to the noncontrolling interest	(535)	(643)	(891)	(1,134)
Adjusted EBITDA attributable to AGY Holding Corp.	<u>\$ 7,498</u>	<u>\$ 5,526</u>	<u>\$ 14,006</u>	<u>\$ 9,660</u>
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Adjusted EBITDA allocated to AGY Holding Corp. segment breakdown:				
AGY US and Corporate	\$ 6,249	\$ 4,026	\$ 11,927	\$ 7,013
AGY Asia	1,249	1,500	2,079	2,647
	<u>\$ 7,498</u>	<u>\$ 5,526</u>	<u>\$ 14,006</u>	<u>\$ 9,660</u>

- (a) We purchase or lease alloy metals that are used in our manufacturing process. During the manufacturing process a small portion of the alloy metal is physically consumed. When the metal is actually consumed we recognize a non-cash charge. This expense is recorded net of the amount of metal that can be recovered after some specific treatment and net of the charges associated with such recovery treatment.
- (b) Reflects the non-cash compensation expenses related to awards under Holdings' 2006 Stock Option Plan and Holdings' restricted stock granted to certain members of management.
- (c) Reflects the elimination of the management fee payable to our sponsor, Kohlberg & Company, LLC, pursuant to a management agreement entered into in connection with the Acquisition.
- (d) Reflects the elimination of the restructuring charges associated primarily with the engagement of a global professional services firm in 2012 (i) to lead rapid operational improvement opportunities and provide interim senior management services for the AGY US segment and (ii) to lead refinancing, recapitalization discussions with the lenders or change in control for AGY Asia.

EBITDA is generally defined as earnings before interest, taxes, depreciation and amortization. EBITDA is a measure used by management to measure operating performance. EBITDA is not a recognized term under GAAP and does not purport to be an alternative (a) to net income as a measure of operating performance or (b) to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management's discretionary use, as it does not consider certain cash requirements such as interest payments, tax payments, capital expenditures and debt service requirements.

Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. In addition, management believes that EBITDA provides more comparability between our historical results and our recent results that reflect purchase accounting and changes in our capital structure. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone. Because not all companies use identical calculations, these presentations of EBITDA may not be comparable to other similarly titled measures of other companies.

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

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Net sales. Net sales decreased \$3.5 million, or 7%, to \$46.5 million for the three months ended June 30, 2012, compared to \$50 million during the comparable quarter of 2011. The \$2.8 million, or 6.7% net decrease in sales attributable to AGY US in the second quarter of 2012, compared to the same period of 2011, was primarily due to \$4.9 million of lower sales volumes partly offset by \$2.1 million of favorable product mix. Aerospace revenues were \$10.8 million, or up 1% when compared to the second quarter of 2011, reflecting continued robust demand for both aircraft retrofit and new build activity with an on-going bias toward lighter-weight interior materials. Defense revenues increased \$1.1 million, or 47%, compared to the same period of 2011 due to new international structural armor programs in 2012. The electronics market revenues decreased \$3.5 million to \$6.6 million, or 35% compared to the second quarter of 2011, which had benefited from filling at a price premium product shortages in the Asian market associated with the 2011 Japanese natural disaster. The industrial market revenues of the U.S. operating segment decreased to \$18.7 million, or 3% compared to the second quarter of 2011. The \$0.5 million decrease was largely caused by \$0.8 million lower construction market revenues, driven by product rationalization and mix enrichment actions. This decrease was partially offset by a continued robust demand for certain industrial applications such as fire retardant mattresses, and a stable demand for our Continuous Filament Mat (“CFM”) business with revenues of \$4.5 million comparable to the second quarter of 2011. AGY Asia’s contribution to consolidated net sales was \$7.2 million, or \$0.6 million lower than the second quarter of 2011 level due to a softer Asian electronic market in 2012.

Gross profit. Consolidated gross profit was \$8.4 million, or 18.1% of net sales for the three months ended June 30, 2012, compared to \$3.7 million, or 7.5% during the comparable quarter of 2011. Gross profit for AGY US increased \$3.9 million during the second quarter of 2012. This increase reflects \$2.7 million lower manufacturing cash costs in 2012 from the execution of operational improvement projects and cost control initiatives in a stable manufacturing environment. Additionally, the AGY US segment results were positively impacted in 2012 decreases of by \$1.9 million in non-cash costs due primarily to (i) \$1.0 million of lower metal operating losses resulting primarily from higher 2012 metal recoveries, and (ii) \$0.9 million decrease of cost of goods sold as a result of higher indirect overhead absorption in 2012. These gains were offset by \$0.6 million of lower margin attributable to sales resulting from lower volumes only partly offset by a more favorable product mix. AGY Asia segment gross profit increased \$0.8 million as inflation in labor and energy costs was more than offset by \$1.1 million of lower depreciation expense and alloy metal depletion. The decrease in depreciation and alloy metal resulted from the impairment of AGY Asia long-lived assets, which was recorded as of December 31, 2011.

Selling, general and administrative expenses. Selling, general and administrative (“SG&A”) expenses increased \$0.4 million, or 10%, to \$4.2 million during the second quarter of 2011 compared to \$3.8 million during the second quarter of 2012. This reflects a \$0.3 million decrease of SG&A for AGY US as the benefit of reduced headcount was partly offset by a variable compensation accrual recorded during the three months ended June 30, 2012 when compared to the same period of 2011. The \$0.1 million increase in AGY Asia SG&A related primarily to higher labor costs. SG&A expenses increased from 7.5% of net sales for the three months ended June 30, 2011 to 9.0% of net sales for the three months ended June 30, 2012.

Restructuring charges. In the three months ended June 30, 2012, we recorded \$2.7 million in restructuring charges, of which (i) \$2.1 million resulted from the actions we initiated in our AGY US segment during the last nine months to improve our cost structure and liquidity position, and (ii) \$0.6 million were primarily in

conjunction with the engagement of advisors in 2012 to assist with the refinancing or a possible combination of AGY Asia with another party. For both business segments, the restructuring charges related primarily to professional fees.

Interest expense. Interest expense increased \$0.1 million from \$5.9 million for the three months ended June 30, 2011 to \$6.0 million for the three months ended June 30, 2012. The increase was primarily due to higher borrowing costs for AGY US in the second quarter of 2012 compared to 2011.

Income tax expense. Income tax expense was not significant for the three months ended June 30, 2012 and 2011 due to the limitation on recording tax benefits from net operating losses. The effective tax rate was (0.6%) and (0.7%) for the second quarter of 2012 and 2011, respectively. For both periods, this rate varied from the statutory rate of 34% due primarily to change of valuation allowance for domestic and foreign deferred tax assets, which are not more-likely-than-not to be realized, losses on domestic and foreign subsidiaries with no tax benefit, state taxes and foreign rate differential. Generally, the Company can recognize deferred tax assets for the losses incurred until such time that the aggregate deferred tax assets exceed aggregate deferred tax liabilities that do not relate to assets with an indefinite useful life.

Net loss. As a result of the aforementioned factors including \$2.7 million of restructuring costs which offset improved AGY US operating performances, we reported a net loss attributable to AGY Holding Corp. of \$4.8 million for the three months ended June 30, 2012, compared to a net loss of \$6.1 million for the three months ended June 30, 2011. The net result attributable to the 30% noncontrolling interest in AGY Asia not owned by AGY Holding Corp. was not significant for the second quarter of 2012 and 2011.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Net sales. Net sales decreased \$1.3 million, or 1.4%, to \$93.6 million for the six months ended June 30, 2012, compared to \$94.9 million for the first six months of 2011. The \$0.7 million, or 0.9% net decrease in sales generated by AGY US in the first half of 2012, compared to the first half of 2011 was primarily due to \$3.4 million of lower sales volumes, while a favorable product mix and pricing actions accounted for an increase in sales of \$2.7 million. Aerospace revenues were \$22.3 million, or up 12% when compared to the first half of 2011, reflecting continued robust demand for both aircraft retrofit and new build activity with an on-going bias toward lighter-weight interior materials. Defense revenues were \$5.5 million, or up 10%, compared to the same period of 2011 due to new international structural armor programs in 2012. The electronics market revenues decreased to \$13.2 million, or 25%, compared to the first six months of 2011 reflecting lower demand, competitive pressure and the second quarter of 2011 benefit from filling at a price premium product shortages in the Asian market place associated with the 2011 natural disaster in Japan. The industrial market revenues of the U.S. operating segment increased \$0.8 million to \$38.4 million, reflecting a robust demand during the first half of 2012 for industrial applications such as oil and gas drilling, and fire retardant mattresses, and a strong recovery in our CFM business, which led sales to increase \$1.3 million to \$9.3 million. These increases were partially offset by \$1.6 million and \$0.8 million lower construction and automotive revenues, respectively, driven by product rationalization and mix enrichment actions. AGY Asia's contribution to consolidated net sales was \$14.1 million, or a \$0.6 million decrease in revenues compared to the first six months of 2011 (after accounting for the elimination of \$0.5 and \$0.4 million of intercompany sales in 2012 and 2011, respectively) due primarily to pricing pressure in the Asian electronics market.

Gross profit. Consolidated gross profit was \$13.1 million, or 14% of net sales for the six months ended June 30, 2012, compared to a \$6.8 million, or 7.2% of net sales for the six months ended June 30, 2011. Gross profit for AGY US increased \$4.9 million during the first half quarter of 2012 compared to the same period of 2011, reflecting a \$0.2 million of increased margin from sales as a more favorable product mix offset the negative impact from lower volumes. Additionally, the AGY US segment results were positively impacted in 2012 by \$6.5 million of lower manufacturing cash costs from the execution of operational improvement projects and cost control initiatives in a stable manufacturing environment. These gains were offset by \$1.5 million non-cash costs due primarily to (i) \$0.9 million of higher metal operating losses resulting primarily from the advanced sale of 2012 metal recoveries in late 2011, (ii) \$1.0 million increase of cost of goods sold from the sale of inventory with lower margins due primarily to the change in absorption of manufacturing variances capitalized in prior periods and standard costs revaluations occurring during the first quarter of 2012, offset by (iii) \$0.4 lower depreciation expense. AGY Asia segment gross profit increased \$1.4 million as inflation in labor and energy costs was more than offset by \$2.2 million of lower depreciation expense and alloy metal depletion. The decrease in depreciation and alloy metal resulted from the impairment of AGY Asia long-lived assets, which was recorded as of December 31, 2011.

Selling, general and administrative expenses. SG&A expenses increased from \$7.8 million during the first half of 2011 to \$8.1 million during the first half of 2012. This reflects a primarily \$0.15 million increase of

SG&A for AGY US as the benefit of reduced headcount and overhead spending was offset by a \$0.5 million variable compensation accrual recorded during the six months ended June 30, 2012 when compared to the same period of 2011. The \$0.2 million increase in AGY Asia SG&A related primarily to higher labor costs. Selling, general and administrative expenses increased from 8.2% of net sales for the six months ended June 30, 2011 to 8.7% of net sales for the six months ended June 30, 2012.

Restructuring charges. In the six months ended June 30, 2012, we recorded \$5.7 million in restructuring charges, of which (i) \$5.0 million resulted from the actions we initiated in our AGY US segment during the last nine months to improve our cost structure and liquidity position, and (ii) \$0.7 million were primarily in conjunction with the engagement of advisors in 2012 to assist with the refinancing or a possible combination of AGY Asia with another party. For both business segments, the restructuring charges related primarily to professional fees.

Other operating expense. During the six months ended June 30, 2012, other operating expense of \$0.3 million consisted primarily of accrued penalty and interest on the deferred payment of certain AGY US property tax bills and on a disputed prior year sales tax audit assessment. During the six months ended June 30, 2011, other non-operating expense was not significant.

Interest expense. Interest expense increased \$0.2 million from \$11.6 million for the six months ended June 30, 2011 to \$11.8 million for the six months ended June 30, 2012. The increase was primarily due to higher borrowing costs for AGY US in the first half of 2012 compared to 2011.

Income tax expense. Income tax expense was not significant for the six months ended June 30, 2012 and 2011 due to the limitation on recording tax benefits from net operating losses. The effective tax rate was (0.2%) and (0.3%) for the first half of 2012 and 2011, respectively. For both periods, this rate varied from the statutory rate of 34% due primarily to change of valuation allowance for domestic and foreign deferred tax assets, which are not more-likely-than-not to be realized, losses on domestic and foreign subsidiaries with no tax benefit, state taxes and foreign rate differential. Generally, the Company can recognize deferred tax assets for the losses incurred until such time that the aggregate deferred tax assets exceed aggregate deferred tax liabilities that do not relate to assets with an indefinite useful life.

Net loss. As a result of the aforementioned factors including \$5.7 million of restructuring costs which offset improved AGY US operating performances, we reported a net loss attributable to AGY Holding Corp. of \$13.2 million for the six months ended June 30, 2012, compared to a net loss of \$13.0 million for the six months ended June 30, 2011. The net result attributable to the 30% noncontrolling interest in AGY Asia not owned by AGY Holding Corp. was not significant and a \$0.2 million loss for the first half of 2012 and 2011, respectively.

LIQUIDITY, CAPITAL RESOURCES AND OTHER RELATED MATTERS

AGY Holding Corp. and its Domestic Subsidiaries' Liquidity

In the first six months of 2012 our principal sources of domestic liquidity were operating cash and our cash on hand. Our domestic need for liquidity arises primarily from interest payments on the outstanding \$172.0 million principal amount of our Notes, interest and principal payments on our Amended Credit Facility, the funding of capital expenditures, alloy metals, strategic initiatives, restructuring expenses, normal recurring operating expenses and working capital requirements. At June 30, 2012, AGY US had total liquidity of \$18.7 million, consisting of \$0.6 million in unrestricted cash and approximately \$18.1 million of borrowing availability under the Amended Credit Facility. The Amended Credit Facility that was consummated in June 2012 provided a net \$11.6 million increase in borrowing availability, calculated as of June 30, 2012, including the additional \$6 million that became available in July 2012 concurrently with the extension of the Amended Master Lease Agreement.

If our borrowing availability under the Amended Credit Facility falls below \$6.25 million, we will be subject to a springing financial maintenance covenant under which we would likely be in default. In the next 12 months, interest payments of \$19.0 million will be due under AGY's Senior Second Lien Notes, which we expect to be able to meet with our current and projected sources of liquidity and current precious metal prices. In the event we are not able to meet those payments, we will seek one or more options to strengthen our liquidity, including a sale of assets or other financing arrangements. Please refer to 2011 Form 10-K "Risk Factors — Risks Related to our Indebtedness" for additional discussion regarding our liquidity.

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

AGY Asia's Liquidity

AGY Asia's cash requirements stem primarily from interest and principal payments, capital expenditures, alloy metals, strategic initiatives, normal recurring operating expenses and working capital requirements and have been funded by cash on hand, cash from operations and borrowings under the AGY Asia Credit Facility.

As of June 30, 2012, AGY Asia had total liquidity of \$2.6 million, consisting of unrestricted cash. In April 2012, the remaining unused commitment of approximately \$2.5 million under the term loan and the working capital loan was terminated by the AGY Asia lender. As a result, there are no amounts available to be borrowed under the AGY Asia Credit Facility. In 2012, semi-annual mandatory principal repayments totaling \$10.6 million are due under the AGY Asia Credit Facility and AGY Asia requires funding for rebuilding of its furnace. In July 2012, AGY Asia and its lender amended the term loan amortization to defer the April 2012 \$5.1 million required principal payment to October 2012. However, the lender retains the right to accelerate the loan repayment at any time if the lender deems that no substantial progress on AGY Asia refinancing, recapitalization or change of control is being made. We may be unable to make the principal payments without one or more of the following occurrences: a refinancing of our AGY Asia Credit Facility, an amendment to our AGY Asia Credit Facility, a sale of assets or other financing arrangements.

In July 2012, AGY Asia's lender extended the maturity of the working capital loan facility to October 2012. However, there is no assurance that we will be able to obtain an extension of the commitment beyond October 2012 on terms acceptable to us or at all.

Please refer to 2011 Form 10-K "Risk Factors — Risks Related to our Indebtedness" for additional discussion regarding the liquidity of AGY Asia.

Working capital

The Company has historically defined working capital as total current assets, excluding unrestricted cash, less total current liabilities, including short-term borrowings and the current portion of long-term debt. We reported a negative working capital of \$16.8 million and \$13.3 million on June 30, 2012 and December 31, 2011, respectively. The \$3.5 million decrease related to (a) a \$5.3 million increase in AGY US accrued liabilities due primarily to the interest accrual for our Notes and the increase of accrued restructuring expenses, (b) a \$1.9 million increase in AGY US trade payables from extending payment terms with suppliers, (c) a \$2.2 million reduction in inventories and a \$0.6 million decrease in current deferred tax, offset by (d) increases of \$3.3 million, \$1.5 million and \$1.1 million in trade receivables, restricted cash and other assets, respectively, and (e) a \$0.6 million increase in the working capital of AGY Asia, due to a decrease in short-term borrowings.

Other balance sheet items

Net Property, Plant and Equipment and Alloy Metals. Net property, plant and equipment and alloy metals decreased \$9.1 million from December 31, 2011 to June 30, 2012, primarily due to \$9.7 million of depreciation and alloy metals depletion expenses. We expended \$0.8 million for capital projects primarily in AGY US, including accrued construction in progress. Additionally AGY Asia had \$0.2 million of currency translation adjustments.

Long Term Debt. Long-term debt increased \$2.7 million from December 31, 2011 to June 30, 2012 as a result of higher borrowings under our Amended Credit Facility due primarily to \$3.0 million in debt issuance costs and in restricted cash to provide collateral support for equipment leases in conjunction with the recent amendment of AGY US Amended Credit Facility.

Six months ended June 30, 2012 compared to six months ended June 30, 2011

Cash flows from operating activities

Cash provided by operating activities was \$2.9 million for the six months ended June 30, 2012, compared to \$5.9 million used during the three months ended June 30, 2011. The \$8.8 million increase in cash provided by operating activities is attributed to a global \$5.4 million decrease in operating working capital during the first half of 2012 as compared to a \$5.0 million increase during the first six months of 2011. This increase in cash provided by working capital components was offset in part by a \$2.5 million loss (as adjusted for non cash items) recognized during the period compared to a \$0.9 million loss (as adjusted for non cash items) recognized during the comparable period of 2011.

Cash flow from investing activities

Cash used by investing activities was \$2.3 million for the six months ended June 30, 2012, compared to \$4.0 million for the six months ended June 30, 2011. The \$1.7 million decrease in cash used by investing activities was primarily due by a decrease in capital spending of our AGY US and AGY Asia segment, partly offset by a \$1.5 million increase in restricted cash to provide collateral support for equipment leases in conjunction with the recent amendment of the AGY US Amended Credit Facility.

Cash flow from financing activities

Cash provided by financing activities was \$0.1 million for the six months ended June 30, 2012, compared to \$9.4 million for the six months ended March 31, 2011. The \$9.3 million change was attributable to (i) a \$10.4

million decrease in cash provided by revolver loans to AGY US (ii) a \$1.7 million decrease in AGY Asia loan repayments due mainly to the temporary deferral of scheduled principal payments, and (iii) \$1.5 million of debt issuance costs incurred by AGY US in the first half of 2012 compared to \$1.0 million in the first half of 2011 related to our Amended Credit Facility.

Indebtedness

AGY US

On June 15, 2012, the Company entered into the Second Amended and Restated Credit Facility that provides for an expanded credit facility of up to \$60 million and matures on the earlier of June 15, 2016 or 90 days prior to the maturity date of the senior secured notes (“Amended Credit Facility”).

Availability under the facility is determined by a borrowing base equal to the sum of: (i) an advance rate against eligible accounts receivable of up to 85%, 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 \$40 million of eligible alloy inventory, plus (iv) subject to the extension, replacement or renewal of the DB Lease Agreement on terms and conditions satisfactory to Agent, the lesser of (x) 70% of the net orderly liquidation value of eligible equipment plus 50% of the fair market value of eligible real estate, (y) an amount equal to \$6 million on the Closing Date and reduced by \$375,000 on the day after the last day of each full Fiscal Quarter thereafter and (z) 15% of the Borrowing Base (which amount was not included in the calculation of the Borrowing Base until July 25, 2012, when the Master Lease Agreement was amended), minus (v) 100% of mark-to-market risk on certain interest hedging arrangements, minus (vi) a reserve of \$2.5 million, and minus (vii) other reserves as the lender may determine in its permitted discretion. This amended definition of the borrowing base calculation resulted in lower reserves and higher advance rates on certain of our assets when compared to the definition that was in effect prior to the amendment of the credit facility as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 30, 2012.

The interest rate for borrowings is LIBOR plus 4.0% or Base Rate plus 3.0% and may be adjusted downward to LIBOR plus 3.5% or Base Rate plus 2.5%, depending on the Company’s fixed charge coverage ratio. In addition, there are customary commitment and letter of credit fees under the Amended Credit Facility.

All obligations under the Amended Credit Facility are guaranteed by Holdings. The Company’s obligations under the Amended 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.

Proceeds from the Amended Credit Facility loan were used to repay all amounts and terminate all commitments outstanding under our previous \$50 million Amended Credit Facility and to pay fees and expenses in connection with the refinancing.

The Company incurred approximately \$1,500 in issuance costs, which will be expensed over the life of the Amended Credit Facility.

The Amended 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.

In addition, the agreement contains a “springing financial maintenance covenant.” Specifically, if any revolving credit facility commitments are outstanding and after the occurrence of (a) a default or an event of default, or (b) the availability under the facility falling below the greater of \$6.25 million and 12.5% of the Borrowing Base (as defined) as of the last day of the most recent fiscal month ended, the Company must maintain a fixed charge coverage ratio of at least 1.0 to 1.0 for each period of four fiscal quarters ended during, or on the last day of, the fiscal quarter immediately before the events listed in (a) and (b) above.

The agreement governing the Amended 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 but not limited to failure to pay principal or interest or other amounts when due, breach of certain covenants or representations including breach of the springing covenant, cross-defaults to certain other agreements and indebtedness in excess of specified amounts, a change of control, or default under our obligation regarding the AGY Asia option exercise. The Company was in compliance with all such covenants as of June 30, 2012.

On July 25, 2012, the Company amended the Amended Credit Facility to, among other things, permit the amendment of the Master Lease Agreement, to require delivery of certain additional reports and to add a minimum Fully Adjusted EBITDA financial covenant, as defined in the Amended Master Lease Agreement, which is measured as of each calendar quarter end based on the last four quarters Fully Adjusted EBITDA. Had the minimum Fully Adjusted EBITDA covenant been in effect as of June 30, 2012, the Company would have been in compliance with such covenant as of June 30, 2012.

As of June 30, 2012 our borrowing base, calculated in accordance with the terms of the Amended Credit Facility, was \$48.7 million. As of June 30, 2012, the Company had issued letters of credit totaling approximately \$2.9 million and had cash borrowings of \$27.7 million under the facility. Borrowing availability after giving effect to the borrowing base at June 30, 2012 was approximately \$18.1 million. The Amended Credit Facility that was consummated in June 2012 provided a net \$11.6 million increase in borrowing availability, calculated as of June 30, 2012, including the additional \$6 million that became available in July 2012 concurrently with the extension of the Amended Master Lease Agreement.

In connection with our refinancing on October 25, 2006, we issued \$175.0 million aggregate principal amount of 11% senior second lien notes (“Old Notes”) to an initial purchaser, which were subsequently resold to qualified institutional buyers and non-U.S. persons in reliance upon Rule 144A and Regulation S under the Securities Act of 1933, as amended. We consummated an exchange offer of the Old Notes in June 2008 for the Notes. 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 Amended 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 June 30, 2012, the estimated fair value of the Notes was \$80.8 million compared to a recorded book value of \$172 million.

AGY Asia

The AGY Asia financing arrangement (“AGY Asia Credit Facility”) consists of a term loan with an original maturity of five years and a one-year working capital loan with original commitments of approximately \$43.3 million and \$12.5 million, respectively, converted at the then-current exchange rate. Proceeds from the loans were used principally to repay the \$37.6 million outstanding at the time of the refinancing under AGY Asia’s prior credit agreements.

In April 2012, the remaining unused commitment of approximately \$2.5 million under the term loan and the working capital loan was terminated by the AGY Asia lender. As a result, there is no remaining availability under the AGY Asia credit facility.

The term loan is secured by AGY Asia’s building, alloy metals and equipment and bears interest annually at the rate of either the five-year lending rate as published by the People’s Bank of China, plus a margin, or six-month LIBOR plus 3.0%. Term loan borrowings may be made in both local currency and US dollars, up to certain limits. At June 30, 2012 and December 31, 2011, AGY Asia had borrowings of approximately \$27.5 million under the term loan, consisting of a local currency loan of RMB 148.5 million, or approximately \$23.5 million converted at the period-end exchange rate, and a U.S.-dollar-denominated loan of \$4 million. The weighted average interest rate for cash borrowings outstanding as of June 30, 2012, was 6.8%.

The working capital loan facility is secured by existing and future equipment and assets acquired by AGY Asia and bears interest annually at the rate of either the one-year lending rate as published by the People’s Bank of China, or three-month LIBOR plus 3.0%. Working capital loan borrowings may be made in both local currency and US Dollars, up to certain limits.

At June 30, 2012, the Company had approximately \$11.5 million of borrowings outstanding under the working capital loan consisting of a local currency loan of RMB 66.5 million, or approximately \$10.5 million, converted at the period-end exchange rate, and a US-dollar-denominated loan of \$1.0 million. The weighted average interest rate for cash borrowings outstanding as of June 30, 2012, was 7.0%.

In July 2012, the lender declined extending the letter of credit facility for trade supplier payments that was previously in place.

During the second quarter of 2011, AGY Asia entered into a letter of credit (“LC”) discounting arrangement whereby certain trade receivables backed by LCs may be discounted with recourse and borrowed against at a nominal interest cost. At June 30, 2012, AGY Asia had discounted LCs with a face value of approximately \$0.2 million (which amount is recorded in trade receivables at June 30, 2012), receiving proceeds of approximately \$0.2 million and maintaining equity of nil. At June 30, 2012, proceeds of \$0.2 million received from discounting were recorded as short-term debt payable.

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 Asia was in compliance with all such covenants at June 30, 2012.

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.

OTHER FINANCIAL OBLIGATIONS AND COMMITMENTS

We lease under short-term operating leases a significant portion of the alloy needed to support our manufacturing operations. At June 30, 2012, we leased in our AGY US segment approximately 49,800 ounces of platinum and 3,300 ounces of rhodium under the Master Lease Agreement, with a notional value of approximately \$81.5 million and \$4.8 million, respectively. For the six months ended June 30, 2012, total lease costs of alloy metals were approximately \$2.1 million, and were classified as a component of cost of goods sold. Our lease expense is dependent on several factors, including the amount of alloy leased, market spot rates for the alloy and associated lease rates. Market spot rates are subject to daily fluctuation and this fluctuation could result in material changes to our alloy lease expense. All of the leases outstanding at June 30, 2012 had initial terms of one to twelve months, maturing no later than October 2012 (with future minimum rentals of approximately \$850 until maturity in October 2012). Under the Amended Master Lease Agreement that was consummated in July 2012, the prior leases were terminated and we commenced new leases with terms of five to ten months, maturing no later than May 31, 2013 (with future minimum rentals of approximately \$4.4 million until maturity in May 2013).

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

As discussed in Note 3 of our Consolidated Financial Statements in our 2011 Form 10-K, in connection with the purchase of AGY Asia, we entered into an option agreement with Grace pursuant to which Grace granted AGY a call option and AGY granted Grace a put option in respect of the 30% interest held by Grace in AGY Asia, in each case until December 31, 2013, unless mutually extended. The option price is determined by a formula outlined in the agreement. The exercise of the call option requires certain minimum financial performance levels to be reached by AGY Asia and the put option became exercisable in June 2010. As of June 30, 2012 the redemption amount of the put option was \$4.1 million compared to an initial carrying value of \$12.4 million.

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 financial position.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This management’s discussion and analysis of financial condition and results of operations includes “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; fluctuation in the market price of alloy metals, which could reduce our AGY US borrowing base and subsequently impair its liquidity, or could increase 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 some of our bushing fabrication; an inability to successfully implement our cost reduction initiatives relating to efficiency, throughput and process technology developments; our inability to refinance AGY US alloy metals lease facility; our inability to service our AGY Asia mandatory term loan payments, to refinance the working loan, and/or to fund the rebuilding of the furnace located in PRC; an inability to successfully integrate future acquisitions including AGY Asia; our inability to successfully implement our cost reduction initiatives; interest rate and foreign exchange rate fluctuations; business risks associated with doing business internationally; the loss of key members of our management; an inability or failure to comply with environmental, health or safety laws and regulations; our limited history of profitable operations since our emergence from Chapter 11 protection on April 2, 2004; our substantial indebtedness; and certain covenants in our debt documents, including a minimum EBITDA covenant and the triggering of a springing covenant if our AGY US borrowing capacity declines below \$6.25 million, which would require a minimum fixed charge coverage ratio that we would not currently satisfy and would result in an event of default under our AGY US Credit Facility.

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

ITEM 3. – Quantitative and Qualitative Disclosures About Market Risk

INTEREST RATE RISK

We are subject to interest rate risk in connection with our short- and long-term debt. Our principal interest rate exposures relate to the AGY US \$60 million Amended Credit Facility and our AGY Asia Credit Facility. Assuming the AGY US Amended Credit Facility is fully drawn, each 100 basis point change in interest rates would result in approximately a \$0.6 million change in annual interest expense on our revolving credit facility. For amounts borrowed under AGY Asia Credit Facility, each 100 basis point change in interest rates would result in approximately a \$0.4 million change in annual interest expense for AGY Asia.

NATURAL GAS COMMODITY RISK AND PLATINUM/RHODIUM RISK

Due to the nature of our manufacturing operations, we are exposed to risks due to changes in natural gas and electricity commodity prices. We may utilize derivative financial instruments in order to reduce some of the variability of the cash flows associated with our forecasted purchases of natural gas. At June 30, 2012, we had existing contracts for physical delivery of natural gas at our Aiken, SC and Huntingdon, PA facilities that fix the commodity cost of natural gas for approximately 60% and 80%, respectively, of our estimated natural gas purchase requirements in the next six months. We also had existing contracts for physical delivery of electricity at our Huntingdon, PA facility that fix the commodity cost of all of our estimated electricity purchase requirements through December 2013. Although these contracts are considered derivative instruments, they meet the normal purchases exclusion contained in ASC 815, and are, therefore, exempted from the related accounting requirements.

In addition, because we use bushings made with a platinum-rhodium alloy as part of our manufacturing process, we are exposed to risks due to changes in the prices and lease rates of these metals. AGY US's borrowing capacity is also directly tied, in part, to fluctuations in the market price of alloy metals, particularly platinum and rhodium, for the metals we own and that secure the Amended Credit Facility. At June 30, 2012, the market price per ounce of Platinum and Rhodium was \$1,450 and \$1,250 respectively. For every \$100 reduction in the market price per ounce of Platinum and Rhodium, our ability to borrow under the Amended credit Facility would be reduced by approximately \$1.9 million.

FOREIGN EXCHANGE RISK

We are subject to inherent risks attributed to operating in a global economy. For AGY US, all of our debt and most of our costs are denominated in US dollars. Approximately 2% percent of our sales are denominated in currencies other than the US dollar. Although our level of foreign currency exposure is limited, we may utilize derivative financial instruments to manage foreign currency exchange rate risks.

Approximately 15% of the debt of our subsidiary, AGY Asia, is denominated in U.S. dollars, with the balance denominated in Chinese RMB. In addition, approximately 65% of the sales of AGY Asia are denominated in U.S. dollars, while approximately 70% of its costs are denominated in Chinese RMB.

At June 30, 2012, we had no foreign currency hedging agreements in effect.

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

IMPACT OF INFLATION AND ECONOMIC TRENDS

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

ITEM 4. – Controls and Procedures

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

As required by Rule 13a-15(d) of the Exchange Act, the Company's management, including the Principal Executive Officer and the Principal Financial Officer, conducted an evaluation of the internal control over financial reporting to determine whether any changes occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded no such changes during the quarter ended June 30, 2012 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

Other than described below, there have been no material changes from the risk factors previously disclosed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2011, which should be read together with the other risk factors and information disclosed elsewhere in this Quarterly Report on Form 10-Q and our other reports filed with the SEC.

The following disclosure supplements the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2011 under the heading “Risks Related to Our Business”:

We may not be able to satisfy the new financial covenants contained in the Amended Credit Facility and Amended Master Lease Agreement, which would result in default under these agreements and may result in default under our other loan agreements, which would have a material adverse effect on our business and financial condition.

The amendments to the Amended Credit Facility and to the Master Lease Agreement signed in July 2012 added a minimum Fully Adjusted EBITDA financial covenant for AGY US, which is required to be tested on a quarterly basis. Had the minimum Fully Adjusted EBITDA covenant been in effect as of June 30, 2012, the Company would have been in compliance with such covenant. However, there is no assurance that we will be able to satisfy this financial covenant in the future, which would result in an event of default under these two agreements. Any acceleration action taken by our lenders as a result of this or any other event of default could result in cross-acceleration default triggers under the Notes, ultimately causing the Notes, Amended Credit Facility and Amended Master Lease Agreement to immediately become due and payable. If the acceleration of any of the Amended Credit Facility, Notes, or the Amended Master Lease Agreement were to occur, we would not be able to repay such amounts when due, which would have a material adverse effect on our business, liquidity and financial condition, and there is no assurance that we would be able to obtain replacement financing on terms acceptable to us or at all.

ITEM 4. Mine Safety Disclosure

Not applicable.

ITEM 6. – Exhibits

<u>Exhibit Number</u>	<u>Description</u>
10.22	Amendment to AGY Shanghai Term Loan Agreement dated April 19, 2012 (incorporated by reference to Exhibit 10.22 of Form 10-Q (File No. 333-150749) filed May 15, 2012)
10.23	Separation Agreement among AGY Holding Corp., KAGY Holding Company and Steven Smoot dated April 23, 2012 (incorporated by reference to Exhibit 10.23 of Form 10-Q (File No. 333-150749) filed May 15, 2012)
10.24	Consulting Services Agreement between AGY Holding Corp. and Jay Ferguson dated April 9, 2012 (incorporated by reference to Exhibit 10.24 of Form 10-Q (File No. 333-150749) filed May 15, 2012)
10.25	Second Amended and Restated Loan and Security Agreement dated as of June 15, 2012, among AGY Holding Corp., AGY Aiken LLC, AGY Huntingdon LLC, UBS AG, Stamford Branch, UBS Securities LLC and the Lenders party thereto from time to time (incorporated by reference to Exhibit 10.1 of Form 8-K (File 333-150749) filed June 21, 2012)
10.26	First Amendment to Second Amended and Restated Loan and Security Agreement dated as of July 25, 2012, among AGY Holding Corp., AGY Aiken LLC, AGY Huntingdon LLC, UBS AG, Stamford Branch, UBS Securities LLC and the Lenders party thereto from time to time+
10.27	Amended and Restated Master Lease Agreement dated as of July 25, 2012, among AGY Holding Corp., AGY Aiken LLC, AGY Huntingdon LLC and DB Energy Trading LLC+ *
31.1	Rule 13a-14(a) and 15d-14(a) Certification of Principal Executive Officer+
31.2	Rule 13a-14(a) and 15d-14(a) Certification of Principal Financial Officer and Principal Accounting Officer+
32.1	Section 1350 Certification of Principal Executive Officer+
32.2	Section 1350 Certification of Principal Financial Officer and Principal Accounting Officer+
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document
101.LAB XBRL Taxonomy Label Linkbase Document
101.PRE XBRL Taxonomy Presentation Linkbase Document

+ Filed herewith.

* Confidential treatment has been requested for certain portions of the document, which portions have been omitted and filed separately with the Security and Exchange Commission.

SIGNATURES

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

AGY Holding Corp.

Date: August 14, 2012

By: /s/ Jay W. Ferguson
Jay W. Ferguson
Interim Chief Financial Officer

EXHIBIT INDEX

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101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

+ Filed herewith.

* Confidential treatment has been requested for certain portions of the document, which portions have been omitted and filed separately with the Security and Exchange Commission.

**FIRST AMENDMENT TO SECOND AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT**

This First Amendment to Second Amended and Restated Loan and Security Agreement, dated as of July 25, 2012 (this "Amendment"), is entered into by and among **AGY HOLDING CORP.**, a Delaware corporation ("AGY Holdings"), **AGY AIKEN LLC**, a Delaware limited liability company ("AGY Aiken"), and **AGY HUNTINGDON LLC**, a Delaware limited liability company ("AGY Huntingdon", and together with AGY Holdings and AGY Aiken, collectively, "Borrowers"), the financial institutions party to this Amendment from time to time as lenders (collectively, "Lenders"), and **UBS AG, STAMFORD BRANCH**, as administrative agent for the Lenders (in such capacity, "Agent"), as consented to by **KAGY HOLDING COMPANY, INC.**, a Delaware corporation ("Guarantor").

RECITALS

A. Borrowers, Agent and Lenders are party to that certain Second Amended and Restated Loan and Security Agreement dated as of June 15, 2012 (as may be further amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"), pursuant to which the Lenders agreed to extend credit to the Borrowers.

B. Guarantor has guaranteed the payment and performance of the indebtedness, obligations and liabilities of the Borrowers owed to Lenders and Agent.

C. Borrowers wish to enter into that certain Amended and Restated Master Lease Agreement dated as of June 15, 2012 (the "Amended DB Lease Agreement"), by and among AGY Holdings, as lessee, AGY Aiken and AGY Huntingdon, as guarantors and DB Energy Trading, as lessor, which would amend and restate in its entirety the DB Lease Agreement, and Agent and Lenders are willing to consent thereto, subject to the terms and conditions set forth herein.

D. Borrowers, Agent and Lenders are desirous of making certain specific amendments to the Loan Agreement, as and to the limited extent expressly set forth herein.

E. This Amendment shall constitute a Loan Document and these Recitals shall be construed as part of this Amendment.

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and of the Loans and other extensions of credit heretofore, now or hereafter made to, or for the benefit of, Borrowers by Lenders, the parties hereto hereby agree as follows:

1. Definitions. Except to the extent otherwise specified herein, capitalized terms used in this Amendment shall have the same meanings ascribed to them in the Loan Agreement.

2. Consent to Amended DB Lease Agreement. Agent and Lenders hereby consent to the execution and delivery of the Amended DB Lease Agreement.

3. Amendments to Loan Agreement.

3.1. Amendment to Section 1.1 (Definitions; Rules of Construction). Section 1.1 of the Loan Agreement is hereby amended by adding the following new defined terms in the appropriate alphabetical order:

“Business Plan: the “3 Year Plan” as set forth in that certain “Presentation to Deutsche Bank” dated as of April 25, 2012.”

“First Amendment Effective Date: July 25, 2012.”

3.2. Amendment to Section 1.1 (Definitions; Rules of Construction). Section 1.1 of the Loan Agreement is hereby amended by amending and restating the definition of “DB Acknowledgment Agreement” in its entirety as follows:

“DB Acknowledgment Agreement: that certain Amended and Restated Acknowledgment Agreement dated as of July 25, 2012, by and among Agent, DB Energy Trading LLC and Borrowers, and any amendments thereto.”

3.3. Amendment to Section 1.1 (Definitions; Rules of Construction). Section 1.1 of the Loan Agreement is hereby amended by amending and restating the definition of “DB Lease Agreement” in its entirety as follows:

“DB Lease Agreement: that certain Amended and Restated Master Lease Agreement dated as of July 25, 2012, by and among AGY Holdings, as lessee, AGY Aiken and AGY Huntingdon, as guarantors and DB Energy Trading LLC, as lessor, including any schedules, addendums, supplements or sub-leases thereto, and any amendments, extensions, replacements and refinancings thereof.”

3.4. Amendment to Section 1.1 (Definitions; Rules of Construction). Section 1.1 of the Loan Agreement is hereby amended by (i) deleting the “or” at the end of clause (g) of the definition of “Permitted Contingent Obligations”, (ii) deleting the “.” at the end of clause (h) thereof and replacing it with “; or”, and (iii) adding the following as new clause (i) at the end thereof:

“(i) arising from the guaranty by AGY Aiken and AGY Huntingdon of certain obligations of AGY Holdings under the DB Lease Agreement.”

3.5. Amendment to Section 10.1.2 (Financial and Other Information). Section 10.1.2 of the Loan Agreement is hereby amended by (i) deleting the “;” at the end of clause (a) thereof, and (ii) adding the following to the end of clause (a) thereof: “and management’s discussion and analysis of the important operational and financial developments during such Fiscal Year;”.

3.6. Amendment to Section 10.1.2 (Financial and Other Information). Section 10.1.2 of the Loan Agreement is hereby further amended by deleting the words “for the preceding Fiscal Year “ in clause (b) thereof, and replacing then with the following: “(x) for the preceding Fiscal Year and (y) as set forth in the Business Plan (which Business Plan comparison, in the case of the third month of any quarter, shall include a summary for such quarter)”.

3.7. Amendment to Section 10.1.2 (Financial and Other Information). Section 10.1.2 of the Loan Agreement is hereby further amended by: (i) deleting the “;” at the end of clause (c) thereof, and (ii) adding the following to the end of clause (c) thereof: “and management’s discussion and analysis of the important operational and financial developments during such quarter;”.

3.8. Amendment to Section 10.1.2 (Financial and Other Information). Section 10.1.2 of the Loan Agreement is hereby amended by deleting the words “clauses (a) and (b) above” from clause (d) thereof and replacing them with the following: “clauses (a), (b) and (c) above”.

3.9. Amendment to Section 10.1.9 (Future Subsidiaries). Section 10.1.9 of the Loan Agreement is hereby amended by inserting the following before the word “cause” in the first sentence thereof: “within five (5) days”.

3.10. Amendment to Section 10.2.2 (Permitted Liens). Section 10.2.2 of the Loan Agreement is hereby amended by amending and restating subsection (k) thereof as follows:

“(k) Liens securing obligations under the DB Lease Agreement as in effect on the First Amendment Effective Date, *provided* that any such Liens attach only to the Specified Assets (as defined in the DB Lease Agreement on the First Amendment Effective Date), as applicable, and do not encumber any other property of the Loan Parties;”.

3.11. Amendment to Section 10.2 (Negative Covenant). Section 10.2 of the Loan Agreement is hereby amended by adding Section 10.2.23 to the end thereof as follows:

“10.2.23 Consolidated Fully Adjusted EBITDA. So long as the financial covenant regarding Consolidated Fully Adjusted EBITDA (as defined in the DB Lease Agreement as in effect on the First Amendment Effective Date) in Section 10.2(d) of the DB Lease Agreement is in effect, permit the Consolidated Fully Adjusted EBITDA for the twelve month period ending on each date listed in the table below to be less than the minimum amount set forth opposite such date:

<u>Period</u>	<u>Amount</u>
June 30, 2012	\$16,500,000
September 30, 2012	\$17,250,000
December 31, 2012	\$17,750,000
March 31, 2013	\$18,250,000”

4. Conditions Precedent to Effectiveness. The effectiveness of the consent set forth in Section 2 hereof and the specific amendments set forth in Section 3 hereof is subject to the satisfaction of each of the following conditions precedent:

4.1. Amendment. This Amendment shall have been duly executed and delivered by each Borrower, Guarantor, Agent and Required Lenders.

4.2. Amended DB Lease Agreement. The Amended DB Lease Agreement, in form and substance satisfactory to the Agent, shall have been duly executed and delivered by the parties thereto.

4.3. Amended and Restated DB Acknowledgment Agreement. The Agent, DB Energy Trading LLC and Borrowers shall have duly executed and delivered an amendment and restatement of the DB Acknowledgment Agreement, in form and substance satisfactory to the Agent.

4.4. Other Documents. Agent shall have received such other agreements, instruments and documents as Agent may reasonably request.

5. Representations and Warranties of Borrowers. Borrowers hereby represent and warrant to the Lenders and the Agent that:

5.1. Each representation and warranty set forth in Section 9 of the Loan Agreement is hereby restated and affirmed as true and correct in all material respects as of the date hereof (except to the extent that any such representations or warranties relate to an earlier specific date or dates);

5.2. Each Borrower has the power and authority to enter into this Amendment and all other agreements contemplated hereby, and to do all acts and things as are required or contemplated hereunder to be done, observed and performed by such Borrower;

5.3. Each of this Amendment and all other agreements to be executed by each Borrower and contemplated hereby has been duly authorized (by all necessary corporate and limited liability company action and otherwise), validly executed and delivered by Borrowers and constitutes the legal, valid and binding obligations of each Borrower, enforceable against it in accordance with its terms;

5.4. The execution and delivery of this Amendment and all other agreements to be executed by Borrowers and contemplated hereby and Borrowers' performance hereunder and thereunder do not and will not require the consent or approval of any governmental authority, nor be in contravention of or in conflict with any Borrower's certificate of formation or organization (as applicable) or the provisions of any statute, or any judgment, order, or indenture, instrument, agreement, or undertaking, to which any Borrower is a party or by which any Borrower or its assets or properties are or may become bound;

5.5. Neither the execution nor the performance of the Amended DB Lease Agreement violates, conflicts with, or causes a default under the Senior Second Lien Note Indenture or any other Senior Second Lien Note Document; and

5.6. No Default or Event of Default has occurred and is continuing on the date hereof.

6. No Further Amendments. Except for the amendments set forth herein, the text of each of the Loan Agreement and all other Loan Documents shall remain unchanged and in full force and effect. No waiver by the Lenders under the Loan Agreement or any other Loan Document is granted or intended except as expressly set forth herein, and the Agent and Lenders expressly reserve the right to require strict compliance with the terms of each of the Loan Agreement and the other Loan Documents in all respects.

7. References in Security Documents. All references to the “Loan Agreement” in the Security Documents and all other Loan Documents shall from and after the effective date hereof refer to the Loan Agreement, as amended hereby, and all obligations of Borrowers and Guarantor under the Loan Agreement, as amended hereby, and the other Loan Documents shall be secured by and be entitled to the benefits of said Security Documents and such other documents and agreements. All Security Documents heretofore executed by the Obligors and each of them shall remain in full force and effect to secure the Notes, and such Security Documents, as amended hereby, are hereby ratified and affirmed.

8. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier or electronic transmission shall be as effective as delivery of a manually executed counterpart signature page to this Amendment.

9. Applicable Law. THIS AMENDMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

10. Captions. The captions in this Amendment are for convenience of reference only and shall not define or limit the provisions hereof.

11. Fees and Legal Fees. The Borrowers hereby agree to pay to the Agent all reasonable fees and reasonable expenses incurred by the Agent in the drafting, review, negotiation and closing of the documents and transactions contemplated hereby, including the reasonable fees and disbursements of the Agent’s counsel.

12. Reaffirmation. Except as amended hereby, each of the Loan Documents shall remain in full force and effect and is in all respects hereby ratified and affirmed.

IN WITNESS WHEREOF, this Amendment has been duly executed as of the date first written above.

BORROWERS:

AGY HOLDING CORP.

By: _____
Title: _____

AGY AIKEN LLC

By: _____
Title: _____

AGY HUNTINGDON LLC

By: _____
Title: _____

AGENT AND LENDERS:

UBS AG, STAMFORD BRANCH,
as Administrative Agent

By: _____
Title: _____

By: _____
Title: _____

UBS LOAN FINANCE LLC,
as a Lender

By: _____
Title: _____

By: _____
Title: _____

CONSENT BY GUARANTOR

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and adequacy of which are hereby acknowledged, the undersigned, which executed and delivered the Guarantee, hereby consents to the Borrowers' execution, delivery and performance of the foregoing Amendment and hereby ratifies and affirms the Guarantee, which shall remain in full force and effect and shall apply to, secure and guaranty the payment and performance of the Loan Agreement, as amended by the foregoing Amendment, and as the same may hereinafter be amended from time to time.

Dated as of the date first above written.

KAGY HOLDING COMPANY, INC.

By: _____
Title: _____

CONFIDENTIAL TREATMENT REQUESTED

EXECUTION VERSION

AMENDED AND RESTATED MASTER LEASE AGREEMENT

dated as of July 25, 2012

between

**DB ENERGY TRADING LLC,
as Lessor**

**AGY HOLDING CORP.,
as Lessee**

**AGY AIKEN LLC and
AGY HUNTINGDON LLC,
as Guarantors**

CONFIDENTIAL TREATMENT REQUESTED

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CONFIDENTIAL TREATMENT REQUESTED

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- Schedule 3 Inventory
- Schedule 4 Platinum Standards
- Schedule 5 Rhodium Standards
- Schedule 6 Subsidiaries
- Schedule 7 Form of Guarantor Joinder
- Schedule 8 Example Monthly Financial Statements

CONFIDENTIAL TREATMENT REQUESTED

AMENDED AND RESTATED MASTER LEASE AGREEMENT

This Amended and Restated Master Lease Agreement (this “**Agreement**”), dated as of July 25, 2012, among DB ENERGY TRADING LLC (“**Lessor**”), a Delaware limited liability company, AGY HOLDING CORP. (“**Lessee**”), a Delaware corporation, AGY AIKEN LLC (“**AGY Aiken**”), a Delaware limited liability company and AGY HUNTINGDON LLC (“**AGY Huntingdon**”), a Delaware limited liability company.

WITNESSETH:

WHEREAS, pursuant to that certain Sale and Purchase Agreement, dated as of September 28, 2009 (the “**Sale and Purchase Agreement**”), between Lessee and Lessor, Lessee sold full legal and beneficial title to the Units to Lessor;

WHEREAS, it was the express intention of Lessee and Lessor that the Sale and Purchase Agreement constituted a true sale of the Units and not a financing and Lessor has been and continues to be the owner of the Units;

WHEREAS, Lessor and Lessee are parties to that certain Master Lease Agreement, dated as of September 28, 2009 (as amended, supplemented or otherwise modified prior to the date hereof, the “**Existing Master Lease Agreement**”), pursuant to which Lessee leases from Lessor the CFM Metal and the Yarns Metal contained in the Units;

WHEREAS, the Lease Commitment Period (as defined in the Existing Master Lease Agreement) under the Existing Master Lease Agreement is scheduled to terminate on the Existing Termination Date (as defined below);

WHEREAS, Lessee has requested an extension of the Existing Master Lease Agreement, as Lessee and its Subsidiaries (as defined below) derive substantial direct and indirect benefits therefrom;

WHEREAS, Lessor and Lessee hereby agree to amend and restate the Existing Master Lease Agreement as provided in this Agreement;

WHEREAS, the Guarantors (as defined below) have agreed to guarantee Lessee’s obligations under this Agreement, subject to the terms hereof; and

WHEREAS, the amendment and restatement of the Existing Master Lease Agreement shall become effective upon the satisfaction of the conditions precedent set forth in clause 11.

CONFIDENTIAL TREATMENT REQUESTED

THEREFORE, in consideration of the premises and the covenants and agreements contained herein, the parties hereto hereby agree that on the Restatement Date (as defined below), the Existing Master Lease Agreement shall be amended and restated in its entirety 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 meanings set forth herein or in Schedule 1 to this Agreement. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise (a) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof and (b) all references herein to clauses and Schedules shall be construed to refer to clauses and Schedules to this Agreement. The term “including” when used in any Operative Document means “including without limitation” except when used in the computation of time periods.

2. General Obligations

- 2.1 During the Lease Commitment Period, Lessor and Lessee agree, so long as no Default exists and is then continuing or would result therefrom, to enter into Leases from time to time whereby Lessor shall make available to Lessee under each Lease the Metal Amount contained in one Unit for use at 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 Lessor and Lessee substantially in the form of Schedule 2 incorporating the Lease details as set out in clause 3 shall be exchanged between Lessor and Lessee 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 Lessor and Lessee.
- 2.4 [Reserved].
- 2.5 This Agreement, each Lease, the Guarantee Documents, and all amendments and renewals thereto and thereof shall constitute a single contract.
- 2.6 Lessee shall settle each Lease on the Termination Date or Early 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, Lessee shall, so long as no Default exists and is then continuing or would result therefrom and subject to the terms hereof, be entitled to renew any Lease; provided that upon any such renewal, Lessee shall have been deemed to represent and warrant to Lessor that, as of such date, each of the representations and

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warranties in this Agreement, other than clause 9.2(k), is true and correct in all material respects as of such date (except (i) to the extent that it expressly relates to another date, in which case it is true and correct in all material respects as of such other date and (ii) any representation and warranty that itself is qualified as to “materiality” or “Material Adverse Effect” shall be true and correct in all respects). Notwithstanding the previous sentence, no renewal shall be effective if, at the time of such renewal, a Default exists and is then continuing or would result therefrom 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 Lessee shall not sublease any of the Metal or the Units to any other person or allow the Metal or Units to be removed from the Facilities or permit the Metals or Units to be used by anyone other than Lessee’s employees, except as otherwise permitted in connection with Change-Outs and Refabrications pursuant to clause 6 or until the Metals or Units are delivered to Lessor or title is transferred to Lessee in accordance with clause 7.2.
- 2.9 [Reserved].
- 2.10 [Reserved].
- 2.11 Lessee represents, warrants and agrees that it does not have, and by execution of this Agreement or any Lease and/or any payment or performance hereunder or thereunder it shall not have or obtain, any title to the Metals, the Non-Leased Lessor Rhodium or the Units, nor any property right or interest, legal or equitable, therein, except its rights as expressly set forth hereunder or thereunder as a lessee of the Metals subject to the terms hereof and thereof.
- 2.12 Lessor shall not be liable in any way for the maintenance or performance of the Metals or the Units.

3. Lease Details

- 3.1 During the Lease Commitment Period, Lessee may request Lessor enter into a new Lease or renew an existing Lease (for purposes of a renewal, by sending a request for such in writing to Lessor in accordance with clause 2.7 hereof).
- 3.2 Where Lessor and Lessee agree to enter into a new Lease or renew an existing Lease each new or renewed Lease shall be confirmed in writing by Lessee and Lessor 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;

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- (d) the Commencement Date;
- (e) the Lease Expiration Date;
- (f) the Lease Rent; and
- (g) whether it is a CFM Lease or a Yarn Lease.

- 3.3 Without limiting any other provision of this Agreement, Lessee shall have no obligation to pay Lease Rent for (i) any Rhodium contained in the Unallocated Rhodium Account, (ii) any Non-Leased Lessor Rhodium or (iii) any Non-Lessor Metal.
- 3.4 On and after the Restatement Date, in the event of any inconsistency between the terms of this Agreement and the terms of any Lease or amendment thereto (including without limitation Leases entered into prior to the Restatement Date and still in effect as of the Restatement Date) that has been executed by both parties, the terms of this Agreement shall prevail.

4. Lease Rent

- 4.1 Lessee shall pay to Lessor on each Payment Date monthly rent (“**Lease Rent**”) 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:

$$(\text{Metal Amount}) \times (\text{Value of the Metal}) \times (\text{Lease Rate Index} + \text{Margin}) \times (\text{actual days}/360)$$

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 each of Platinum and Rhodium shall be [***] basis points from the Restatement Date through and including the Existing Termination Date and thereafter, [***] basis points.

- 4.2 The Lease Rent for the Metal will be payable in immediately available funds on each Payment Date. Lessee agrees that time is of the essence to Lessor in Lessee’s making payments of the Lease Rent when such payment is due.

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

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4.3 With respect to each Lease, in the event that the period between the Commencement Date and the first Payment Date for such Lease and/or the period between the penultimate Payment Date and the Termination Date for such Lease is not a full calendar month, the Lease Rent for such Lease shall be apportioned based on the number of days in such period.

4.4 Lessee's and each Guarantor's obligation to pay any amount payable hereunder or under any Lease (including, without limitation, Lease Rent, Consideration or any indemnification obligation) shall be absolute and unconditional and shall not be affected by any circumstance, including any setoff, counterclaim, recoupment, defense or other right that Lessee or any Guarantor may have against the Lessor, its Affiliates or any other person for any reason whatsoever.

5. Delivery

The Metal Amount set out in each Lease shall be deemed to have been delivered by Lessor to Lessee on the Commencement Date for such Lease at 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 Lessee determines that a Unit under a Yarns Lease needs to be refurbished, and so long as no Default exists and is then continuing, Lessee may on any date (the "**Change Out Date**") replace such Unit (an "**Old Unit**") with a replacement Unit (a "**New Unit**") (such transaction, a "**Change Out**"). Lessee shall notify Lessor in writing as soon as practicable of the intended Change Out Date, which notice shall specify the serial number of the Unit to be Changed Out. Lessee may then, in lieu of terminating the relevant Lease, 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, effective immediately on the Change Out Date the New Unit shall be deemed to be delivered by Lessee, and full and unencumbered title in the New Unit shall be automatically transferred from Lessee to Lessor in consideration of full and unencumbered title to the Old Unit passing from Lessor to Lessee and such new Unit shall be subject to the terms and conditions hereof and the applicable Lease.
- (b) Lessee hereby acknowledges and agrees that if Change Outs for any trailing thirty (30) day period exceed 15% of aggregate Metal Amount, Lessee will immediately provide Lessor an updated Inventory listing.

6.2 Refabrication and Fabrication for any CFM Lease:

- (a) For any CFM Lease, and so long as no Default exists and is then continuing, Lessee shall be allowed on any date to refabricate or fabricate the Metal in a Unit into one or more new Units ("**Refabrication**" or "**Fabrication**").

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- (b) [Reserved.]
- (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) if 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) if 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 an access and bailment agreement for the benefit of Lessor in form and substance reasonably agreeable to Lessor (and, for the avoidance of doubt, Lessee shall be prohibited from removing the Units from the Facilities for such Refabrication or Fabrication until such time as the access and bailment agreement has been entered into by Lessor); provided that Lessor and Lessee agree that for so long as the Waiver Letter between Lessor and Owens Corning is in effect, then any Refabrications or Fabrications being performed by Owens Corning or an Affiliate thereof at Owens Corning’s facility in Concord, North Carolina (or other location specified in advance in writing to Lessor) shall not be subject to the foregoing provisions of this paragraph; and
 - (iv) if any Additional Metal is required to conduct any Refabrication or Fabrication, (x) have been deemed to represent, warrant and agree and ensure that such Additional Metal shall not be subject to any Lien or rights of Lessee (other than the rights expressly set forth herein) or any other person and (y) if such Additional Metal becomes commingled with any Metal, have transferred ownership and title to any Additional Metal used in connection with such Refabrication or Fabrication to Lessor, free and clear of any Liens and neither Lessee nor any other third party shall have or retain any property or other interest in or Lien over, the Metal or the Additional Metal; and
- (d) (x) Lessor agrees not to deliver a DB Notice (as defined in the Waiver Letter) with respect to any Units in the possession of Owens Corning or an Affiliate thereof unless each Lease covering Metals contained in such Units has been

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terminated in accordance with clause 7 and (y) if Lessor, in exercising its right under the Waiver Letter to identify Parts or Units as DB Parts (each of the foregoing used in this clause as defined in the Waiver Letter), misidentifies any Parts or Units, Lessor shall return any misidentified Parts or Units transferred to its possession.

7. Termination and Return

7.1 Each Lease shall terminate on the earliest of (such date, the “**Termination Date**”):

- (a) the Lease Expiration Date for such Lease;
- (b) the Change Out Date, if any Old Unit is not replaced contemporaneously with a New Unit pursuant to clause 6.1 (a); or
- (c) the Master Lease Termination Date.

7.2 Upon a Termination Date, Lessee shall settle the applicable Lease or all Leases, as the case may be:

- (a) by physical delivery of the Unit containing the Metal to Lessor free and clear of all Liens, claims and interests of Lessee and any other person, including with respect to any Non-Lessor Metal contained in such Unit, which shall occur (x) at the same Location of delivery of such Unit and (y) no later than two (2) Business Days after the Termination Date; or
- (b) in lieu of physically delivering the Unit containing the Metal, by Lessee purchasing or causing a third party to purchase the relevant Unit containing the Metal, in which case:
 - (i) Lessee shall or shall cause a third party to transfer consideration for such purchase to Lessor, on the date that is no later than two (2) Business Days after the Termination Date, in an amount equal to:
 - (A) (i) the Benchmark Value of that Metal Amount determined as of two (2) Business Days prior to the Termination Date (in such case payment to be made in immediately available funds); or (ii) an amount of unallocated Platinum, free and clear of all Liens, claims and interests of Lessee and any other person, delivered to 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) Rhodium, free and clear of all Liens, claims and interests of Lessee and any other person, equal to the Rhodium Amount in such Lease (which Rhodium, for the avoidance of doubt, shall not be withdrawn from the Unallocated Rhodium Account); plus

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(C) to the extent such Unit contains Non-Leased Lessor Rhodium, an amount of Rhodium equal to the Non-Leased Lessor Rhodium in such Unit, which amount shall be set off by Lessor against the Unallocated Rhodium Account (in which case Lessor shall be deemed to have, and Lessee shall be deemed to have transferred to Lessor, full and unencumbered title (to the extent Lessor does not already have title) to the Rhodium so set off by Lessor) ((A), (B) and (C) together, the “**Consideration**”); and

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

7.3 [Reserved].

7.4 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; or
- (c) any event which has had a Material Adverse Effect,

then, in any such event, Lessor shall have the right (but not the obligation) to terminate this 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, Unit or Unit containing any Metal leased to Lessee under this Agreement; provided, however, that any Default under clause 8.1(f) 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(f) occurs.

7.5 In the event that Lessee makes physical return of any Metal in accordance with clause 7.2(a) or otherwise in accordance with this Agreement, Lessee shall, from the Termination Date until the Unit containing the Metal has been fully recovered by Lessor, afford Lessor unencumbered access to the Location (or any such location where the Metal is located at such time, including without limitation the location of a Change Out, Fabrication, or Refabrication) for the purpose of such recovery and Lessee shall afford Lessor any assistance reasonably requested to facilitate the recovery of the relevant Unit and the Metal and Non-Leased Lessor Rhodium (as applicable) contained therein. In the event of an Early Termination, Lessee shall be liable for all costs of such recovery which shall be payable promptly on receipt by Lessee of reasonable written proof that such costs were incurred.

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- 7.6 At any time prior to the Master Lease Termination Date, Lessee may, in its sole discretion, terminate (i) this Agreement and all Leases hereunder or (ii) any Lease hereunder, if Lessee:
- (a) provides thirty (30) days prior written notice of its intent to terminate to Lessor, which notice shall set forth the date on which such termination shall be effective, which shall be no sooner than thirty (30) days after the date of such notice, and shall be irrevocable; and
 - (b) (x) makes physical return of any Metal and any Non-Leased Lessor Rhodium subject to the terminated Leases in accordance with clause 7.2(a) or (y) pays to Lessor the Consideration with respect to such Metal and any Non-Leased Lessor Rhodium calculated and delivered in accordance with clause 7.2(b).

8. Default

8.1 Any of the following events shall be a "Default":

- (a) Lessee fails to either return to Lessor any Metal or Units or Lessee or any Guarantor fails to pay the Consideration, in each case in accordance with the terms hereof;
- (b) Lessee or any Guarantor fails to pay any amount due pursuant to this Agreement or any Lease (other than the Consideration), and such failure shall remain unremedied for five (5) days;
- (c) any representation or warranty made or deemed to be made by Lessee or any Guarantor hereunder or under any Lease or any certificate or notice provided in connection herewith or therewith shall be incorrect in any material respect; provided that with respect to any representation or warranty that itself is qualified as to "materiality" or "Material Adverse Effect," such representation or warranty shall be incorrect in any respect;
- (d) Lessee shall make or permit any unauthorized assignment or transfer of this Agreement or any Lease or any of Lessee's rights and obligations hereunder or thereunder, or Lessee shall make or permit any unauthorized sublease or transfer of any Metals or Units or the possession of such Metals or Units;
- (e) Lessee or any Guarantor 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, to the extent capable of being remedied, such breach of covenant or failure to perform or observe shall remain unremedied for ten (10) days (other than with respect clauses 8.1(a), 8.1(b), 10.1(g) and 10.2, and as otherwise specified in clause 10.1(f));
- (f) Lessee or any Guarantor shall (1) dissolve; (2) become insolvent or unable to pay its debts or fail or admit in writing its inability generally to pay its debts as

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- 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 organization 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 fifteen (15) days, or such other time period as may be agreed to by Lessor in its sole discretion provided 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 fifteen (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;
- (g) the occurrence of any loss, theft or destruction of, or damage to, any of the Metal leased hereunder or Units (except for ordinary wear and tear; provided that the Metal shall meet the standards set forth on Schedule 4 and Schedule 5, as applicable) that is not covered by a policy of insurance under which Lessor has been named 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;
- (h) the occurrence of a breach or default under any consignment or leasing facility of a notional principal amount of \$2,500,000 or more to which Lessee or any Guarantor is a party, which results in the obligations of Lessee or a Guarantor thereunder becoming accelerated (whether automatically or at the election of the consignor or lessor, as applicable);

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- (i) the occurrence of a default under any Specified Agreements;
 - (j) (w) the occurrence of an event of default under either of the Financing Agreements in respect of the failure to make any payment under such Financing Agreement when due (after giving effect to any applicable grace period (but without giving effect to any amendments or modifications to the length of such grace periods after the Restatement Date)), (x) the occurrence of an event of default under either of the Financing Agreements not in respect of a failure to make a payment under such Financing Agreement, and such event of default has not been cured or waived within 10 Business Days, (y) the acceleration of any obligations or termination of any commitments under either of the Financing Agreements pursuant to the terms thereof, or (z) the exercise of any remedies with respect to any Collateral (as defined in the applicable Financing Agreement) upon an event of default under either of the Financing Agreements;
 - (k) one or more judgments or decrees shall be entered against any Lessee or any of its Subsidiaries (including the Guarantors) involving in the aggregate a liability (to the extent not paid or covered by insurance as to which the relevant insurance company has acknowledged coverage) of \$2,500,000 or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within thirty (30) days from the entry thereof;
 - (l) a Change of Control;
 - (m) any of the Metals, Non-Leased Lessor Rhodium, or the Units shall be attached, levied upon, encumbered, pledged, seized or taken under any judicial process (except for any attachment, levy, encumbrance or pledge caused to be placed on the Metals, Non-Leased Lessor Rhodium, or Units by Lessor) and such proceedings shall not be vacated, or fully stayed, within ten (10) days thereof;
 - (n) Lessee or any Guarantor shall suffer the loss, revocation or termination of any material license, permit, lease or agreement necessary to its business (except in connection with a sale or other disposition permitted by clause 27(k)(i) of this Agreement), fail to generally pay its debts as they mature, or call a meeting for the purposes of compromising its debts; and
 - (o) Lessee or Guarantor shall deny or disaffirm its obligations under this Agreement or under any of the Leases.
- 8.2 Without prejudice to any other remedy at law or in equity, in the event of an Early Termination triggered by the provisions set out in clause 8.1, Lessee shall immediately pay to Lessor all reasonable and documented costs and expenses of physical recovery of the Metal and Units, including all collection and court costs (including reasonable and documented fees and expenses of outside counsel to Lessor; provided that all documentation shall be subject to redaction for privilege, confidentiality and similar purposes).

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- 8.3 In addition to any rights and remedies of Lessor provided by law or hereunder and without prejudice to any other remedy at law or in equity of Lessor, upon the occurrence and during the continuance of a Default, Lessor shall have the right, without prior notice to Lessee, any such notice being expressly waived by Lessee to the fullest extent permitted by law, to set off any amount due and payable hereunder or under any Lease (including, without limitation, Lease Rent, Consideration or any indemnification obligation) and appropriate such amounts owed against an amount of Rhodium held in the Unallocated Rhodium Account of equal value (such value to be calculated based on the Benchmark Value), in which case Lessor shall be deemed to have, and Lessee shall be deemed to have transferred to Lessor, full and unencumbered title (to the extent Lessor does not already have title) to the Rhodium so offset from the Unallocated Rhodium Account.
- 8.4 Any amount due from Lessee to Lessor under this Agreement or any Lease hereunder but not paid when due shall accrue a late charge, until paid in full, at the lesser of (i) the Late Charge Rate until paid in full and (ii) the maximum amount permitted by applicable law.

9. Representations and Warranties

- 9.1 Lessor represents and warrants to Lessee that:
- (a) it has the power to enter into and exercise its rights and perform and comply with its obligations under each of the Operative Documents to which it is a party; and
 - (b) each of the Operative Documents to which it is a party is valid, legally binding and enforceable against 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 Lessee and each Guarantor jointly and severally represent and warrant to Lessor that:
- (a) it has the power and authority to own its assets and to conduct its business as presently conducted;
 - (b) it has the power to enter into and exercise its rights and perform and comply with its obligations under each of the Operative Documents to which it is a party;
 - (c) it is (i) duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and (ii) qualified and in good standing to do business wherever necessary to carry on its present business and operations, including in the jurisdictions where the Metals, Units and Facilities are located, except where the failure to be so qualified would not reasonably be expected to have a Material Adverse Effect;

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- (d) no vote or consent of, or notice to, the holders of any class of stock or membership interests is required, or, if required, such vote or consent has been obtained or given, to authorize the execution and performance of the Operative Documents to which it is a party;
- (e) each of the Operative Documents to which it is a party is valid, legally binding and enforceable against it, except as such enforceability may be limited by (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting or relating to creditors' rights generally or (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 each of the Operative Documents to which it is a party;
- (g) its entry into, exercise of its rights and/or performance of or compliance with its obligations under each of the Operative Documents to which it is a party do not and will not violate:
 - (i) any Requirement of Law;
 - (ii) any of its organizational documents;
 - (iii) any material agreement to which it is a party or to which its properties are bound including, without limitation, any Specified Agreements or Financing Agreements; or
 - (iv) any order or decree which is binding upon it;
- (h) Lessee has conveyed full legal and beneficial title to the Units to Lessor, including pursuant to the Sale and Purchase Agreement, and, other than (i) with respect to Non-Lessor Metal in certain of the Units identified in the Inventory and (ii) its lease interest in the Units and Metals contained therein, has no legal, equitable or other interest in the Units, the Metals and (to the extent applicable) the Non-Leased Lessor Rhodium contained therein;
- (i) no Default has occurred and is continuing;
- (j) except as disclosed to Lessor by Lessee in writing from time to time after the Restatement Date, Schedule 6 sets forth the name and jurisdiction of incorporation of each Subsidiary of Lessee, and, as to each such Subsidiary, the percentage of each class of capital stock owned by Lessee or any Subsidiary;

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- (k) (i) Schedule 3 sets forth as of the Restatement Date, and each Inventory delivered pursuant to clause 10.1(a) sets forth as of the date of such Inventory, a full and complete list of (x) Units (designated by serial number) in which Metal leased hereunder is commingled with Platinum, Rhodium or any other metal or alloy that is owned by or in which a person other than Lessor (or its Affiliates) has an interest (such Platinum, Rhodium or any other metal or alloy, the “**Non-Lessor Metal**”) and (y) the quantity (in Troy ounces) of Non-Lessor Metal in such Units and (ii) Lessee is the only person that owns or has an interest in the Non-Lessor Metal other than Liens, if any, granted with respect to the Non-Lessor Metal in connection with the Financing Agreements;
- (l) subject to clause 9.2(k) with respect to the Non-Lessor Metal, no person (other than Lessor, Lessee (but only to the extent of its lease interests hereunder) and any third party (but only to the extent permitted by and subject to the provisions of clause 6.2(c)(iii) hereof)) has any right, title or interest (including any lien or security interest) in the Metals or the Units;
- (m) since December 31, 2011, no event has occurred that would reasonably be expected to have a Material Adverse Effect;
- (n) as applicable, it has title in fee simple to all real property (including the Facilities) where Metals and Units are used in or stored for the Business, and none of such property is subject to any Lien except as permitted in each of the Financing Agreements and herein;
- (o) Lessee possesses any and all authorizations, certifications and licenses which are or may be required to operate its business and use the Metals or the Units, except to the extent that the failure to possess the same could not, in the aggregate, reasonably be expected to have a Material Adverse Effect;
- (p) all information supplied by Lessee or any Subsidiary to Lessor is correct in all material respects and does not omit any statement of a material fact necessary to make the information supplied, in light of the circumstances in which it was made, not misleading;
- (q) Lessee and each of its Subsidiaries is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect;
- (r) except as, in the aggregate, could not reasonably be expected to have a Material Adverse Effect:
 - (i) the facilities and properties owned and operated by Lessee or any of its Subsidiaries including without limitation, the Facilities and Locations (the “**Properties**”) do not contain any Materials of Environmental Concern in amounts or concentrations or under circumstances that constitute or constituted a violation of, or could give rise to liability under, any Environmental Law;

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- (ii) neither Lessee or any of its Subsidiaries has received or is aware of any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of the Properties or the business operated by Lessee or any of its Subsidiaries (the “**Business**”), nor does Lessee have knowledge or reason to believe that any such notice will be received or is being threatened;
 - (iii) Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of, or in a manner or to a location that could give rise to liability under, any Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could give rise to liability under, any applicable Environmental Law;
 - (iv) no judicial proceeding or governmental or administrative action is pending or, to the knowledge of Lessee, threatened, under any Environmental Law to which Lessee or any of its Subsidiaries is or will be named as a party with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business;
 - (v) there has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of Lessee or any of its Subsidiaries in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could give rise to liability under Environmental Laws;
 - (vi) the Properties and all operations at the Properties are in compliance, and have in the last five years been in compliance, with all applicable Environmental Laws, and there is no contamination at, under or about the Properties or violation of any Environmental Law with respect to the Properties or the Business; and
 - (vii) neither Lessee or any of its Subsidiaries has assumed any liability of any other person under Environmental Laws.
- (s) subject to the terms of clause 12.1, this Agreement, together with such filings and other actions required to be taken hereby, creates in favor of Lessor a legal, valid and enforceable first priority Lien in the Specified Assets (as defined below); and
- (t) the Metals Intercreditor Agreement has terminated pursuant to its terms and is no longer in effect.

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9.3 Lessee acknowledges Lessor has given 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 Affirmative Covenants. Lessee covenants that it shall:

- (a) From and after the Restatement Date, (i) on the tenth calendar day of each month (or, if such day is not a Business Day, on the next Business Day) and (ii) upon the occurrence and during the continuance of a Default, upon Lessor's demand, provide Lessor with an updated Inventory of the Metal and Units, certified by a Responsible Officer, and shall promptly inform Lessor of any damage to or loss of Metal or Units (except for ordinary wear and tear).
- (b) Permit Lessor, or agents or representatives of Lessor, during normal business hours and upon reasonable notice (except upon the occurrence of and continuance of a Default, in which case at any time) to, no more than once per month (or any time upon the occurrence and continuance of a Default), (i) audit the Inventory, either through an inspection or through any other means at Lessor's sole discretion (including, without limitation, Lessee's preparation of abstracts and discussions between Lessor and Lessee's senior management); and (ii) inspect any Units, Metal or Lessee's books and records, solely as they relate to such Units or Metal (it being understood and agreed that Lessee shall make and deliver to Lessor abstracts or reproductions of such portions of such books and records promptly upon Lessor's reasonable request) (collectively, the "**Metal Information**"). All audits and inspections shall be at Lessee's reasonable cost and expense. Lessor may conduct such audits or inspections at any Location or Facility where Metal Information may be stored, used or otherwise housed. Lessor agrees that, except during the occurrence of a Default, it 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 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 other than as a result of a disclosure by Lessor or its Affiliates in violation of this clause; 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. Lessor shall not have a duty to make any audits or inspections nor shall it incur any liability or obligation by reason of making or not making any audits or inspections.

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- (c) [Reserved].
- (d) Procure and maintain in effect all licenses, certificates, permits and other approvals and consents as required by any Requirements of Law in connection with Lessee's possession, use, operation and maintenance of the Metals and the Units except to the extent that the failure to do so could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.
- (e) Until such time as the Metal is returned, recovered or repossessed to Lessor or purchased by Lessee, in each case in accordance with this Agreement, afford the Units containing the Metal no less safekeeping protection than it affords its own property.
- (f) Procure insurance coverage reasonably satisfactory to Lessor for the Units containing 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 additional insured and loss payee. Lessee shall provide Lessor (x) at least thirty (30) days prior written notice of Lessee's termination of any such insurance and (y) written notice of cancellation of any such insurance policy within two (2) Business Days of receipt of notice of cancellation of any applicable insurance 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 Lessee at the Facilities until the Lease is settled in accordance with clause 7.2 of this Agreement. If Lessee fails to procure or maintain insurance in compliance with this Agreement, Lessor will be entitled but not bound (without prejudice to any other rights of Lessor under this Agreement) to procure and/or maintain (including, without limitation, by payment of the premiums due or to effect) such insurances, or otherwise remedy Lessee's failure to do so (including, without limitation to effect and maintain an "owner's interest" policy) as it considers appropriate.
- (g) Unless purchased by Lessee or a third party in accordance with the terms of clause 7.2(b), return to Lessor the Metal at the end of the relevant Lease in substantially the same condition as it was received by Lessee; provided that such Metal and any Non-Leased Lessor Rhodium (to the extent applicable) shall be required to meet the standards set forth on Schedule 4 and Schedule 5 hereto, as applicable.
- (h) Furnish to Lessor:
 - (i) as soon as available, but in any event within 120 days after the end of each fiscal year of Lessee, (A) a copy of the consolidated balance sheet of Lessee and its consolidated subsidiaries (including the Grace Companies) as at the end of such year and the related consolidated statements of income and of cash flows for such year, audited and certified (without qualification) by a firm of independent certified public accountants of

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nationally recognized standing selected by Lessee and reasonably acceptable to Lessor and set forth in each case in comparative form the figures for the previous year; and (B) management's discussion and analysis of the important operational and financial developments during such fiscal year;

- (ii) as soon as available, but in any event not later than 30 days after the end of each calendar month, the unaudited consolidated balance sheet of Lessee and its consolidated subsidiaries (excluding the Grace Companies) as at the end of such month and the related unaudited consolidated statements of income and of cash flows for such month and the portion of the fiscal year through the end of such month, setting forth in each case in comparative form (in substantially the form of the example attached as Schedule 8 hereto) the figures (x) for the previous fiscal year and (y) as set forth in the Business Plan (which Business Plan comparison, in the case of the third month of any fiscal quarter, will include a summary for such quarter), certified by a Responsible Officer as being prepared in accordance with GAAP and fairly presenting the financial position and results of operations for such month and period (subject to normal year-end audit adjustments and absence of footnotes); and
- (iii) as soon as available, but in any event not later than 45 days after the end of each fiscal quarter of Lessee, (A) the unaudited consolidated balance sheet of Lessee and its consolidated subsidiaries (including the Grace Companies) as at the end of such quarter and the related unaudited consolidated statements of income and of cash flows for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous fiscal year, certified by a Responsible Officer (1) as being prepared in accordance with GAAP and fairly presenting the financial position and results of operations for such quarter and period (subject to normal year-end audit adjustments and absence of footnotes) and (2) that all Other Consolidated Net Income Adjustments are consistent with historic practice; and (B) management's discussion and analysis of the important operational and financial developments during such fiscal quarter.

All such financial statements furnished pursuant to this 10.1(h) shall be prepared in accordance with GAAP, and shall accurately and completely present Lessee's and its applicable consolidated subsidiaries' financial condition and results of operations at the dates of and for the periods covered by such statements.

- (i) At the time of the delivery of the financial statements provided for in clause 10.1(h)(iii), a compliance certificate from a Responsible Officer of Lessee certifying on behalf of Lessee that, to such Responsible Officer's knowledge after due inquiry, no Default has occurred and is continuing or, if any Default

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has occurred and is continuing, specifying the nature and extent thereof, which certificate shall set forth in reasonable detail the calculation of Consolidated Fully Adjusted EBITDA required to determine compliance with clause 10.2(d) (such detail to include Lessee's calculation of Consolidated Net Income and all add-backs thereto and deductions therefrom in calculating Consolidated Fully Adjusted EBITDA).

- (j) Provide prompt notice to Lessor of the formation or acquisition of any Subsidiary (other than the Guarantors as of the Restatement Date), which notice shall include an updated Schedule 6.
- (k) Promptly after Lessee's obtaining knowledge thereof, give notice to Lessor of:
 - (i) the occurrence of any Default;
 - (ii) any (x) default or event of default under any material Contractual Obligation of Lessee or any of its Subsidiaries (including, without limitation, any Specified Agreement or Financing Agreement) which could reasonably be expected to have a Material Adverse Effect or (y) litigation, investigation or proceeding that may exist at any time between any Lessee or any of its Subsidiaries, on one hand, and any Governmental Authority, on the other hand, which, in each case, if not cured or if adversely determined could reasonably be expected to have a Material Adverse Effect; and
 - (iii) (x) any judgment in an amount exceeding \$500,000, (y) any litigation or proceeding affecting Lessee or any of its Subsidiaries which, if adversely determined, could reasonably be expected to have a Material Adverse Effect or (z) any litigation or proceeding which relates to this Agreement or any Specified Agreement.

Each notice pursuant to this clause 10.1(k) shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action Lessee (or any applicable Subsidiary thereof) proposes to take with respect thereto.

- (l) Defend Lessor's interest in the Metal or the Units from any Liens, claims or demands of any person at any time claiming the same or any interest therein.

10.2 Negative Covenants. Lessee covenants that it shall not, without Lessor's prior written consent:

- (a) enter into any lease agreement or financing agreement with any third party for the Metal or Units leased by Lessor to Lessee pursuant to this Agreement;

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- (b) enter into any lease agreement or financing agreement with any third party for Platinum, Rhodium or any similar or substitute metals or alloys;
- (c) enter into any lease, financing, security or other agreement in relation to the Metal, Non-Leased Lessor Rhodium or Units which would or might interfere with Lessor's absolute and unencumbered title in the Metal, Non-Leased Lessor Rhodium or Units or restrict Lessor's ability to regain possession of the Metal, Non-Leased Lessor Rhodium or Units;
- (d) permit the Consolidated Fully Adjusted EBITDA for the twelve month period ending on each date listed in the table below to be less than the minimum amount set forth opposite such date:

<u>Period</u>	<u>Amount</u>
June 30, 2012	\$16,500,000
September 30, 2012	\$17,250,000
December 31, 2012	\$17,750,000
March 31, 2013	\$18,250,000

- (e) create or permit the creation of any Lien of any kind with respect to any Specified Assets other than the Lien created hereunder;
- (f) amend, supplement, refinance or otherwise modify either of the Financing Agreements if such modification (i) increases the maximum principal amount or commitments thereunder or increases any scheduled payment of principal; (ii) accelerates the date on which any installment of principal or any interest is due, or adds any additional redemption, put or prepayment provisions; (iii) shortens the final maturity date to a date prior to the Master Lease Termination Date or otherwise accelerates amortization; (iv) increases by more than 2.00% per annum in the aggregate the interest rate margins, unused line fees, or letter of credit fees; (v) increases or adds any fees or charges other than customary (in amount) refinancing, amendment and/or upfront fees; or (vi) is adverse in any material respect to the collateral, security interest or Liens of Lessor hereunder;
- (g) other than any interests created by Lessee in favor of Lessor and to the extent permitted by and subject to the provisions of clause 6.2(c)(iii), at no time shall Lessee have, or have the ability to create in favor of any third party, any property or other interest in the Units, the Metal or otherwise dispose of or encumber any of the Units or the Metal until the relevant Lease has been settled in accordance with clause 7.2(b);
- (h) permit the Metals or the Units to be used or maintained in any manner or condition that would violate, or could result in the termination of, the insurance policies carried by Lessee pursuant to the provisions of this Agreement, or in any manner or condition or for any purpose for which, in Lessor's reasonable

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discretion, the Metals or the Units is not designed or suited (it being understood and agreed that the Metals and the Units may be used in the manufacture of continuous filament mats and glassfiber yarns);

- (i) (x) comingle any Rhodium leased pursuant hereto with any Non-Lessor Metal in any Units other than Comingled Units or (y) comingle, in the aggregate, in excess of 1,100 Troy ounces of Rhodium leased pursuant hereto with any Non-Lessor Metal;
- (j) withdraw, transfer or assign title to or any interest in, or otherwise encumber, Lessee's interest (if any) in the Unallocated Rhodium Account (and the Rhodium contained therein); and
- (k) make any cash payments to Sponsor in respect of any management, monitoring, consulting or advisory fees incurred pursuant to Lessee's management agreement with Sponsor.

11. Conditions Precedent

The occurrence of the Restatement Date is subject to the satisfaction or waiver by Lessor of each of the following conditions precedent, except as otherwise agreed between Lessor and Lessee:

- (a) Certain Documents. Lessor shall have received each of the following, each dated as of the Restatement Date unless otherwise indicated or agreed to by Lessor, in form and substance reasonably satisfactory to Lessor:
 - (i) this Agreement, duly executed and delivered by Lessee and the Guarantors;
 - (ii) an opinion of Ropes & Gray LLP, counsel to Lessee and Guarantors addressed to Lessor and addressing such matters as Lessor may request;
 - (iii) a copy of the articles or certificate of incorporation (or equivalent organic or organizational document) of Lessee and each Guarantor, certified as of a recent date by the Secretary of State of the state of organization of Lessee and each Guarantor, together with certificates of such official attesting to the good standing of Lessee and each Guarantor;
 - (iv) a certificate of the Secretary or an Assistant Secretary of Lessee and each Guarantor certifying (A) the names and true signatures of each officer of Lessee and each Guarantor that has been authorized to execute and deliver this Agreement or other document required hereunder to be executed and delivered by or on behalf of Lessee and each Guarantor, (B) the by-laws (or equivalent organic or organizational document) of Lessee and each Guarantor as in effect on the date of such certification, (C) the resolutions of Lessee's and each Guarantor's board of directors (or equivalent

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governing body) approving and authorizing the execution, delivery and performance of this Agreement and (D) that there have been no changes in the certificate of incorporation (or equivalent organic or organizational document) of Lessee and each Guarantor from the certificate of incorporation (or equivalent organic or organizational document) delivered pursuant to clause (iii) above;

- (v) an amendment and restatement of the Acknowledgement Agreement, in form and substance satisfactory to Lessor, duly executed and delivered to Lessor by each of the parties thereto;
 - (vi) the Waiver Letter, in form and substance satisfactory to Lessor, duly executed and delivered to Lessor;
 - (vii) true and correct copies, certified by a Responsible Officer of Lessee, of all “Loan Documents” (as defined in the Credit Agreement); and
 - (viii) one or more Leases executed by Lessee in respect of any and all Rhodium Amounts contained in any Unit subject to a Yarns Lease.
- (b) Fees and Expenses Paid. There shall have been paid to Lessor all fees and expenses (including fees and expenses of Simpson Thacher & Bartlett LLP and Linklaters LLP) due and payable on or before the Restatement Date
- (c) Representations and Warranties. The representations and warranties set forth in clause 9 shall be true and correct in all material respects on and as of the Restatement Date with the same effect as though made on and as of such date, except (i) to the extent that such representations and warranties expressly relate to an earlier date, in which case such representations and warranties are true and correct in all material respects as of such earlier date and (ii) any representation and warranty that itself is qualified as to “materiality” or “Material Adverse Effect” shall be true and correct in all respects.
- (d) No Legal Impediments. Neither entry into this Agreement nor the leasing of the Metals on the terms and conditions of this Agreement or of the Leases (x) violate any Requirement of Law or (y) are enjoined, temporarily, preliminarily or permanently by any Governmental Authority.

12. Operating Lease; Change in Tax Law

- 12.1 Lessee and Lessor acknowledge and agree that each Lease is an operating lease (irrespective of its treatment under tax law or accounting rules) and Lessee will not own or have any equity in any of the Metals or Units under any circumstances whatsoever, and Lessee will keep and treat the Metals as removable personal property notwithstanding it being attached to real property or any fixture. Lessee hereby grants Lessor a valid, first priority Lien and security interest in (whether now owned or at any time hereafter acquired by Lessee or in which Lessee now has or at any time in the future

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may acquire) any right, title or interests of Lessee in and to (i) the Units listed in the Inventory, as updated from time to time, including all Non-Leased Lessor Rhodium contained therein and all Metal contained therein, but excluding, for the avoidance of doubt, any Non-Lessor Metal; (ii) the Unallocated Rhodium Account; (iii) all Rhodium therein or represented thereby; (iv) Lessee's books and records, but solely as they relate to the Specified Assets (as defined below); and (v) all products and proceeds of the foregoing (the "**Specified Assets**"), as security for the payment and performance in full of all of Lessee's obligations under the Operative Documents (including, without limitation, any Consideration, Lease Rent, fees, late charges and interest payable hereunder or under the Leases after the filing of a petition under the Bankruptcy Code, whether or not such Consideration, Lease Rent, fees, late charges and interest are allowed in the bankruptcy proceeding (collectively, "**Post-Petition Amounts**")); provided, that, with respect to the Unallocated Rhodium Account, the Rhodium therein or represented thereby, the books and records relating thereto and the products and proceeds of the foregoing, Lessor hereby acknowledges and agrees that the aggregate dollar value (such value to be calculated based on the Benchmark 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. Such Lien shall remain in full force and effect until, and shall terminate upon, indefeasible payment and performance in full of all of such obligations (including, without limitation, any Post-Petition Amounts). 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 Lien granted hereby or to enable Lessor to exercise and enforce its rights and remedies hereunder with respect to such Lien, including financing or continuation statements, clarifications or amendments thereto. If any Default by Lessee of its obligations under this Agreement or the Leases shall have occurred and be continuing, Lessor may exercise in respect of such Lien, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party under the Bankruptcy Code or under the Uniform Commercial Code, 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 Lien 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.

- 12.2 Lessor and Lessee agree that for the duration of this Agreement and any Lease, if after the date hereof a change in tax law occurs adversely affecting the tax treatment of the lease transactions contained herein and therein, Lessor and Lessee agree that they shall cooperate in optimizing the structure of this Agreement and the Leases to minimize taxes payable by Lessor and Lessee as permissible by applicable law to the mutual benefit of Lessor and Lessee, including such changes or permissible restructurings as may be beneficial to Lessor and Lessee in execution of their Tax Obligations hereunder and excluding changes that would be prejudicial to either Lessor or Lessee.

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13. Force Majeure

If the performance of any obligation under this 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 Lessee shall continue to pay the Lease Rent provided that Metal had been previously delivered by Lessor to Lessee. If this period of one month is exceeded, then Lessor and Lessee will meet in order to decide whether and under what condition this Agreement can be performed.

14. Indemnities

Lessee shall within five (5) Business Days of notice by Lessor indemnify in full and hold harmless, Lessor, its officers, employees, agents, advisors, consultants and legal counsel and 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 out-of-pocket expenses (including reasonable and documented fees and expenses of outside counsel; provided that all documentation shall be subject to redaction for privilege, confidentiality and similar purposes) (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 14 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 any Lessee's or any Guarantor's performance under any Operative Document, including, without limitation, the purchase, ownership, delivery, lease, possession, maintenance, condition, use or return of the Metals or the Units, the operation of Lessee's business, any Change Out, Fabrication or Refabrication or any Tax Obligations; provided that Lessee shall not be required to indemnify any Indemnified Person pursuant to this clause 14 if, but only to the extent that, it is determined by final order of a court of competent jurisdiction or a Tribunal that such Claims and Expenses were the result of such Indemnified Person's gross negligence or willful misconduct. For the sake of clarity, it is the intention of Lessee under this clause 14 to indemnify the Indemnified Persons from all Claims brought by Lessee, any successor in interest of Lessee or any person, whether acting on its own behalf or acting on behalf of Lessee, or asserting a Claim through Lessee against an Indemnified Party and all Expenses related thereto.

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Unless otherwise agreed, Lessee will be the party directly responsible for calculating, filing and/or otherwise reporting, and paying any and all Tax Obligations indemnified under this clause 14 (but only to the extent such indemnified Tax Obligations are or should with reasonable care be known to Lessee or with respect to which Lessor has notified Lessee in writing) in a timely manner that is compliant with all applicable tax laws and rules including but not limited to any and all tax or tax related returns, reports, self assessments, renditions or other documents required or associated with any taxes that may be due pursuant to this Agreement and any Lease, any transactions and/or any payments associated with or contemplated hereby. For the avoidance of doubt, nothing in this paragraph shall affect Lessee's obligation to indemnify Lessor pursuant to the first paragraph of this clause 14.

Lessee shall provide any exemption certificate or other documentation necessary to demonstrate that no tax is due or that said tax has been paid to the tax notice address set forth in clause 19 within fifteen (15) days of receiving a request from Lessor for same.

If Lessor is a "United States person" (as defined in Section 7701(2)(30) of the Internal Revenue Code), it shall deliver to Lessee two original copies of Internal Revenue Service Form W-9 properly completed and duly executed by such Lessor, certifying that such Lessor is not subject to U.S. back-up withholding pursuant to Section 3406 of the Internal Revenue Code and providing such other information as is required by such Form W-9. If Lessor is not a "United States person" (as defined in Section 7701(2)(30) of the Internal Revenue Code) and Lessor is entitled to an exemption from or reduction of withholding taxes with respect to payments under this Agreement, Lessor shall deliver to Lessee such properly completed and executed documentation prescribed by applicable law or reasonably requested by Lessee as will permit such payments to be made without withholding or at a reduced rate.

15. Limitation of Liability

In no event shall Lessor be responsible or liable to Lessee for any damages of any nature whatsoever (including, without limitation, any special, indirect, incidental, punitive, exemplary or consequential damages or any damages incurred as a result of loss of use, loss of profits or revenue, interest charges or cost of capital), whether such claim is based in contract, warranty, negligence or strict liability, arising out of, based upon or in connection with, whether directly or indirectly (a) the operation of Lessee's business including the use of any Units or (b) any Change Out, Fabrication or Refabrication; provided that the limitation of liability in this clause 15 shall not apply if it is determined by final order of a court of competent jurisdiction or a Tribunal that Lessee's damages were the result of Lessor's gross negligence or willful misconduct.

16. Further Assurances

Lessee shall promptly and duly execute and deliver to Lessor such further documents and assurances and take such further action as may from time to time be reasonably requested in order to more effectively carry out the intent and purposes of this Agreement.

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17. Entire Agreement

This Agreement and all Leases entered into pursuant hereto embody the entire agreement and understanding of Lessor and Lessee with respect to the subject matter hereof and thereof and supersede all prior or contemporaneous agreements and understandings of Lessor or Lessee, including without limitation the Existing Master Lease Agreement, verbal or written, relating to the subject matter hereof.

18. Amendments

Neither this Agreement nor any of the Leases may be amended except in writing signed by each Party. 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 Lessor or Lessee, (a) Schedule 3 hereto shall be deemed to have been updated and (b) this Agreement shall be automatically amended to incorporate such update.

19. Notices

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 Energy Trading LLC
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

and

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Attention: Sandy Qusba, Morris J. Massel and Terry Sanders
Tel.: (212) 455-2000
Facsimile: (212) 455-2052

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To Lessor (for tax notices only):

DB Energy Trading LLC – Attention Indirect Tax
1301 Fannin Street, Suite 2300
Houston, TX 77002

To Lessee or a Guarantor:

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.

20. Assignment and Transfer

Without Lessor's prior written consent, Lessee and Guarantors may not assign, transfer or dispose of any of its rights or delegate its obligations in any way under this Agreement or any Lease. Any transfer of or lease, financing, security or other agreement in relation to any Metal or Units which is not explicitly permitted under the terms of this Agreement shall be deemed *void ab initio* and of no force and effect.

21. Settlement of Dispute

- 21.1 Dispute Resolution. If there shall be any dispute, controversy or claim ("**Dispute**") between the Parties arising out of, relating to, or connected with the Operative Documents, 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 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.

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21.2 Arbitration. The Parties irrevocably agree that any Disputes that are not resolved in accordance with clause 21.1 hereof shall be finally settled by arbitration in New York City, New York, by three arbitrators (a “**Tribunal**”) 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 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 21.2. 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 clause 21.2. Further, the Parties understand and agree that the provisions of this clause 21.2 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

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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 favor 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 located in New York County.

22. Release

As of the Restatement Date, and except for the rights and obligations arising under this Agreement and the Leases thereunder, Lessee and the Guarantors on behalf of themselves and each of their respective Affiliates, Subsidiaries, predecessors, employees, directors, officers, agents, counsel, successor and assigns (collectively, the "**Releasor Parties**") shall be deemed to waive, release and discharge all claims, obligations, suits, judgments, remedies, damages, demands, debts, rights, causes of action, and liabilities that Releasor Parties have, may have or are entitled to assert arising out of, relating to or in connection with the Existing Master Lease Agreement and any leases thereunder, the Sale and Purchase Agreement and the Operative Documents, including, without limitation, any claims with respect to any of the Units or Metals and any derivative claims that may be asserted on behalf of Releasor Parties, whether known or unknown, liquidated or unliquidated, fixed or contingent, foreseen or unforeseen, matured or unmatured, or existing on or prior to the Restatement Date, in law, equity, or otherwise, against Lessor and its subsidiaries, affiliates, predecessors, principals, members, employees, directors, officers, agents, counsel, successors and assigns (each acting in its capacity as such).

23. Expenses

- 23.1 Lessee will pay all reasonable and documented expenses (including reasonable and documented fees and expenses of outside counsel and financial advisors; provided that all documentation shall be subject to redaction for privilege, confidentiality and similar purposes) incurred by Lessor in connection with the negotiation, preparation, execution and performance of this Agreement including, without limitation, all reasonable and documented expenses incurred by Lessor as of the Restatement Date.
- 23.2 Without limiting the generality of clause 23.1, upon the occurrence and continuance of a Default, Lessee will pay to Lessor promptly following demand all reasonable and documented expenses (including reasonable and documented fees and expenses of attorneys, financial advisors, auditors, appraisers and inspectors; provided that all documentation shall be subject to redaction for privilege, confidentiality and similar purposes) related to any amendment to or extension of any other documentation in connection with, or the granting of any waiver or consent under, the Operative Documents.
- 23.3 Without duplication of amounts paid pursuant to clause 23.2, Lessee will pay to Lessor, promptly following demand, for all reasonable and documented expenses (including reasonable and documented fees and expenses of outside counsel; provided that all

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documentation shall be subject to redaction for privilege, confidentiality and similar purposes) payable or incurred by Lessor in connection with the enforcement of or preservation of any of Lessor's rights (including in connection with any workout), under the Operative Documents, or in respect of the any Change Out, Fabrication or Refabrication.

23.4 Lessee will pay to Lessor, promptly following demand, for all reasonable and documented expenses (including reasonable and documented fees and expenses of outside counsel; provided that all documentation shall be subject to redaction for privilege, confidentiality and similar purposes) payable or incurred by Lessor in connection with the perfection of Liens granted under this Agreement including the provision of legal opinions, stamp duties, and registrations, if required by either Lessor or Lessee.

24. **Governing Law.**

This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

25. **Counterparts.**

This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by facsimile or other electronic transmission), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with Lessee and Lessor.

26. **Survival after Master Lease Termination Date**

Upon the payment in full, in cash of all obligations under this Agreement and the Leases and the irrevocable termination of all of Lessor's obligations hereunder and under any Lease, the following clauses of this Agreement shall survive: 7.5, 14 and 27.

27. **Guarantee.**

(a) Guarantee of Guaranteed Obligations.

- (i) Each Guarantor, jointly and severally, hereby unconditionally and irrevocably guarantees (this "**Guarantee**") to and for the benefit of Lessor, as primary obligor and not merely as surety, the due and punctual payment in full by Lessee of all amounts, including reimbursement obligations, fees, indemnities, costs, expenses, Post-Petition Amounts or otherwise, which are or may become due and payable by, and the due and punctual performance and discharge by Lessee of all covenants, representations, warranties, undertakings and other obligations and liabilities of, Lessee to or in favor of Lessor under any of the Operative Documents (the "**Guaranteed Obligations**") or with respect to the

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Guaranteed Obligations that have not been fully paid or performed, as the case may be, on the due date thereof. Each Guarantor further agrees, jointly and severally, that the date on which any Guaranteed Obligation is due may be extended without notice to or further assent from it and that it will remain bound upon this Guarantee notwithstanding any extension of any Guaranteed Obligation. Subject to clause 27(k), this Guarantee shall survive the termination, rejection or expiration of this Agreement or any Lease.

Each Guarantor, and by its acceptance of this Guarantee, Lessor, hereby confirms that it is the intention of all such persons that this Guarantee and the Guaranteed Obligations of each Guarantor hereunder not constitute a fraudulent transfer or conveyance for purposes of Bankruptcy Law (as hereinafter defined), the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar foreign, federal or state law to the extent applicable to this Guarantee and the Guaranteed Obligations of each Guarantor hereunder. To effectuate the foregoing intention, Lessor and the Guarantors hereby irrevocably agree that the Guaranteed Obligations of each Guarantor under this Guarantee at any time shall be limited to the maximum amount as will result in the Guaranteed Obligations of such Guarantor under this Guaranty not constituting a fraudulent transfer or conveyance. For purposes hereof, "Bankruptcy Law" means the Bankruptcy Code, as now or hereafter amended, the law, rules or regulations applicable to any proceeding of the type referred to in clause 8.1(f), or any similar foreign, federal or state law for the relief of debtors or insolvent entities, insolvency or receivership.

In furtherance of the foregoing and not in limitation of any other right which Lessor may have at law or in equity against Lessee or any other person by virtue of this Agreement or against any Guarantor by virtue hereof, upon the failure of Lessee to pay or perform any Guaranteed Obligation for any reason when and as the same shall become due, Guarantor hereby promises to and will immediately pay, or cause to be paid, in cash, to Lessor an amount equal to the sum of the unpaid amount of such Guaranteed Obligation and accrued and unpaid interest (if any), at the Late Charge Rate, on such unpaid Guaranteed Obligation, and perform, or cause to be performed, each such Guaranteed Obligation.

This Guarantee is a guarantee of payment and performance and not of collection and each Guarantor waives any right to require that any action against Lessee or any other person be taken or exhausted prior to action being taken against such Guarantor. Each Guarantor specifically agrees, jointly and severally, that it shall not be necessary or required, and that each Guarantor shall not be entitled to require, that Lessor: (A) file suit or proceed to obtain or assert a claim against Lessee or any other person for the Guaranteed Obligations; (B) make any effort at collection of the Guaranteed Obligations from Lessee or any other person; (C) foreclose against or seek to realize upon any security now or hereafter existing for the Guaranteed Obligations; or (D) file suit or proceed to obtain or assert a claim for personal judgment against any other person liable for the Guaranteed Obligations, or make any effort at collection of the Guaranteed Obligations from any such other person, or exercise or assert any other right or remedy to

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which Lessor is or may be entitled in connection with the Guaranteed Obligations or any security or other guarantee therefor; or (E) assert or file any claim against the assets of Lessee or any other guarantor or any other person liable for the Guaranteed Obligations, or any part thereof, either before or as a condition to enforcing the liability of each Guarantor under this Guarantee or requiring payment of the Guaranteed Obligations by each Guarantor hereunder.

- (ii) Each Guarantor hereby specifically agrees, jointly and severally, that it shall not be necessary or required in order to enforce its obligations hereunder that there be, and specifically waives, diligence, presentment, demand, protest or notice of any kind whatsoever with respect to this Guarantee or the Guaranteed Obligations, including without limitation: (A) notice of acceptance of this Guarantee or notice of nonpayment or nonperformance of any of the Guaranteed Obligations; (B) demand for payment or performance from Lessee; (C) presentment for payment upon Lessee or the making of any protest; (D) notice of the amount of the Guaranteed Obligations outstanding at any time; (E) notice of failure to perform on the part of Lessee or notice of dishonor or acceleration; (F) any requirement to exhaust any remedies exercisable upon a Default under any of the Operative Documents; (G) any notice of any sale, transfer or other disposition of any right, title to or interest in the Metals, or any part thereof; or (H) any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge, release or defense of a guarantor or surety or which might otherwise limit recourse against each Guarantor. Each Guarantor agrees, jointly and severally, that any repayment of the Guaranteed Obligations guaranteed hereunder or other act which tolls any statute of limitations applicable thereto shall similarly operate to toll such statute of limitations applicable to any liability of each Guarantor hereunder. Each Guarantor waives all rights and benefits under any statute or rule of law requiring the holder or holders of any promissory note to pursue the maker thereof, any security which said holder or holders may hold, or any other remedy before proceeding against each Guarantor. Each Guarantor waives all rights and benefits under any applicable law (to the extent applicable to each Guarantor hereunder) purporting to reduce a guarantor's obligation in proportion to the principal obligation guaranteed. Each Guarantor does hereby waive and relinquish, so far as it may lawfully and effectively do so, the benefit and advantage of any and all valuation, stay, appraisement, extension or redemption laws which, but for this provision, agreement and waiver, might be applicable to any sale made under any judgment, order or decree of any court or otherwise based on this Guarantee, any of the Operative Documents or on the Lien of Lessor under this Agreement.
- (iii) The obligations of each Guarantor hereunder shall be absolute and unconditional, shall remain in full force and effect until irrevocable payment, performance or observance in full of all of the Guaranteed

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Obligations and shall not in any manner be affected by reason of any action taken or not taken by Lessor or any other person or of any lack of prior enforcement or retention of any rights against Lessee or each Guarantor or any illegality, unenforceability or invalidity of the Guaranteed Obligations, any of the Operative Documents, any other guarantee or other obligations, or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, or any other circumstance or condition (whether or not any Guarantor or Lessee shall have any knowledge or notice thereof), including without limitation:

- (A) any termination, amendment or modification of, or deletion from, or addition or supplement to, or other change in any of the Operative Documents, or any other instrument or agreement applicable to any of the Parties to such agreements, or to the Metals, or any furnishing or acceptance of additional security, or any release of any security, for the obligations of Lessee under any of the Operative Documents or the failure of any security or the failure of any person to perfect any interest in any collateral security;
- (B) any failure, omission or delay on the part of Lessee or any other person to conform or comply with any term of any of the Operative Documents;
- (C) any exercise or nonexercise of any right, remedy, power or privilege under or in respect of any of the Operative Documents or any obligation or liability contained therein;
- (D) except to the extent thereof, any waiver by Lessor, or their successors or assigns, of the performance or observance by Lessee of any Guaranteed Obligation, or any default under any Agreement or the Leases, or the extension or renewal of any of the Operative Documents or any change in the provisions of any of the Operative Documents, or any extension of time for payment of any Guaranteed Obligation, or of the time for performance of any other obligations, covenants or agreements under or arising out of any of the Operative Documents, or the extension or the renewal of any thereof;
- (E) any failure, omission or delay on the part of Lessor, or its successors or assigns, to notify any Guarantor of any default under any of the Operative Documents or to enforce, assert or exercise any right, power or remedy conferred on it in this Guarantee, or any such failure, omission or delay on the part of Lessor in connection with any of the Operative Documents or any other action on the part of Lessor;

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- (F) any voluntary or involuntary bankruptcy, insolvency, reorganization, arrangement, readjustment, assignment for the benefit of creditors, composition, receivership, conservatorship, custodianship, liquidation, marshalling of assets and liabilities, liquidation, or similar proceedings with respect to Lessee, each Guarantor, any other person or any of their respective properties or creditors, or the disaffirmance with respect to Lessee of any of the Operative Documents in any such proceeding or any action taken by any trustee or receiver or by any court in any such proceeding;
- (G) any limitation on the liability or obligations of Lessee or any Guarantor or any discharge, termination, cancellation, frustration, irregularity, invalidity or unenforceability, in whole or in part, of any of the Operative Documents;
- (H) any defect in the title, compliance with specifications, condition, design, operation or fitness for use of, or any damage to or loss or destruction of, the Metals or Units, or any interruption or cessation in the use of the Metals or Units by Lessee or any other person for any reason whatsoever (including without limitation any governmental or military authority, or any act of God or of the public enemy) regardless of the duration thereof (even though such duration would otherwise constitute a frustration of the Leases), whether or not resulting from accident and whether or not without fault on the part of Lessee or any other person;
- (I) any merger or consolidation of Lessee or any Guarantor into or with any other person, or any sale, lease or transfer of any of the assets of Lessee or any Guarantor to any other person;
- (J) any compromise, settlement, release, renewal, extension, indulgence, change in or waiver or modification of any Guaranteed Obligation, or any failure to mitigate damages, or any release or discharge, by operation of law or otherwise, of any Guarantor, Lessee or any other person from the performance or observance of any obligation, covenant or agreement contained in this Guarantee or any Operative Document to which Lessee is a party;
- (K) any transfer or permitted assignment by Lessor, or its successors or assigns of its interest, or any part thereof, in and to any Operative Document or the assignment or transfer of any rights relating to any Guaranteed Obligation contained in any Operative Document, including, without limitation, the full or partial assignment of any of the Operative Documents;

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- (L) any defense, setoff, cross-claim or counterclaim which may at any time be available to or asserted by or against Lessee or any Guarantor;
- (M) any misrepresentation or breach of warranty made by Lessee in any Operative Document to which Lessee is a party or in any certificate or document delivered in connection therewith;
- (N) the genuineness, legality, validity or enforceability of any Operative Document, or of any assignment or termination of any such Operative Document; and
- (O) any other condition or circumstance which might otherwise constitute a legal or equitable discharge, release or defense of a surety or guarantor, or which might otherwise limit recourse against any Guarantor, including, without limitation, any discharge, release, defense or limitation arising out of any laws of the United States of America or any state thereof which would either exempt, modify or delay the due or punctual payment and performance of the obligations of any Guarantor hereunder, it being agreed that the obligations of each Guarantor hereunder shall not be discharged except by payment or performance as herein provided.

Each Guarantor hereby waives and shall not assert any of the foregoing occurrences as a defense to its obligations hereunder. Without limiting the foregoing, it is understood that repeated and successive demands may be made and recoveries may be made hereunder as and when, from time to time, Lessee shall default under the terms of any Operative Document, and that this Guarantee shall remain in force and effect and shall apply to each and every subsequent default. No failure or delay in exercising any right under this Guarantee shall operate as a waiver thereof, nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right of Lessor under this Guarantee or the Operative Documents.

- (iv) Each Guarantor assumes full responsibility, jointly and severally, for keeping fully informed of the financial condition of Lessee and all other circumstances materially affecting Lessee's ability to perform the Guaranteed Obligations, and agrees that Lessor shall not have any duty to report to any Guarantor any information which it receives about Lessee's financial condition, business operations or any circumstances bearing on its ability to perform its duties under the Operative Documents. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Guaranteed Obligations and notice of or proof of reliance by Lessor upon this Guarantee or acceptance of this Guarantee. The Guaranteed Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this Guarantee, and all dealings between Lessee or any Guarantor and Lessor shall likewise be conclusively presumed to have been had or consummated in reliance upon this Guarantee.

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- (v) Each Guarantor agrees, jointly and severally, that if at any time all or any part of any payment or performance theretofore applied by Lessor to any of the Guaranteed Obligations is or must be voided, rescinded or returned by Lessor for any reason whatsoever (including without limitation the insolvency, bankruptcy or reorganization of Lessee, any Guarantor or any other person), such Guaranteed Obligations shall, for the purposes of this Guarantee, to the extent that such payment or performance is or must be voided, rescinded or returned, be deemed to have continued in existence, notwithstanding such application by Lessor, and this Guarantee shall continue to be effective or reinstated as to such Guaranteed Obligations, all as though such application by Lessor had not been made. If an event permitting the declaration of default under an Operative Document shall at any time have occurred and be continuing, and such declaration of default shall at such time be prevented by reason of the pendency against Lessee, each Guarantor or any other person of a case or proceeding under Bankruptcy Law, each Guarantor agrees that, for purposes of this Guarantee and its obligations hereunder, such Operative Document shall be deemed to have been declared in default with the same effect as if such Operative Document had been enforceable in accordance with the terms thereof, and each Guarantor shall forthwith pay the amounts specified by Lessor to be paid thereunder, any interest thereon and any other amounts guaranteed hereunder without notice or demand. Each Guarantor hereby agrees, jointly and severally, that it will pay to Lessor on demand for all reasonable and documented costs and expenses (including without limitation reasonable and documented fees and expenses of outside counsel; provided that all documentation shall be subject to redaction for privilege, confidentiality and similar purposes) incurred by Lessor in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under Bankruptcy Law. In case any Operative Document shall be terminated as a result of the rejection or disaffirmance thereof by any trustee, receiver, liquidator, agent or other representative of Lessee or any of its property in any assignment for the benefit of creditors or in any bankruptcy, insolvency, reorganization, arrangement, readjustment, liquidation, dissolution of Lessee, or similar proceeding, each Guarantor's obligations hereunder shall continue to the same extent as if such Operative Document had not been so rejected or disaffirmed. Guarantor shall and does hereby waive all rights and benefits that might accrue to it by reason of any such assignment or proceeding and each Guarantor agrees that it shall be jointly and severally liable for the full amount of the Guaranteed Obligations irrespective of and without regard to any modification, limitation or discharge of liability of Lessee that may result from or in connection with any such assignment or proceeding.

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- (vi) Lessor may, in its discretion, at any time and from time to time, without any Guarantor's consent and without affecting the liability of each Guarantor under this Guarantee, agree to amendments, modifications or supplements to the Operative Documents, give or withhold consents, waivers or approvals, and exercise, or refrain from exercising, rights under the Operative Documents, or: (a) renew, extend (including extensions beyond the original term), modify, release or discharge any Guaranteed Obligation of Lessee, of co-guarantors (whether hereunder or under a separate instrument) or of any other party at any time directly or contingently liable for the payment of any of said Guaranteed Obligations; (b) accept partial payments of said Guaranteed Obligations; (c) settle, release (by operation of law or otherwise), compound, compromise, collect or liquidate any of said obligations and the security thereof in any manner; (d) consent to the transfer of security; or (e) bid and purchase at any sale of Metal or Units.
 - (vii) Each Guarantor agrees, jointly and severally, that, as between each Guarantor and Lessor, the Guaranteed Obligations of Lessee may be declared to be forthwith due and payable or, to be performed, as the case may be, as provided in the Operative Documents (and shall be deemed to have become automatically due and payable or, to be performed, as the case may be, in the circumstances provided for in the Operative Documents) for purposes of this Guarantee, notwithstanding any stay, injunction or other prohibition preventing such declaration (or such Guaranteed Obligations from becoming automatically due and payable or, to be performed, as the case may be) and, in such event, such Guaranteed Obligations (whether or not due and payable or, to be performed, as the case may be, by Lessee) shall forthwith become due and payable by each Guarantor for purposes of this Guarantee.
- (b) Subrogation.
- (i) Any claims of a Guarantor against Lessee or any other Guarantor to which a Guarantor may be or become entitled (including, without limitation, claims by subrogation or otherwise by reason of any payment or performance by the Guarantor in satisfaction and discharge, in whole or in part, of its obligations under this Guarantee) shall be and hereby are made subject and subordinate to the prior payment or performance in full of the Guaranteed Obligations. In furtherance of the foregoing, each Guarantor hereby agrees that until the payment and performance in full in cash of all Guaranteed Obligations and the expiration and termination of this Agreement, it shall not assert or bring any claim and shall not exercise any right or remedy arising by reason of any performance by it of its Guarantee in clause 27(a) hereof, whether by subrogation or otherwise,

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against Lessee or any other Guarantor of any of the Guaranteed Obligations. Any amount paid to a Guarantor on account of any such subrogation or other rights prior to such payment, satisfaction, expiration and termination shall be held in trust for the benefit of Lessor and shall immediately be paid and turned over to Lessor in the exact form received by the Guarantor (duly endorsed in favor of Lessor, if required), to be credited and applied against the Guaranteed Obligations, whether matured or unmatured. In furtherance of the foregoing, at all times prior to such payment, satisfaction, expiration and termination, each Guarantor shall refrain from taking any action or commencing any proceeding against Lessee or any other Guarantor (or its successors or assigns, whether in connection with a bankruptcy proceeding or otherwise) to recover any amounts in respect of payments made under this Guarantee to Lessor.

- (ii) Notwithstanding the immediately preceding paragraph, each Guarantor agrees, jointly and severally, that it will never have, and hereby waives and disclaims, any claim or right by way of subrogation or otherwise in respect of any payment that it may be required to make hereunder, to the extent that such claim or right would cause it to be a "creditor" for purposes of the Bankruptcy Code, as now or hereafter amended, or any Bankruptcy Law.
- (c) Rights and Powers. Guarantor hereby irrevocably authorizes and empowers Lessor in its discretion to take such proceedings, in its own name or otherwise, for the enforcement of or collection of any amounts due under this Guarantee, as Lessor may deem necessary or desirable. Lessor may proceed, either in its own name, or otherwise, to protect and enforce any or all of its rights under this Guarantee in equity, at law or by other appropriate proceedings, whether for the specific performance of any covenants or agreements contained in this Guarantee or otherwise, under applicable law, and shall be entitled to require and enforce the performance of all acts and things required to be performed hereunder by any Guarantor.
- (d) Remedies Cumulative, etc. No right, power or remedy conferred upon or reserved to Lessor this Guarantee is intended to be exclusive of any other right, power or remedy and, to the extent permitted by law, each and every right, power and remedy of Lessor pursuant to this Guarantee or the Operative Documents or now or hereafter existing at law or in equity or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power or remedy pursuant to this Guarantee or the Operative Documents or now or hereafter existing at law or in equity or by statute or otherwise, and the exercise or beginning of the exercise by Lessor of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise by Lessor of any or all such rights, powers or remedies.
- (e) Assignment. No Guarantor may assign its obligations under this Guarantee without the prior written consent Lessor, and no assignment by any Guarantor shall release such Guarantor from its obligations under this Guarantee without the written consent of Lessor.

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- (f) Attorneys' Fees. Each Guarantor agrees, jointly and severally, to pay to Lessor any and all reasonable and documented costs and expenses (including reasonable and documented fees and expenses of outside counsel; provided that all documentation shall be subject to redaction for privilege, confidentiality and similar purposes) incurred by Lessor in successfully enforcing this Guarantee and in connection with the execution of any Guarantor Joinder, together with any reasonable and documented costs and expenses, including reasonable fees of outside counsel, incurred on account of the bankruptcy or insolvency of any Guarantor.
- (g) Payments. All payments by each Guarantor under this Guarantee in respect of any Guaranteed Obligation shall be made in immediately available funds. Except as otherwise provided below, all payments by any Guarantor as required under this Agreement shall be made without deduction of or withholding for or on account of or liability for any present or future taxes collected by way of withholding or deduction. Except as otherwise provided below, if any such taxes are so levied or imposed, each Guarantor agrees to pay such taxes and an additional amount such that the net amount actually received by Lessor, after such withholding, shall equal the full amount of the payment then due and shall be free of expense to Lessor for collection or other charges.
- (h) Further Assurances. Each Guarantor shall promptly and duly execute and deliver to Lessor such further documents and assurances and take such further action as may from time to time be reasonably requested in order to more effectively carry out the intent and purposes of this Guarantee.
- (i) Performance. Performance by any Guarantor of any or all of the obligations of Lessee under and pursuant to the Operative Documents shall, for all purposes thereof, constitute performance by Lessee of such obligations to the extent so performed by such Guarantor under this Guarantee.
- (j) Domestic Subsidiaries. Within five (5) days following the formation of a Domestic Subsidiary by Lessee or any Subsidiary of Lessee (and, in any event, no later than the date such Domestic Subsidiary becomes a guarantor or obligor under either of the Financing Agreements), Lessee shall cause such newly formed Domestic Subsidiary to guarantee payment of the Guaranteed Obligations by (1) executing and delivering to Lessor a joinder in the form annexed hereto as Schedule 7 pursuant to which such Domestic Subsidiary shall guarantee all of the Guaranteed Obligations on the same terms of this Guarantee (a "**Guarantor Joinder**") and (2) delivering to Lessor an opinion of counsel reasonably satisfactory to Lessor to the effect that joinder has been duly executed and delivered by such Domestic Subsidiary and is in compliance with the terms of this Agreement (collectively, "**Guarantee Documents**"). Upon the execution of any such joinder, the obligations of the Guarantors and any

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Domestic Subsidiary which becomes a Guarantor shall become joint and several and each reference to the “Guarantor” in this Agreement shall be deemed to refer to all Guarantors, including such Domestic Subsidiary.

- (k) Automatic Release. So long as no Default has occurred and is continuing;
- (i) If (a) all Leases of Metals used by any Guarantor in the conduct of its Business are terminated in accordance with clause 7.6 and such Leases are settled in accordance with clause 7.2 and (b) such Guarantor is irrevocably released from its obligations under the Credit Agreement in connection with a sale or other disposition permitted thereunder, such Guarantor shall be automatically released from its Guarantee and other obligations hereunder.
 - (ii) If this Agreement and all Leases of Metals and Units are terminated in accordance with clause 7.1 or 7.6 and all such Leases are settled in accordance with clause 7.2 and all obligations hereunder shall have been paid in full and terminated irrevocably, the Lessor shall (x) release its Lien on the Specified Assets and (y) at Lessee’s expense, execute and deliver such documents as Lessee shall reasonably request to evidence the release of any Guarantee or Lien pursuant to this clause 27(k).

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IN WITNESS WHEREOF, the Parties hereto have caused this 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:

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AGY HOLDING CORP.,
as Lessee

By: _____

Name:
Position:
Date:

AGY AIKEN LLC,
as Guarantor

By: _____

Name:
Position:
Date:

AGY HUNTINGDON LLC,
as Guarantor

By: _____

Name:
Position:
Date:

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Schedule 1

Definitions

“**Acknowledgement Agreement**” means the DB Acknowledgement Agreement (as defined in the Credit Agreement) as may be amended, restated or supplemented from time to time.

“**Additional Metal**” has the meaning set forth in clause 6.2(c)(ii).

“**Affected Party**” has the meaning set forth in clause 21.2(f).

“**Affiliate**” means as to any person, any other person that, directly or indirectly, is in control of, is controlled by, or is under common control with, such person. For purposes of this definition, “control” of a person means the power, directly or indirectly, either to (a) vote 10% or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of such person or (b) direct or cause the direction of the management and policies of such person, whether by contract or otherwise.

“**After-Tax Basis**” means, with respect to any amount actually or constructively payable to any Person under the Operative Documents (a “pre-tax payment”), an amount which, after taking into account all taxes required to be paid by the Person entitled to such pre-tax payment as the result of the receipt or accrual of that payment (computed on the basis of the statutory rates of tax applicable to such Person at the relevant time, and taking into account all tax benefits or savings then available to such Person as a result of such payment, whether or not such Person actually claims any such items) shall be equal to the full amount of the pre-tax payment.

“**AGY Aiken**” has the meaning set forth in the introductory paragraph to this Agreement.

“**AGY Huntingdon**” has the meaning set forth in the introductory paragraph to this Agreement.

“**Bankruptcy Code**” means title 11 of the United States Code.

“**Bankruptcy Law**” has the meaning set forth in clause 27(a)(i).

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

“**Business**” has the meaning set forth in clause 9.2(r)(ii).

“**Business Day**” means a day other than a Saturday, Sunday or other day on which commercial banks in New York City or London are authorized or required by law to close.

“**Business Plan**” means the “3 Year Plan” as set forth in that certain “Presentation to Deutsche Bank” dated as of April 25, 2012.

“**CFM Lease**” means a Lease where the Metal is utilized solely in Lessee’s CFM manufacturing operation.

CONFIDENTIAL TREATMENT REQUESTED

“**CFM Metal**” means Metal that is utilized in Lessee’s Continuous Filament Mat (CFM) manufacturing operation.

“**Change of Control**” means the occurrence of a “Change of Control” under and as defined in either Financing Agreement (without giving effect to any waivers, amendments, modifications or supplements to such definition after the Restatement Date).

“**Change Out**” has the meaning set forth clause 6.1(a).

“**Change Out Date**” has the meaning set forth clause 6.1(a).

“**Claim**” has the meaning set forth in clause 14.

“**Commencement Date**” means, with respect to each Lease, the date the Metal leased pursuant to such Lease is delivered or is deemed to be delivered to Lessee at the Location.

“**Commingled Units**” means the Units indentified as commingled on the Inventory from time to time. For the avoidance of doubt, the amount of Non-Lessor Metal in any such Commingled Unit may be increased or decreased from time to time as reflected in the Inventory.

“**Consideration**” has the meaning set forth in clause 7.2(b).

“**Consolidated Fully Adjusted EBITDA**” means, for any period, Consolidated Net Income for such period, plus without duplication and to the extent deducted in arriving at such Consolidated Net Income for such period, the sum of (i) Consolidated Interest Expense, (ii) provisions for taxes based on income, (iii) total depreciation expense, (iv) total amortization and non-cash impairment expenses, (v) other non-cash items reducing Consolidated Net Income (including Other Consolidated Net Income Adjustments), (vi) depletion expense in respect of metal alloys, net of recovery of precious metals, (vii) non-cash compensation charges including non-cash variable compensation accrual, (viii) fees and expenses relating to the engagement of Alvarez & Marsal, (ix) fees and expenses related to the consummation, documentation and negotiation of this Agreement and the transactions contemplated thereby, in an aggregate amount (through the Termination Date) not to exceed \$1,500,000, (x) management, monitoring, consulting and advisory fees incurred, but not paid in cash, by Lessee pursuant to its management agreement with Sponsor, (xi) any signing bonus payable to members of Lessee’s union in connection with ratification of the collective bargaining agreements, in an aggregate amount (through the Termination Date) not to exceed \$1,000,000 and (xii) the impact of increased Margin on Lease Rate Index calculated compared to [***] basis points and [***] basis points for Platinum and Rhodium leases, respectively, which were the Margins in effect up to the Restatement Date, all of the foregoing determined on a consolidated basis for Lessee and its Subsidiaries (excluding the Grace Companies) in conformity with GAAP. Notwithstanding anything to the contrary contained herein, for purposes of determining Consolidated Fully Adjusted EBITDA under this Agreement for any period that includes any of the fiscal quarters ended September 30, 2011, December 31, 2011 and March 31, 2012, Consolidated Fully Adjusted EBITDA for such fiscal quarters shall be \$3,123,000, \$2,084,000 and \$6,747,000, respectively.

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

CONFIDENTIAL TREATMENT REQUESTED

“**Consolidated Interest Expense**” means, for any period, total interest expense in accordance with GAAP (including (i) that portion attributable to Capital Lease Obligations and capitalized interest and (ii) amortization of deferred financing fees) of Lessee and its Subsidiaries (excluding the Grace Companies) on a consolidated basis with respect to all outstanding indebtedness for borrowed money of Lessee and its Subsidiaries, including all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs under any interest rate and/or hedging agreements.

“**Consolidated Net Income**” means, for any period, the net income (or loss) of Lessee and its Subsidiaries (excluding the Grace Companies) on a consolidated basis for such period taken as single accounting period determined in accordance with GAAP; provided that there shall be excluded from Consolidated Net Income (i) the income (or loss) for any person (other than a Subsidiary of Lessee) in which any other person (other than Lessee or any of its Subsidiaries) has a joint interest, except to the extent of the amount of dividends or other distributions actually paid to Lessee or any of its Subsidiaries by such person during such period, (ii) the income (or loss) of any person accrued prior to the date it becomes a Subsidiary of Lessee or is merged into or consolidated with Lessee or any of its Subsidiaries or that person’s assets are acquired by Lessee or any of its Subsidiaries, (iii) the income of any Subsidiary of Lessee to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or government regulation applicable to that Subsidiary, (iv) any after-tax gains or losses attributable to asset sales or returned surplus assets of any pension plan, (v) net gains or losses from disposed or discontinued operations, and (vi) (to the extent not included in clauses (i) through (iv) above) any extraordinary gains or net non-cash extraordinary losses.

“**Contractual Obligation**” as to any person, any provision of any security issued by such person or of any agreement, instrument or other undertaking to which such person is a party or by which it or any of its property is bound including, without limitation, the Financing Agreements.

“**Credit Agreement**” means that certain Second Amended and Restated Loan and Security Agreement, dated as of June 15, 2012, among Lessee, as borrower, the Guarantors, as borrowers UBS AG, Stamford Branch, as administrative and collateral agent, and certain lenders from time to time party thereto, as such Credit Agreement has been or may be amended, supplemented or modified from time to time, including any permitted refinancings thereof.

“**Default**” means any event or circumstance specified in clause 8.

“**Dispute**” has the meaning set forth in clause 21.1.

“**Domestic Subsidiary**” means any Subsidiary of Lessee other than a Foreign Subsidiary.

“**Early Termination**” has the meaning set forth in clause 7.4.

“**Early Termination Date**” has the meaning set forth in clause 7.4.

CONFIDENTIAL TREATMENT REQUESTED

“**Environmental Laws**” means any and all foreign, federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment, as now or may at any time hereafter be in effect.

“**Excluded Taxes**” means taxes which are on or measured by the net income of Lessor and branch profits taxes imposed on Lessor (except with respect to any indemnification or reimbursement obligation of Lessee hereunder which is expressly stated to be on an After-Tax Basis).

“**Existing Master Lease Agreement**” has the meaning set forth in the recitals to this Agreement.

“**Existing Termination Date**” means October 7, 2012.

“**Expense**” has the meaning set forth in clause 14.

“**Fabrication**” has the meaning set forth in clause 6.2.

“**Facilities**” means Lessee’s plants located at Aiken, South Carolina, and Huntingdon, Pennsylvania, each individually a “**Facility**.”

“**Financing Agreements**” means, collectively, the Credit Agreement and the Indenture.

“**Foreign Subsidiary**” means any Subsidiary of Lessee that is not organized or existing under the laws of the United States, any state thereof, the District of Columbia, or any territory thereof.

“**GAAP**” means generally accepted accounting principles in the United States as in effect from time to time. In the event that any “Accounting Change” (as defined below) shall occur and such change results in a change in the method of calculation of financial covenants or otherwise impacts compliance with any provision of this Agreement or any Lease, then, if requested in writing by Lessee to Lessor, Lessee and Lessor agree to enter into negotiations in order to amend such provisions of this Agreement so as to reflect equitably such Accounting Changes with the desired result that the criteria for evaluating Lessee’s and its Subsidiaries’ financial condition shall be the same after such Accounting Changes as if such Accounting Changes had not been made. Until such time as such an amendment shall have been executed and delivered by Lessor and Lessee, all financial covenants, standards and terms in this Agreement shall continue to be calculated or construed as if such Accounting Changes had not occurred. “Accounting Changes” refers to changes in accounting principles required by the promulgation of any rule, regulation, pronouncement or opinion by the Financial Accounting Standards Board of the American Institute of Certified Public Accountants or, if applicable, the Securities and Exchange Commission.

“**Governmental Authority**” means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization (including the National Association of Insurance Commissioners).

CONFIDENTIAL TREATMENT REQUESTED

“**Grace Companies**” means AGY Cayman LLC, Shanghai Grace Technology Co., Ltd., AGY Hong Kong Ltd. (f/k/a Main Union), Grace THW Holding Limited and Grace Technology Investment Co., and each of their Foreign Subsidiaries.

“**Guarantee**” has the meaning set forth in clause 27(a)(i).

“**Guarantee Documents**” has the meaning set forth in clause 27(j).

“**Guaranteed Obligations**” has the meaning set forth in clause 27(a)(i).

“**Guarantor Joinder**” has the meaning set forth in clause 27(j).

“**Guarantors**” means, collectively, AGY Aiken and AGY Huntingdon, and any Domestic Subsidiary that becomes a Guarantor pursuant to clause 27(j) of this Agreement. Each of the Guarantors shall be referred to as a “**Guarantor**.”

“**ICC**” has the meaning set forth in clause 21.2.

“**ICC Rules**” has the meaning set forth in clause 21.2.

“**Indebtedness**” has the meaning set forth in the Indenture.

“**Indemnified Person**” has the meaning set forth in clause 14.

“**Indenture**” means that certain Indenture, dated as of October 25, 2006, among Lessee, as issuer, the Guarantors (as defined in the Indenture) and U.S. Bank National Association, as trustee, as such Indenture has been or may be amended, supplemented or modified from time to time, including any permitted refinancings thereof.

“**Inventory**” means the record of each of the Leases as set out in Schedule 3 to this Agreement and as such record may be amended from time to time, subject to the terms of this Agreement; provided that the Inventory as amended shall be in the form of Schedule 3 to this Agreement.

“**Late Charge Rate**” means 200 basis points per annum payable monthly.

“**Lease**” means a lease agreement between Lessor and Lessee for the Metal contained in one Unit entered into pursuant to this 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 on the Master Lease Termination Date.

“**Lease Expiration Date**” means, with respect to each Lease, the expiration date set out in the Lease terms applicable to that Lease, which expiration date shall occur no later than the earlier of (x) twelve (12) months after the Commencement Date of that Lease and (y) the Outside Date.

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“**Lease Rent**” has the meaning set forth in clause 4.1.

“**Lease Rate Index**” has the meaning set forth in clause 4.1.

“**Lease Term**” means, with respect to each Lease, the period from and including the Commencement Date of such Lease to and including the Termination Date of such Lease.

“**Lessee**” has the meaning set forth in the introductory paragraph to this Agreement.

“**Lessor**” has the meaning set forth in the introductory paragraph to this 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 Lessor delivers or is deemed to have delivered the Metal to Lessee.

“**Margin**” has the meaning set forth in clause 4.1.

“**Master Lease Agreement**” means this Agreement.

“**Master Lease Termination Date**” means the earlier of (x) the Outside Date and (y) the Early Termination Date with respect to this Agreement.

“**Material Adverse Effect**” means a material adverse effect on (a) the business, property, operations, condition (financial or otherwise) or prospects of Lessee and its Subsidiaries (excluding the Grace Companies) taken as a whole or (b) the validity or enforceability of this Agreement or any Specified Agreement or the rights or remedies of Lessor hereunder or thereunder.

“**Materials of Environmental Concern**” mean any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

“**Maximum Lease Amount**” means 51,057 Troy ounces of Platinum and 3,308 Troy ounces of Rhodium; provided that the Maximum Lease Amount of Platinum and Rhodium shall be automatically and irrevocably reduced by the amount of Troy ounces of Platinum and Rhodium (as applicable) subject to a Lease terminated pursuant to clause 7.6 or 27(k).

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

“**Metal Amount**” means the amount (in Troy ounces) of Platinum and Rhodium contained in any of the Units that are subject to a Lease, as set out in the Inventory.

“**Metal Information**” has the meaning set forth in clause 10.1(b).

CONFIDENTIAL TREATMENT REQUESTED

“**Metals Intercreditor Agreement**” means that certain Intercreditor Agreement, dated as of October 25, 2006, as amended, modified or supplemented from time to time, among UBS AG, Stamford Branch, as administrative and collateral agent, U.S. Bank National Association, as trustee and collateral agent, the Bank of Nova Scotia, AGY Holding Corp., AGY Aiken LLC and AGY Huntingdon LLC.

“**New Unit**” has the meaning set forth in clause 6.1(a).

“**Non-Leased Lessor Rhodium**” means the Rhodium contained in the Units sold to Lessor pursuant to the Sale and Purchase Agreement, the equivalent amount of which was deposited into the Unallocated Rhodium Account. For the avoidance of doubt, Lessor has unencumbered title to the Non-Leased Lessor Rhodium, which may be contained in one or more Units utilized in Lessee’s glassfiber yarn manufacturing operation during the Lease Term.

“**Non-Lessor Metal**” has the meaning set forth in clause 9.2(k).

“**Old Unit**” has the meaning set forth in clause 6.1(a).

“**Operative Documents**” means, collectively, this Agreement, the Leases, the Guarantee Documents and the Specified Agreements.

“**Other Consolidated Net Income Adjustments**” means, for any period, the sum of the amounts for such period of net gains or losses from the elimination of (i) timing difference in the recognition of the actual direct costs incurred to manufacture goods during the period, whether produced inventory is sold or not (ii) the non-cash impact of the revaluation of inventory produced in a prior year at a different manufactured cost (iii) the non-cash impact of indirect cost absorption, which occurs when sales and production levels are not matched.

“**Outside Date**” means May 31, 2013.

“**Parties**” means, collectively, Lessor, Lessee and the Guarantors (each individually, a “**Party**”).

“**Payment Date**” means, with respect to each Lease, the (x) tenth (10th) calendar day of each month beginning with the first full month after the Commencement Date of such Lease and (y) the Termination Date of such Lease; provided that if any Payment Date is not a Business Day, the Payment Date shall be deemed to be the Business Day immediately preceding such date.

“**person**” means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

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

“**Platinum Amount**” means the amount (in Troy ounces) of Platinum subject to a Lease as set out in the Inventory.

“**Post-Petition Amounts**” has the meaning set forth in clause 12.1.

CONFIDENTIAL TREATMENT REQUESTED

“**Properties**” has the meaning set forth in clause 9.2(r)(i).

“**Related Parties**” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person’s Affiliates.

“**Releaser Parties**” has the meaning set forth in clause 22.

“**Requirement of Law**”: as to any person, the certificate of incorporation and by-laws or other organizational or governing documents of such person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such person or any of its property or to which such person or any of its property is subject.

“**Responsible Officer**” means the chief executive officer, president, vice president, chief financial officer or treasurer, but in any event, with respect to financial matters, the chief financial officer or treasurer.

“**Restatement Date**” means July 25, 2012.

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

“**Rhodium Amount**” means the amount (in Troy ounces) of Rhodium subject to a Lease as set out in the Inventory (excluding, for the avoidance of doubt, any Non-Lessor Metal).

“**Sale and Purchase Agreement**” has the meaning set forth in the recitals to this Agreement.

“**Specified Agreements**” means any insurance policy or policies in respect of the Metal or Units as required by clause 10.1(f).

“**Specified Assets**” has the meaning set forth in clause 12.1.

“**Sponsor**” means Kohlberg Management V, LLC (“Kohlberg”) and any other Person which directly or indirectly, controls, is controlled by or is under common control with Kohlberg (including any investment partnership under common control with Kohlberg) and (ii) any Related Parties with respect to any of the foregoing Persons; *provided*, that, for purposes of this definition, “control” means the power to direct or cause the direction of the management and policies of the relevant Person, whether by contract or otherwise.

“**Subsidiary**” means as to any person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such person. Unless otherwise qualified, all references to a “Subsidiary” or to “Subsidiaries” in this Agreement shall refer to a Subsidiary or Subsidiaries of Lessee. Notwithstanding anything else to the contrary in this Agreement, the terms “Subsidiary” and “Subsidiaries” shall not include any of the Grace Companies.

CONFIDENTIAL TREATMENT REQUESTED

“**Tax Obligations**” means any present or future tax (including, without limitation, any ad valorem, property, occupation, severance, first use, conservation, gross receipts, privilege, sales, use, consumption, excise, lease, transaction, value added or other tax imposed by any Government, Federal, State and/or Local taxing jurisdictions), levy, license, impost, permit, duty, charge, assessment or fee or increases/amendments thereto of any nature that may be imposed by any government or other taxing authority in respect of any payment or transaction contemplated by or undertaken pursuant to this Agreement or other documents associated herewith including any associated penalties, fines or interest, excluding, however, any Excluded Taxes.

“**Termination Date**” has the meaning set forth in clause 7.1.

“**Tribunal**” has the meaning set forth in clause 21.2.

“**UCC**” has the meaning set forth in clause 12.1.

“**Unallocated Rhodium Account**” means the unallocated Rhodium account of Deutsche Bank AG loco Johnson Matthey Valley Forge held for the account of Lessee, which account is subject to an exclusive, first priority, valid and duly perfected Lien in favor of Lessor.

“**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).

“**Value**” has the meaning set forth in clause 4.1.

“**Waiver Letter**” means the waiver letter entered into by and between Lessor, Lessee and Owens Corning in connection with the execution of this Agreement.

“**Yarns Lease**” means a Lease where the Metal is utilized solely in Lessee’s glassfiber yarn manufacturing operation and not in Lessee’s CFM manufacturing operation.

“**Yarns Metal**” means Metal that is utilized in Lessee’s glassfiber yarn manufacturing operation.

CONFIDENTIAL TREATMENT REQUESTED

Schedule 2

Form Lease

Reference is made to that certain Amended and Restated Master Lease Agreement dated as of July 25, 2012 (as amended, supplemented, modified, renewed or replaced from time to time, the “**Master Lease Agreement**”; capitalized terms used but not otherwise defined herein shall have the meanings set forth in the Master Lease Agreement), between DB Energy Trading LLC (“**Lessor**”), as lessor, AGY Holding Corp. (“**Lessee**”), as lessee, AGY Aiken LLC, as guarantor and AGY Huntingdon LLC, as guarantor.

In accordance with the Master Lease Agreement, Lessor hereby agrees to lease to Lessee, and Lessee hereby agrees to lease from Lessor, Metals on the terms set forth in the Master Lease Agreement and the additional following terms (the “**Lease**”):

Unit Identification/Serial Number :
Metal Amount :
Location :
Commencement Date :
Lease Expiration Date :
CFM Lease/Yarns Lease :
Lease Rent :

Without limiting Lessee’s representations and warranties set forth in the Master Lease Agreement, Lessee represents and warrants to Lessor that, as of the date hereof, (a) no Default has occurred and is continuing under the Master Lease Agreement or would result herefrom; (b) each of the representations and warranties in the Master Lease Agreement is true and correct in all material respects as of the date hereof (except (i) to the extent that it expressly relates to another date, in which case it is true and correct in all material respects as of such other date and (ii) any representation and warranty that itself is qualified as to “materiality” or “Material Adverse Effect” shall be true and correct in all respects); and (c) as of the Commencement Date, the quantity of Metal referred to in this Lease was computed in accordance with the various schedules to the Master Lease Agreement and meets the purity and/or maximum level of contaminant criteria set forth in the schedules thereto.

This Lease incorporates by reference all of the terms, conditions, representations, warranties, covenants and obligations set forth in the Master Lease Agreement.

Agreed and accepted:

DB ENERGY TRADING LLC,
as Lessor

AGY HOLDING CORP.,
as Lessee

By: _____
Name:
Position:

By: _____
Name:
Position:

CONFIDENTIAL TREATMENT REQUESTED

Schedule 3

Inventory

<u>Unit</u>	<u>Location of Unit</u>	<u>Metal Amount in Troy ounces of Platinum</u>	<u>Metal Amount in Troy ounces of Rhodium</u>	<u>Non-Lessor Metal</u>
[Redacted]				

CONFIDENTIAL TREATMENT REQUESTED

Schedule 4

Platinum Pure Metal Standards

[remainder of page intentionally left blank]

CONFIDENTIAL TREATMENT REQUESTED

Schedule 5

Rhodium Pure Metal Standards

[remainder of page intentionally left blank]

CONFIDENTIAL TREATMENT REQUESTED

Schedule 6

Subsidiaries

1. The corporate names, jurisdictions of incorporation, and authorized and issued equity interests of Lessee and each Subsidiary are as follows:

<u>Name</u>	<u>Jurisdiction</u>	<u>Number and Class of Authorized Shares</u>	<u>Number and Class of Issued Shares</u>

2. The record holders of equity interests of Lessee and each Subsidiary are as follows:

<u>Name</u>	<u>Class of Stock</u>	<u>Number of Shares</u>	<u>Record Owner</u>

CONFIDENTIAL TREATMENT REQUESTED

Schedule 7

Form of Guarantor Joinder

This GUARANTOR JOINDER, dated as of _____ (this "**Joinder**"), to the Amended and Restated Master Lease Agreement, dated as of July 25, 2012 (as amended, supplemented or otherwise modified from time to time, the "**Agreement**"), made among DB Energy Trading LLC ("**Lessor**"), a Delaware limited liability company, AGY Holding Corp. ("**Lessee**"), a Delaware corporation, AGY Aiken LLC ("**AGY Aiken**"), a Delaware limited liability company and AGY Huntingdon LLC ("**AGY Huntingdon**"), together with AGY Aiken, the "**Guarantors**"), a Delaware limited liability company. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Agreement.

The Guarantors have entered into the Guarantee in order to induce Lessor to extend the Existing Master Lease Agreement on the terms of the Agreement. Clause 27(j) of the Agreement requires that additional Domestic Subsidiaries of Lessee become Guarantors by execution and delivery of an instrument in the form of this Joinder. Each undersigned Domestic Subsidiary (each a "**New Guarantor**") is executing this Joinder in accordance with the requirements of the Agreement to become a Guarantor and provide Lessor with the Guarantee in order to induce Lessor to enter into the Agreement and continue to lease the Metals and the Units to Lessee.

Accordingly, Lessor and each New Guarantor agrees as follows:

1. Each New Guarantor hereby agrees to be bound by all of the terms of the Agreement (a copy of which is annexed hereto as Annex I) as a Guarantor. The New Guarantor shall hereafter be deemed to be a "Guarantor" for all purposes under the Agreement.

2. The New Guarantor hereby makes the representations and warranties of a Guarantor as set forth in the Agreement and represents and warrants that such representations and warranties are true and correct on and as of the date hereof (except (i) to the extent that they expressly relate to another date, in which case they are true and correct in all material respects as of such other date and (ii) any representation and warranty that itself is qualified as "materiality" or "Material Adverse Effect" shall be true and correct in all respects).

3. Each New Guarantor represents and warrants to Lessor that this Joinder has been duly authorized, executed and delivered by it and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, 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.

4. This Joinder may be executed by one or more of the parties to this Joinder on any number of separate counterparts (including by facsimile or other electronic transmission), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Joinder signed by all the parties shall be lodged with Lessee and Lessor. This Joinder shall become effective as to each New Guarantor when Lessor shall have received a copy of this Joinder executed by each New Guarantor.

CONFIDENTIAL TREATMENT REQUESTED

5. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

6. Any provision of this Joinder that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof and in the Guarantee, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. The parties hereto shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

7. All communications and notices hereunder to each New Guarantor shall be given as set forth in clause 19 of the Agreement.

8. Each New Guarantor agrees to pay to Lessor for its reasonable and documented expenses in connection with the execution of this Joinder, including the reasonable fees and expenses of outside counsel for Lessor.

[signature pages to follow]

CONFIDENTIAL TREATMENT REQUESTED

IN WITNESS WHEREOF, each New Guarantor and Lessor has duly executed this Joinder to the Guarantee as of the day and year first above written.

[],

as a New Guarantor

By: _____

Name:

Title:

DB ENERGY TRADING LLC,

as Lessor

By: _____

Name:

Title:

Acknowledged By:

AGY HOLDING CORP.,
as Lessee

By: _____

Name:

Title:

Annex I to
Guarantor Joinder

Schedule 8

Example Monthly Financial Statement

CERTIFICATION

I, Richard C. Jenkins, certify that:

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

Date: August 14, 2012

/s/ Richard C. Jenkins

Richard C. Jenkins
Interim Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Jay W. Ferguson, certify that:

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

Date: August 14, 2012

/s/ Jay W. Ferguson

Jay W. Ferguson
Interim Chief Financial Officer
(Principal Financial Officer)

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

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

- 1) the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2012 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard C. Jenkins

Richard C. Jenkins

Interim Chief Executive Officer
(Principal Executive Officer)

Dated: August 14, 2012

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.

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

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

- 1) the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2012 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2012 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jay W. Ferguson

Jay W. Ferguson

Interim Chief Financial Officer
(Principal Financial Officer)

Dated: August 14, 2012

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.