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

**FORM 8-K**

**CURRENT REPORT  
Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): December 19, 2007**

**Quanex Corporation**

(Exact name of registrant as specified in its charter)

<b>Delaware</b> (State or other Jurisdiction of Incorporation)	<b>1-5725</b> (Commission File Number)	<b>38-1872178</b> (IRS Employer Identification No.)
<b>1900 West Loop South Suite 1500 Houston, Texas</b> (Address of Principal Executive Offices)		<b>77027</b> (Zip Code)

Registrant's telephone number, including area code: (713) 961-4600

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(Former name or former address if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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## **ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT**

As previously reported on a Current Report on Form 8-K filed on November 20, 2007, Quanex Corporation (“Quanex”) announced that its Board of Directors had formally approved (i) the spin-off of its building products business to its stockholders (the “Spin-Off”) and (ii) the merger of a wholly-owned subsidiary of Gerdau S.A., Gerdau Delaware, Inc., a Delaware corporation (“Gerdau Delaware”), with and into Quanex’s remaining vehicular products business (the “Merger”) pursuant to an Agreement and Plan of Merger by and among Gerdau S.A., Gerdau Delaware and Quanex, dated November 18, 2007 (the “Merger Agreement”), which included the form of the documents to effect the Spin-Off as exhibits. On December 19, 2007, Quanex executed the Spin-Off documents, the material terms of which are summarized below.

### **Distribution Agreement**

On December 19, 2007, Quanex entered into a Distribution Agreement (the “Distribution Agreement”) with Quanex Building Products LLC, a Delaware limited liability company and a wholly-owned subsidiary of Quanex (“QBP LLC”), and Quanex Building Products Corporation, a Delaware corporation and a wholly-owned subsidiary of QBP LLC (“QBPC”), that sets forth the agreements among Quanex, QBP LLC and QBPC regarding the principal transactions necessary to effect the Spin-Off. Under the terms of the Distribution Agreement, Quanex will transfer or cause to be transferred all of the assets and liabilities pertaining to Quanex’s building products business to QBP LLC. Either prior to or after the Distribution (as defined below), QBP LLC will merge with and into QBPC, with QBPC being the surviving entity (the “QBP Merger”). Pursuant to the Distribution Agreement, Quanex will distribute (the “Distribution”) to holders of the outstanding common stock of Quanex as of the record date of the Spin-Off for each share of Quanex common stock outstanding, either (a) one unit of limited liability company interest of QBP LLC, if the QBP Merger occurs after the Distribution, or (b) one share of QBPC common stock, par value \$0.01 per share, if the QBP Merger occurs prior to the Distribution. The Distribution is subject to several conditions that must be satisfied or waived by Quanex in its sole discretion.

The foregoing description of the Distribution Agreement is qualified in its entirety by reference to the full text of the Distribution Agreement, a copy of which is filed as Exhibit 10.1 hereto and is incorporated herein by reference.

### **Tax Matters Agreement**

On December 19, 2007, Quanex entered into a Tax Matters Agreement (the “Tax Matters Agreement”) with QBP LLC and QBPC that governs Quanex’s, QBP LLC’s and QBPC’s respective rights, responsibilities, and obligations with respect to tax liabilities and benefits, tax attributes, tax contests and other matters regarding income taxes, non-income taxes and preparing and filing combined tax returns for periods (or portions thereof) ending on or before the Spin-Off.

Under the Tax Matters Agreement, Quanex, QBP LLC and QBPC agree, among other things, that the Spin-Off will be taxable to Quanex, and Quanex will be responsible for, and will indemnify QBPC, as the surviving entity in the QBP Merger, against, the resulting taxes, including all taxes imposed as a result of restructuring and transferring the building products business to QBP LLC, in an aggregate amount not to exceed \$85 million. In the event the resulting taxes aggregate less than \$85 million, Quanex will pay the difference to QBPC. QBPC will pay Quanex for any such taxes in excess of \$85 million.

The foregoing description of the Tax Matters Agreement is qualified in its entirety by reference to the full text of the Tax Matters Agreement, a copy of which is filed as Exhibit 10.2 hereto and is incorporated herein by reference.

### **Transition Services Agreement**

On December 19, 2007, Quanex entered into a Transition Services Agreement (“Transition Services Agreement”) with QBP LLC, under which QBP LLC or one of its subsidiaries and Quanex or one of its subsidiaries will provide each other with various services, including services relating to general accounting, administrative, legal, banking, benefits, information technology, human resources and related services. Additional services may be added upon agreement of the parties, and any service may be terminated without impacting the provision of any other services.

The foregoing description of the Transition Services Agreement is qualified in its entirety by reference to the full text of the Transition Services Agreement, a copy of which is filed as Exhibit 10.3 hereto and is incorporated herein by reference.

### **Employee Matters Agreement**

On December 19, 2007, Quanex entered into an Employee Matters Agreement (“Employee Matters Agreement”) with QBP LLC and QBPC that allocates liabilities and responsibilities relating to employee compensation and benefit plans and programs and other related matters in connection with the Spin-Off. The Employee Matters Agreement provides that, in general, after the Spin-Off, QBPC will take over responsibility for all obligations and liabilities relating to its current and former employees and their dependents, to the extent QBPC was not already responsible before the Spin-Off. QBPC will assume the existing collective bargaining agreements covering its employees who are employees of the building products business, and those employees employed at its corporate office on or after the date of the Distribution. QBPC’s participation in the Quanex employee plans and employee programs will end at the time of the Spin-Off and, with certain exceptions, QBPC will adopt similar, stand-alone plans and programs for its employees in order to maintain continuity after the Spin-Off. QBPC’s plans will provide a comprehensive array of retirement savings opportunities, welfare benefits (for example, group health, life and disability benefits), incentive compensation opportunities, flex plan and numerous other benefits and opportunities. QBPC’s plans will recognize and give full credit to its current employees for their service with Quanex or its subsidiaries before the Spin-Off.

The foregoing description of the Employee Matters Agreement is qualified in its entirety by reference to the full text of the Employee Matters Agreement, a copy of which is filed as Exhibit 10.4 hereto and is incorporated herein by reference.

### **First Amendment to Agreement and Plan of Merger**

On December 20, 2007, Quanex entered into a First Amendment to Agreement and Plan of Merger with Gerdau S.A. and Gerdau Delaware (the “First Amendment”) in order to add a provision to the Merger Agreement which states that it is intended that the Spin-Off and the Merger be treated as an integrated transaction in redemption and disposition of the shares of Quanex common stock.

The foregoing description of the First Amendment is qualified in its entirety by reference to the full text of the First Amendment, a copy of which is filed as Exhibit 2.1 hereto and is incorporated herein by reference.

**ITEM 9.01. Financial Statements and Exhibits**

(c) Exhibits.

- 2.1 First Amendment to Agreement and Plan of Merger, dated as of December 20, 2007, by and among Gerdau S.A., Gerdau Delaware, Inc. and Quanex Corporation.
- 10.1 Distribution Agreement, dated as of December 19, 2007, among Quanex Corporation, Quanex Building Products LLC and Quanex Building Products Corporation.
- 10.2 Tax Matters Agreement, dated as of December 19, 2007, among Quanex Corporation, Quanex Building Products LLC and Quanex Building Products Corporation.
- 10.3 Transition Services Agreement, dated as of December 19, 2007, between Quanex Corporation and Quanex Building Products LLC.
- 10.4 Employee Matters Agreement, dated as of December 19, 2007, by and among Quanex Corporation, Quanex Building Products LLC and Quanex Building Products Corporation.

## SIGNATURES

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

Date: December 21, 2007

QUANEX CORPORATION

By: /s/ Brent L. Korb  
Brent L. Korb  
Vice President and Controller  
*(Principal Accounting Officer)*

## Index to Exhibits

Item Number	Exhibit
2.1	First Amendment to Agreement and Plan of Merger, dated as of December 20, 2007, by and among Gerdau S.A., Gerdau Delaware, Inc. and Quanex Corporation.
10.1	Distribution Agreement, dated as of December 19, 2007, among Quanex Corporation, Quanex Building Products LLC and Quanex Building Products Corporation.
10.2	Tax Matters Agreement, dated as of December 19, 2007, among Quanex Corporation, Quanex Building Products LLC and Quanex Building Products Corporation.
10.3	Transition Services Agreement, dated as of December 19, 2007, between Quanex Corporation and Quanex Building Products LLC.
10.4	Employee Matters Agreement, dated as of December 19, 2007, by and among Quanex Corporation, Quanex Building Products LLC and Quanex Building Products Corporation.

**FIRST AMENDMENT TO  
AGREEMENT AND PLAN OF MERGER**

This First Amendment to Agreement and Plan of Merger (this "Amendment"), dated as of December 20, 2007, is by and among Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil ("Parent"), Gerdau Delaware, Inc., a Delaware corporation and a wholly-owned subsidiary of Parent ("Merger Sub"), and Quanex Corporation, a Delaware corporation (the "Company").

**RECITALS**

WHEREAS, Parent, Merger Sub and the Company are parties to an Agreement and Plan of Merger dated November 18, 2007 (the "Original Agreement"), providing for, among other things, the merger of Merger Sub with and into the Company;

WHEREAS, Parent, Merger Sub and the Company desire to amend the terms of the Original Agreement as set forth herein;

NOW, THEREFORE, in consideration of the foregoing and the respective covenants and agreements of the parties set forth in this Amendment, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Amendments. Parent, Merger Sub and the Company agree to the following amendments to the Original Agreement:

(a) The second WHEREAS clause in the Recitals of the Original Agreement shall be replaced in its entirety by the following two WHEREAS clauses:

"WHEREAS, immediately prior to and in connection with the Merger, the Company will spin off to its shareholders (the "Spin-Off") its businesses involving the manufacture and sale of aluminum sheet and engineered materials and components primarily used in the United States building products market (the "Building Products Business") as a newly-formed Delaware entity ("Spinco");

WHEREAS, for U.S. federal income tax purposes, it is intended that the Spin-Off and the Merger be treated as an integrated transaction in redemption and disposition of the shares of the Company Common Stock; and"

(b) Section 6.11 of the Original Agreement is hereby amended by adding a new subsection (g) as follows:

"(g) If the Merger is consummated, the Spin-Off will be effected such that the Spinco Equity (as defined in the Distribution Agreement) to be distributed in the Spin-Off and the Merger Consideration are distributed or paid, as the case may be, to the same holders of Shares. For federal income Tax purposes, it is intended that, and the parties hereto shall treat, the Spin-Off and the Merger as an integrated transaction in redemption and disposition of the Shares."

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2. Original Agreement Continues. Other than as amended by this Amendment, the Original Agreement shall continue in full force and effect.

3. Miscellaneous. Capitalized terms used and not otherwise defined herein shall have the meanings given such terms in the Original Agreement. The headings contained in this Amendment are for reference purposes only and shall not affect in any way the meaning or interpretation of this Amendment. This Amendment shall be interpreted, construed and governed by and in accordance with the law of the State of Delaware without regard to conflicts of law principles thereof. This Amendment may be executed by in any number of counterparts, each such counterpart being deemed to be an original instrument, and all such counterparts shall together constitute the same agreement

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

GERDAU S.A.

By: /s/ Osvaldo Burgos Schirmer  
Osvaldo Burgos Schirmer  
Executive Vice President  
and Chief Financial Officer

GERDAU DELAWARE, INC.

By: /s/ Osvaldo Burgos Schirmer  
Osvaldo Burgos Schirmer  
Executive Vice President  
and Chief Financial Officer

QUANEX CORPORATION

By: /s/ Raymond A. Jean  
Raymond A. Jean  
Chairman and Chief Executive Officer

**DISTRIBUTION AGREEMENT**

**DATED AS OF DECEMBER 19, 2007**

**AMONG**

**QUANEX CORPORATION,**

**QUANEX BUILDING PRODUCTS LLC,**

**AND**

**QUANEX BUILDING PRODUCTS CORPORATION**

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## DISTRIBUTION AGREEMENT

THIS DISTRIBUTION AGREEMENT, dated as of December 19, 2007, is among Quanex Corporation, a Delaware corporation ("Quanex"), Quanex Building Products LLC, a Delaware limited liability company and a wholly-owned subsidiary of Quanex ("Spinco"), and Quanex Building Products Corporation, a Delaware corporation and a wholly-owned subsidiary of Spinco ("Spinco Sub").

WHEREAS, the board of directors of Quanex has determined that it is appropriate and desirable for Quanex to separate its building products divisions from Quanex;

WHEREAS, prior to the Distribution Date, Quanex will, pursuant to this Agreement, transfer or cause to be transferred to Spinco all of the Spinco Assets, which represent substantially all of the assets comprising Quanex's building products divisions, and will assume all of the Spinco Liabilities, as contemplated by this Agreement (the "Contribution");

WHEREAS, after the Contribution and prior to the Distribution Date, Quanex may cause one or more of members of the Spinco Group that are corporations to convert into, merge with and into or otherwise transfer all of their assets, subject to all of their liabilities, to limited liability companies, of which Quanex or another member of the Spinco Group will be the sole member;

WHEREAS, either before or after the Distribution, Spinco will merge with and into Spinco Sub (the "Spinco Merger") pursuant to the Spinco Merger Agreement;

WHEREAS, on the Distribution Date and pursuant to the terms and conditions of this Agreement, Quanex will distribute (the "Distribution") to the holders as of the Record Date of the outstanding common stock of Quanex, par value \$0.50 per share ("Quanex Common Stock"), for each share of Quanex Common Stock outstanding, either (a) one unit of limited liability company interest (the "Spinco Interest") of Spinco (if the Spinco Merger occurs after the Distribution) or (b) one share of Spinco Sub common stock (the "Spinco Sub Common Stock") (if the Spinco Merger occurs prior to the Distribution);

WHEREAS, following the Distribution and pursuant to the Merger Agreement, Gerdau Delaware, Inc., a Delaware corporation and wholly-owned subsidiary of Gerdau S.A., a corporation organized under the laws of the Federative Republic of Brazil, will merge with and into Quanex (the "Merger");

WHEREAS, for U.S. federal income Tax purposes, it is intended that the Distribution and the Merger be treated as an integrated transaction in redemption and disposition of the shares of Quanex Common Stock; and

WHEREAS, Quanex has filed with the SEC a Form 10 Registration Statement pursuant to the Exchange Act in connection with the Distribution;

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

## ARTICLE I

### DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

“Affiliate” shall mean, with respect to any specified Person, any other Person that directly or indirectly controls, is controlled by or is under common control with, such specified Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlled by” and “under common control with”), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided, however, that for purposes of this Agreement, from and after the Distribution Date, no member of the Quanex Group shall be deemed an Affiliate of any member of the Spinco Group and no member of the Spinco Group shall be deemed an Affiliate of any member of the Quanex Group.

“Agent” shall mean the distribution agent to be agreed to by Quanex and Spinco to distribute the Spinco Interests or the shares of Spinco Sub Common Stock, as the case may be, pursuant to the Distribution.

“Agreement” shall mean this Distribution Agreement.

“Assets” shall mean the Spinco Assets or the Quanex Assets, as the case may be.

“Business” shall mean the Spinco Business or the Quanex Business, as the case may be.

“Business Day” shall mean any day other than a Saturday, Sunday or a day on which banking institutions in the City of New York are authorized or obligated by law or executive order to close.

“Cash Inflows” shall mean the daily amount of all and any cash amounts (including any cash received in respect of sales taxes) received by the Quanex Group or received or passed to any member of the Quanex Group, during the Separation Period.

“Cash Outflows” shall mean the daily amount of cash payments (including any cash paid in respect of sales taxes) made by the Quanex Group, during the Separation Period in discharging Qualifying Liabilities.

“Claims Administration” shall mean the processing of claims made under the Policies, including the reporting of claims to the insurance carrier, management and defense of claims, and providing for appropriate releases upon settlement of claims.

“Claims Made Policies” shall have the meaning specified in Section 5.6(a).

“Contribution” shall have the meaning specified in the Recitals hereof.

“Distribution” shall have the meaning specified in the Recitals hereof.

“Distribution Date” shall mean the date and time that the Distribution shall become effective.

“Employee Matters Agreement” shall mean the Employee Matters Agreement of even date herewith between Quanex and Spinco.

“Environmental Law” shall mean any Law or authorization concerning: (A) the protection of the environment or natural resources, (B) the handling, use, presence, disposal, release or threatened release of any Hazardous Substance or (C) noise, odor, indoor air, employee or public exposure, wetlands, pollution, contamination or any injury or threat of injury to persons or property relating to any Hazardous Substance.

“Exchange” shall mean the New York Stock Exchange.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, together with the rules and regulations of the SEC promulgated thereunder.

“Form 10 Registration Statement” shall mean the Registration Statement on Form 10 (or, if such form is not appropriate, the appropriate form pursuant to the Exchange Act) to be filed by Spinco Sub with the SEC to effect the registration of the Spinco Sub Common Stock pursuant to the Exchange Act in connection with the Distribution or the Spinco Merger, as the case may be.

“Governmental Entity” shall mean any governmental or regulatory authority, agency, commission, body or other governmental entity.

“Group” shall mean the Quanex Group or the Spinco Group, as the case may be.

“Hazardous Substance” shall mean any waste, pollutant, contaminant or hazardous, toxic or deleterious substance or any substance that is listed, classified or regulated pursuant to any Environmental Law or that could result in the imposition of liability pursuant to any Environmental Law, including petroleum, petroleum products, asbestos, asbestos-containing materials and polychlorinated biphenyls.

“Indemnifiable Losses” shall mean all losses, Liabilities, damages, claims, demands, judgments or settlements of any nature or kind, including all reasonable costs and expenses (legal, accounting or otherwise as such costs are incurred) relating thereto, suffered by an Indemnitee, including any reasonable costs or expenses of enforcing any indemnity hereunder.

“Indemnifying Party” shall mean a Person that is obligated under this Agreement to provide indemnification.

“Indemnitee” shall mean a Person that may seek indemnification under this Agreement.

“Information” shall mean all records, books, contracts, instruments, computer data and other data and information.



“Law” or “Laws” shall mean any federal, state, local or foreign law, statute, ordinance, rule, regulation, judgment, order, injunction, decree, arbitration award, agency requirement, license or permit of any Governmental Entity.

“Liability” or “Liabilities” shall mean any and all losses, claims, debts, demands, actions, causes of action, suits, damages, liabilities and obligations, payments, costs and expenses, sums of money, accounts, reckonings, bonds, specialities, indemnities and similar obligations, exonerations, covenants, contracts, controversies, agreements, promises, doings, guarantees, make whole agreements and similar obligations, whether absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, direct or indirect, known or unknown, whenever arising, and whether or not the same would properly be reflected in books and records or financial statements prepared in accordance with United States generally accepted accounting principles and including those arising under any Law (including the costs and expenses of demands, assessments, judgments, settlements and compromises relating thereto and attorney’s fees and any and all costs and expenses, whatsoever reasonably incurred).

“Litigation Matters” shall mean actual, threatened or future litigation, investigations, claims or other legal matters that have been or may be asserted against, or otherwise adversely affect, Quanex and/or Spinco (or members of either Group).

“Merger” shall have the meaning specified in the Recitals hereof.

“Merger Agreement” shall mean that certain Agreement and Plan of Merger dated November 18, 2007, as amended from time to time, among Quanex, Gerdau S.A. and Gerdau Delaware, Inc.

“Merger Consideration” shall have the meaning set forth in the Merger Agreement.

“Occurrence Basis Policies” shall have the meaning specified in Section 5.6(a).

“Person” shall mean a natural person, corporation, company, partnership, limited partnership, limited liability company or any other entity, including a Governmental Entity.

“Policies” shall mean all insurance policies, insurance contracts and claim administration contracts of any kind of Quanex and its Subsidiaries (including members of the Spinco Group) and their predecessors which were or are in effect at any time at or prior to the Distribution Date, including primary, excess and umbrella, commercial general liability, fiduciary liability, product liability, automobile, aircraft, property and casualty, business interruption, directors and officers liability, employment practices liability, workers’ compensation, and crime, errors and omissions policies, together with all rights, benefits and privileges thereunder.

“Privileged Information” shall mean, with respect to either Group, Information regarding a member of such Group, or any of its operations, Assets or Liabilities (whether in documents or stored in any other form or known to its employees or agents) that is or may be protected from disclosure pursuant to the attorney-client privilege, the work product doctrine or another applicable privilege, that a member of the other Group may come into possession of or obtain access to pursuant to this Agreement or otherwise.

“Qualifying Liabilities” shall mean all liabilities incurred by the Quanex Business in the ordinary course, whether prior to or on the Distribution Date and whether by the Quanex Group directly or through their agents.

“Quanex” shall have the meaning specified in the preamble hereof.

“Quanex Assets” shall mean, collectively, all of the right, title and interest of Quanex and the Quanex Subsidiaries in all their respective assets and properties, tangible or intangible, other than the Spinco Assets.

“Quanex Business” shall mean all of the businesses and operations conducted by Quanex and the Quanex Subsidiaries (other than the Spinco Business) at any time, whether prior to, on or after the Distribution.

“Quanex Common Stock” shall have the meaning specified in the Recitals hereof.

“Quanex Group” shall mean Quanex and the Quanex Subsidiaries.

“Quanex Indemnitees” shall mean Quanex, each person who is or becomes an Affiliate of Quanex after the Distribution Date and each of their respective present and former Representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

“Quanex Liabilities” shall mean, collectively, all Liabilities of Quanex and all Liabilities of the Quanex Subsidiaries, including (i) the Liabilities of Quanex under the Transaction Agreements and; provided that Quanex Liabilities shall not include (x) the Spinco Liabilities and (y) Liabilities dealt with separately in the other Transaction Agreements.

“Quanex Subsidiaries” shall mean the following entities:

- (a) MacSteel Atmosphere Annealing, Inc.;
- (b) MacSteel Monroe, Inc.;
- (c) Quanex Bar, Inc.;
- (d) Quanex Steel Inc.;
- (e) Quanex Solutions, Inc.;
- (f) Quanex Health Management Company, Inc.;
- (g) Quanex Nine, Inc.;
- (h) Quanex Ten, Inc.;
- (i) Quanex Eleven, Inc.; and
- (j) Quanex Twelve, Inc.

“Record Date” shall mean the close of business on the date to be determined by the Board of Directors of Quanex as the record date for determining stockholders of Quanex entitled to receive the Distribution, which shall be the Effective Date of the Merger (as defined in the Merger Agreement).

“Representative” shall mean, with respect to any Person, any of such Person’s directors, officers, employees, agents, consultants, advisors, accountants, attorneys and representatives.

“SEC” shall mean the United States Securities and Exchange Commission.

“Securities Act” shall mean the Securities Act of 1933, as amended, together with the rules and regulations of the SEC promulgated thereunder.

“Separation Period” means the period from November 1, 2007 to (and including) the Distribution Date.

“Shares” means, in the case where the Spinco Interest is distributed to the holders of shares of Quanex Common Stock in the Distribution, a fractional part of the Spinco Interest, and in the case where shares of Spinco Sub Common Stock is distributed in the Distributions, the shares of Spinco Sub Common Stock.

“Solvent” shall mean that, as of any date of determination, (i) the amount of the “fair saleable value” of the assets of such Person will, as of such date, exceed (A) the value of all “liabilities of such Person, including contingent and other liabilities,” as of such date, as such quoted terms are generally determined in accordance with applicable Laws governing determinations of the insolvency of debtors, and (B) the amount that will be required to pay the probable liabilities of such Person on its existing debts (including contingent and other liabilities) as such debts become absolute and mature; (ii) such Person will not have, as of such date, an unreasonably small amount of capital for the operation of the businesses in which it is engaged or proposed to be engaged following such date; and (iii) such Person will be able to pay its liabilities, including contingent and other liabilities, as they mature. For purposes of this definition, “not have an unreasonably small amount of capital for the operation of the businesses in which it is engaged or proposed to be engaged” and “able to pay its liabilities, including contingent and other liabilities, as they mature” means that such Person will be able to generate enough cash from operations, asset dispositions or refinancing, or a combination thereof, to meet its obligations as they become due.

“Spinco” shall have the meaning specified in the Preamble hereof.

“Spinco Assets” shall mean, collectively, the right, title and interest of Quanex and the Quanex Subsidiaries immediately prior to the Contribution in and to:

(a) all real property and leasehold estate interests of Quanex used in the Spinco Business, including the real property and leasehold estates described on Schedule 1(a);

(b) all tangible property used primarily in conjunction with the Spinco Business, including all surplus, materials, stock and inventory listed on Schedule 1(b);

(c) all contracts and instruments including those listed on Schedule 1(c), and all rights thereunder, to the extent the same relate primarily to the Spinco Business (collectively, the “Contracts”);

(d) all books and records (including those referred to in Section 6.1), files, reports, intellectual property (including patents, trade secrets and copyrights, but excluding those items of intellectual property set forth on Schedule 1(d)), whether or not of a proprietary nature to the extent primarily related to the Spinco Business;

(e) the rights of Spinco and its Subsidiaries under this Agreement and the other Transaction Agreements;

(f) all accounts receivable, inventories, goodwill and other current assets (other than cash and cash equivalents) attributable to the assets described in paragraphs (a) through (e) above from and after the Distribution Date;

(g) cash and cash equivalents in the amount of (i) \$20.9 million as at November 1, 2007 plus or minus the amount of any net cash flow (if any) generated by the Spinco Business during the Separation Period in accordance with Section 5.7;

(h) the capital stock of the Spinco Subsidiaries; and

(i) the name and trademark “Quanex” and any similar names, service marks, trademarks, trade names, identifying symbols, trade dress, logos, emblems, signs or insignia related thereto or containing or comprising the foregoing, including any name or mark confusingly similar thereto.

“Spinco Business” shall mean the building products business conducted by Quanex through the Spinco Subsidiaries on the Distribution Date.

“Spinco Equity” means, with respect to Spinco, the Spinco Interest, and with respect to Spinco Sub, the Spinco Sub Common Stock.

“Spinco Group” shall mean Spinco, Spinco Sub and the Spinco Subsidiaries.

“Spinco Indemnitees” shall mean Spinco and each person who is or becomes an Affiliate of Spinco after the Distribution Date and each of their respective present and former Representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

“Spinco Interests” shall have the meaning specified in the Recitals hereof.

“Spinco Liabilities” shall mean all Liabilities, whenever incurred or arising, including, but not limited to Liabilities under or relating to any Environmental Laws or any consultant, former employee or employee, that relate to the Spinco Assets (including any contracts relating to the Spinco Business and any real property and leasehold interests), or resulting from the operation of the Spinco Business (and to the business currently or formerly conducted by Quanex or any of the Spinco Group or any of the Affiliates of the foregoing relating to Quanex’ building products division), as conducted at any time before, on or after the Distribution Date but excluding (i) Liabilities dealt with separately in the other Transaction Agreements and (ii) the corporate overhead expenses referred to in Section 2.7.

“Spinco Merger” shall have the meaning specified in the Recitals hereof.

“Spinco Merger Agreement” shall mean the Agreement and Plan of Merger to be entered into by and between Spinco and Spinco Sub prior to the Distribution Date.

“Spinco Sub” shall have the meaning specified in the Recitals hereof.

“Spinco Sub Common Stock” shall have the meaning specified in the Recitals hereof.

“Spinco Subsidiaries” shall mean the following entities:

(a) Besten Equipment, Inc.;

(b) Mikron Industries, Inc. (including (A) Mikron Washington, LLC and VL Investors I, LLC, the wholly-owned Subsidiaries of Mikron Industries, Inc., and (B) Vinyl Link, LLC, the 49% subsidiary of VL Investors I, LLC);

(c) Nichols Aluminum, Inc. (including Nichols Aluminum-Alabama, Inc., the wholly-owned Subsidiary of Nichols Aluminum, Inc.);

(d) Quanex Foundation;

(e) Quanex Homeshield, Inc. (including Colonial Craft, Inc. and Imperial Products, Inc., the wholly-owned Subsidiaries of Quanex Homeshield, Inc.); and

(f) TruSeal Technologies, Inc. (including TruSeal Technologies, Ltd., the wholly-owned Subsidiary of TruSeal Technologies, Inc.).

“Subsidiary” shall mean any entity, whether incorporated or unincorporated, of which at least a majority of the securities or ownership interests having by their terms voting power to elect a majority of the board of directors or other persons performing similar functions is directly or indirectly owned or controlled by such party or by one or more of its respective Subsidiaries.

“Surviving Entity” means Spinco prior to the Spinco Merger and Spinco Sub following the Spinco Merger.

“Tax Matters Agreement” shall mean the Tax Matters Agreement of even date herewith by and among Quanex, Spinco and Spinco Sub.

“Tax” or “Taxes” shall have the meaning set forth in the Tax Matters Agreement.

“Third-Party Claim” shall mean any claim, suit, derivative suit, arbitration, inquiry, proceeding or investigation by or before any court, any governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person who or which is neither a party hereto nor an Affiliate of a party hereto.

“Transaction Agreements” shall mean this Agreement, the Employee Matters Agreement, the Tax Matters Agreement and the Transition Services Agreement.

“Transition Services Agreement” shall mean the Transition Services Agreement of even date herewith between Quanex and Spinco.

## ARTICLE II

### PRELIMINARY TRANSACTIONS

#### Section 2.1 *Business Separation.*

(a) On or prior to the Distribution Date, Quanex shall take or cause to be taken all actions necessary to cause the transfer, assignment, delivery and conveyance to the Surviving Entity all of the Spinco Assets, and the Surviving Entity shall, and shall cause its applicable Subsidiaries to accept, assume and agree to pay, perform and discharge all of the Spinco Liabilities, in accordance with their respective terms. The Surviving Entity shall be responsible for all Spinco Liabilities assumed by the Spinco Group, regardless of when or where such Spinco Liabilities arose or arise, or whether the facts on which they are based occurred prior to or subsequent to the Distribution Date, regardless of where or against whom such Spinco Liabilities are asserted or determined or whether asserted or determined prior to the date hereof and regardless of whether arising from or alleged to arise from negligence, recklessness, violation of Law, fraud or misrepresentation by either the Quanex Group or the Spinco Group.

(b) The separation of the Quanex Assets and the Spinco Assets, as contemplated by this Agreement, shall be effected in a manner that does not unreasonably disrupt either the Quanex Business or the Spinco Business. Subject to Section 2.6, to the extent the separation of any of the Assets cannot be achieved in a reasonably practicable manner, the Surviving Entity and Quanex will enter into appropriate arrangements regarding the shared Asset. Any costs related to the use of a shared Asset that is not separated as of the Distribution Date shall be allocated in a reasonable manner as agreed by Spinco and Quanex.

(c) Subject to the provisions of this Agreement, on or prior to the Distribution Date, Quanex and the Surviving Entity will use their commercially reasonable efforts to amend all contractual arrangements between or among Quanex, the Surviving Entity, their respective Affiliates and any other Person (other than the Transaction Agreements and contractual arrangements relating to the Distribution and the intercompany agreements discussed in Section 5.3) that either (i) relate to the Quanex Business but relate predominantly to the Spinco Business or (ii) relate solely to the Spinco Business, but, by their terms, contain provisions relating to a member of the Quanex Group, so that, after the Distribution Date, such contractual arrangements (x) will relate solely to the Spinco Business and (y) will eliminate any provisions relating to a member of the Quanex Group and, in either event, will inure to the benefit of the Spinco Group on substantially the same economic terms as such arrangements exist as of the date hereof. On or prior to the Distribution Date, Quanex and the Surviving Entity will use their commercially reasonable efforts to amend all contractual arrangements between or among Quanex, the Surviving Entity, their respective Affiliates and any other Person (other than the contractual arrangements relating to the Distribution) that either (i) relate to the Spinco Business but relate predominantly to the Quanex Business or (ii) relate solely to the Quanex Business, but, by their terms, contain provisions relating to a member of the Spinco Group, so that, after the Distribution Date, such contractual arrangements (x) will relate solely to the Quanex Business and (y) will eliminate any provisions relating to a member of the Spinco Group and, in either event, will inure to the benefit of the Quanex Group on substantially the same economic terms as such arrangements exist as of the date hereof. If, in any case, such amendment cannot be obtained, or if an attempted amendment thereof would be ineffective or would adversely affect the rights of Quanex or the Surviving Entity thereunder, Quanex and the Surviving Entity will, subject to Section 2.6, cooperate in negotiating a mutually agreeable arrangement under which Quanex or the Surviving Entity, as applicable, will obtain the benefits and assume the obligations thereunder intended by this Agreement.

Section 2.2 *Conveyancing and Assumption Agreements*. In connection with the transfer of the Spinco Assets and the assumption of the Spinco Liabilities contemplated by Section 2.1, Quanex and the Surviving Entity shall execute, or cause to be executed by the appropriate entities, conveyancing and assumption instruments in such forms as shall be reasonably acceptable to Quanex and the Surviving Entity.

Section 2.3 *Governing Documents*. The governing documents of the Surviving Entity immediately prior to the Distribution Date will be in the forms attached as Exhibits A and B, respectively, which forms will be agreed to within twenty days following the date of this Agreement.

Section 2.4 *Issuance of Spinco Equity*. Prior to the Distribution Date, the parties hereto shall take all steps necessary so that the number of Shares of Spinco Equity outstanding and held by Quanex shall equal 37,189,587, as adjusted to reflect changes in the number of issued and outstanding shares of Quanex immediately prior to the Distribution Date.

Section 2.5 *Other Agreements*. Each of Quanex and the Surviving Entity shall, on or prior to the Distribution Date, enter into, and cause the appropriate members of the Group of which it is a member to enter into, the other Transaction Agreements.

Section 2.6 *Transfers Not Effected Prior to the Distribution; Transfers Deemed Effective as of the Distribution Date*. To the extent that any transfers contemplated by this Article II shall not have been consummated on or prior to the Distribution Date, the parties hereto shall use their commercially reasonable efforts to effect such transfers as promptly following the Distribution Date as shall be practicable. Nothing herein shall be deemed to require the transfer of any Assets or the assumption of any Liabilities which by their terms or operation of law cannot be transferred or assumed; provided, however, that Quanex and the Surviving Entity shall and shall cause their respective Subsidiaries to use commercially reasonable efforts to obtain any necessary consents or approvals for the transfer of all Assets and the assumption of all Liabilities contemplated to be transferred or assumed pursuant to this Article II. In the event that any such transfer of Assets or assumption of Liabilities has not been consummated, effective on or before the Distribution Date, the party retaining such Asset or Liability shall thereafter hold such Asset in trust for the use and benefit of the party entitled thereto (at the expense of the party entitled thereto) and retain such Liability for the account of the party by whom such Liability is to be assumed pursuant hereto, and take such other action as may be reasonably requested by the party to which such Asset is to be transferred, or by whom such Liability is to be assumed, as the case may be, in order to place such party, to the extent reasonably possible, in the same position as would have existed had such Asset or Liability been transferred or assumed as contemplated hereby. As and when any such Asset becomes transferable or such Liability can be assumed, such transfer or assumption shall be effected forthwith. Notwithstanding the date on which any such Asset or Liability has been actually transferred or actually assumed, each of Quanex and the Surviving Entity shall cooperate and use commercially reasonable efforts to provide the economic and operational equivalent of an assignment, transfer or assumption of such Asset or Liability as of the Distribution Date. The Surviving Entity shall, or shall cause the applicable Subsidiary to pay or reimburse the relevant member of the Quanex Group retaining any such Liability for all amounts payable, paid, or incurred in connection with such Liability and Quanex shall, or shall cause the applicable Subsidiary to pay or reimburse the relevant member of the Spinco Group retaining any such Liability for all amounts payable, paid or incurred in connection with such Liability.

Section 2.7 *Allocation of Corporate Overhead*. Quanex shall allocate to the Surviving Entity, and shall cause the Surviving Entity to pay, an amount calculated by Quanex to be the Surviving Entity's corporate overhead expenses incurred by Quanex for the Separation Period. The amount of such corporate overhead expenses shall be \$640,000 per month. Quanex shall be responsible for paying such corporate overhead expenses as they become due regardless of whether the asset associated with such expense is a Spinco Asset that is transferred to Spinco in the Contribution.

Section 2.8 *Responsibility for Costs Associated with Conversion of Quanex Convertible Debentures*. In conjunction with the anticipated conversion of Quanex' 2.5% Convertible Senior Debentures due 2034 (the "Debentures") by the holders thereof and any costs associated with the full satisfaction by Quanex of the principal and premium of such Debentures following such conversion in cash assuming, solely for purposes of calculating such costs, for those holders of Debentures that have not converted their Debentures on or prior to the Distribution Date, that (x) such Debentures convert into shares of Quanex Common Stock as of the Distribution Date and (y) Quanex elects to satisfy the principal and premium of such Debentures in cash), (the "Conversion Costs"), notwithstanding anything herein to the contrary, the responsibility for Conversion Costs shall be allocated between Quanex and the Surviving Entity as follows:

(i) Quanex' Responsibility for Conversion Costs. Quanex shall be responsible for any and all Conversion Costs to the extent the amount of the Conversion Costs do not exceed \$275 million. If the Conversion Costs do not exceed \$275 million, Quanex shall pay to the Surviving Entity an amount equal to the amount by which \$275 million exceeds the amount of the Conversion Costs.

(ii) The Surviving Entity's Responsibility for Conversion Costs. The Surviving Entity shall be responsible for any and all Conversion Costs to the extent the amount of the Conversion Costs exceeds \$275 million. If the amount of the Conversion Costs exceeds \$275 million, the Surviving Entity shall pay to Quanex an amount equal to the amount by which the amount of the Conversion Costs exceeds \$275 million.

Within 45 days after the Distribution Date, Quanex shall confirm to Spinco in writing the actual amount of the Conversion Costs, providing reasonable documentation to Spinco to support such amount. Spinco shall have 10 days following receipt of such amount to review such amount and the supporting documentation and raise any objections with Quanex regarding such amount. Within 5 Business Days following such 10-day period, either (a) Quanex shall pay to Spinco the amount by which \$275 million exceeds the amount of the Conversion Costs or (b) Spinco shall pay to Quanex the amount by which the Conversion Costs exceed \$275 million, in each case in immediately available funds to an account designated by the party to receive funds.



## ARTICLE III

### THE DISTRIBUTION

Section 3.1 *Record Date and Distribution Date.* Subject to the satisfaction of the conditions set forth in Section 8.1, the Board of Directors of Quanex, consistent with Delaware law, shall establish the Record Date and the Distribution Date and any appropriate procedures in connection with the Distribution.

Section 3.2 *The Agent.* Prior to the Distribution Date, Quanex and the Surviving Entity shall enter into an agreement with the Agent providing for, among other things, the Distribution to the holders of Quanex Common Stock in accordance with this Article III.

Section 3.3 *The Distribution.* Each holder of Quanex Common Stock on the Record Date (or such holder's designated transferee) will be allocated in the Distribution one Share of Spinco Equity for each share of Quanex Common Stock held by such stockholder. No action will be necessary for any stockholder of Quanex to receive such Shares in the Distribution. The Surviving Entity will issue to Quanex the number of Shares of Spinco Equity required so that the total number of Shares of Spinco Equity held by Quanex immediately prior to the Distribution is equal to the total number of Shares of Spinco Equity distributable in the Distribution. The Agent shall hold a certificate representing all of the Shares of Spinco Equity allocated to holders of Quanex Common Stock in the Distribution. The Distribution shall be effective at 10:00 a.m. Central Time on the Distribution Date. The Distribution and the Merger shall be effected such that the Merger Consideration and the Spinco Equity to be distributed in the Distribution are distributed or paid, as the case may be, to the same Quanex stockholder.

Section 3.4 *Actions in Connection with the Distribution.*

(a) Spinco shall file such amendments and supplements to the Form 10 Registration Statement as Quanex may reasonably request, and such amendments as may be necessary in order to cause the same to become and remain effective as required by Law, including filing such amendments and supplements to the Form 10 Registration Statement as may be required by the SEC or federal or state securities laws. Spinco shall mail to the holders of Quanex Common Stock, at such time on or prior to the Distribution Date as Quanex shall reasonably determine, the information statement included in the Form 10 Registration Statement, as well as any other information concerning Spinco, its business, operations and management, the Contribution, the Distribution and such other matters as Quanex shall reasonably determine are necessary and as may be required by applicable Law.

(b) The Surviving Entity shall prepare and file, and shall use commercially reasonable efforts to have approved and made effective, an application for the original listing of the shares of Spinco Sub Common Stock to be distributed in the Distribution or received in the Spinco Merger, as the case may be, on the Exchange, subject to official notice of distribution.

Section 3.5 *Fractional Shares*. Fractional Shares of Spinco Sub Common Stock will not be distributed in the Distribution or the Spinco Merger, as applicable, nor credited to book-entry accounts. The Agent shall (a) determine the number of whole Shares and fractional Shares of Spinco Sub Common Stock allocable to each holder of record or beneficial owner of Quanex Common Stock as of the close of business on the Record Date, (b) aggregate all such fractional Shares into whole Shares and sell the whole Shares of Spinco Sub Common Stock obtained thereby in open market transactions at then prevailing prices on behalf of holders who would otherwise be entitled to fractional Shares of Spinco Sub Common Stock, and (c) distribute to each such holder, or for the benefit of each such beneficial owner, such holder or owner's ratable share of the net proceeds of such sale, based upon the average gross selling price per Share of Spinco Sub Common Stock, after making appropriate deductions for any amount required to be withheld for Tax purposes. The Surviving Entity shall bear the cost of brokerage fees incurred in connection with these sales of fractional Shares, which such sales shall occur as soon after the Distribution Date as practicable and as determined by the Agent. None of Quanex, the Surviving Entity or the Agent will guarantee any minimum sale price for the fractional Shares of Spinco Sub Common Stock. Neither the Surviving Entity nor Quanex will pay any interest on the proceeds from the sale of fractional Shares. The Agent will have the sole discretion to select the broker-dealers through which to sell the aggregated fractional Shares and to determine when, how and at what price to sell such Shares.

Section 3.6 *The Spinco Merger*.

(a) The Spinco Merger may occur either before or after the Distribution, at the election of Spinco and Spinco Sub. If the Spinco Merger occurs after the Distribution, as a result of the Spinco Merger, the holders of Shares of Spinco Interest will receive one share of Spinco Sub Common Stock for each Share of Spinco Interests allocated to them in the Distribution. The Spinco Merger shall be effective at as set forth in the certificate of merger filed with the Delaware Secretary of State to effect the Spinco Merger.

(b) Prior to the Distribution Date, Spinco will deliver to the Agent for the benefit of the holders of Quanex Common Stock on the Record Date (if the Spinco Merger is effected prior to the Distribution) or the holders of the Shares of the Spinco Interest (if the Spinco Merger is effected after the Distribution), stock certificates, endorsed by Spinco in blank, representing all of the outstanding Shares of Spinco Sub Common Stock then owned by Spinco. Spinco will cause the transfer agent for the Spinco Sub Common Stock to credit the appropriate class and number of such Shares of Spinco Sub Common Stock to book entry accounts for each such holder or designated transferee of such holder. For stockholders of Quanex who own Quanex Common Stock through a broker or other nominee, their shares of Spinco Sub Common Stock will be credited to their respective accounts by such broker or nominee.

## ARTICLE IV

### SURVIVAL AND INDEMNIFICATION

Section 4.1 *Survival of Agreements*. All representations, warranties, covenants and agreements of the parties hereto contained in this Agreement shall survive the Distribution Date and remain in full force and effect in accordance with their applicable terms.

#### Section 4.2 *Indemnification*.

(a) Except as specifically otherwise provided in the other Transaction Agreements, the Surviving Entity shall indemnify, defend and hold harmless the Quanex Indemnitees from and against all Indemnifiable Losses arising out of or due to the failure of any member of the Spinco Group (i) to pay or satisfy any Spinco Liabilities, whether such Indemnifiable Losses relate to events, occurrences or circumstances occurring or existing, or whether such Indemnifiable Losses are asserted, before, on or after the Distribution Date, (ii) to cause the termination or substitution required by Section 5.5(a) to occur by the Distribution Date or (iii) to perform any of its obligations under this Agreement including any breach by the Surviving Entity of any representation, warranty, covenant or other provision in this Agreement.

(b) Except as specifically otherwise provided in the other Transaction Agreements, Quanex shall indemnify, defend and hold harmless the Spinco Indemnitees from and against all Indemnifiable Losses arising out of or due to the failure of any member of the Quanex Group (i) to pay or satisfy any Quanex Liabilities, whether such Indemnifiable Losses relate to events, occurrences or circumstances occurring or existing, or whether such Indemnifiable Losses are asserted, before, on or after the Distribution Date, (ii) to transfer to the Surviving Entity or any member of the Spinco Group all of the Spinco Assets, (iii) to cause the termination or substitution required by Section 5.5(b) to occur by the Distribution Date or (iv) to perform any of its obligations under this Agreement including any breach by Quanex of any representation, warranty, covenant or other provision in this Agreement.

(c) Notwithstanding anything to the contrary set forth herein, indemnification relating to any arrangements between any member of the Quanex Group and any member of the Spinco Group for the provision after the Distribution Date of goods and services in the ordinary course shall be governed by the terms of such arrangements and not by this Section or as otherwise set forth in this Agreement and the other Transaction Agreements.

(d) Indemnification for matters subject to the Tax Matters Agreement is governed by the terms, provisions and procedures of the Tax Matters Agreement and not by this Article IV.

#### Section 4.3 *Procedures for Indemnification*.

(a) Quanex shall, and shall cause the other Quanex Indemnitees to, notify the Surviving Entity in writing promptly (i) of any claim for indemnification for which any Quanex Indemnitee intends to seek indemnification from the Surviving Entity under this Agreement or (ii) after learning of any Third-Party Claim for which any Quanex Indemnitee intends to seek indemnification from the Surviving Entity under this Agreement. The Surviving Entity shall, and shall cause the other Spinco Indemnitees to, notify Quanex in writing promptly (i) of any claim for indemnification for which any Spinco Indemnitee intends to seek indemnification from Quanex under this Agreement or (ii) after learning of any Third-Party Claim for which any Spinco Indemnitee intends to seek indemnification from Quanex under this Agreement. The failure of any Indemnitee to give such notice shall not relieve any Indemnifying Party of its obligations under this Article IV except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe such indemnification claim or Third-Party Claim in reasonable detail considering the Information provided to the Indemnitee and shall indicate the amount (estimated if necessary) of the Indemnifiable Loss that has been claimed against or may be sustained by such Indemnitee.

(b) Except as otherwise provided in paragraph (c) of this Section 4.3, an Indemnifying Party may, by notice to the Indemnitee and to Quanex, if the Surviving Entity is the Indemnifying Party, or to the Indemnitee and the Surviving Entity, if Quanex is the Indemnifying Party, at any time after receipt by such Indemnifying Party of such Indemnitee's notice of a Third-Party Claim, undertake (itself or through another member of the Group of which the Indemnifying Party is a member) the defense or settlement of such Third-Party Claim, at such Indemnifying Party's own expense and by counsel reasonably satisfactory to the Indemnitee. If an Indemnifying Party undertakes the defense of any Third-Party Claim, such Indemnifying Party shall control the investigation and defense or settlement thereof, and the Indemnitee may not settle or compromise such Third-Party Claim, except that such Indemnifying Party shall not (i) require any Indemnitee, without its prior written consent, to take or refrain from taking any action in connection with such Third-Party Claim, or make any public statement, which such Indemnitee reasonably considers to be against its interests, or (ii) without the prior written consent of the Indemnitee and of Quanex, if the Indemnitee is a Quanex Indemnitee, or the Indemnitee and of the Surviving Entity, if the Indemnitee is a Spinco Indemnitee, consent to any settlement that does not include as a part thereof an unconditional release of the relevant Indemnitees from Liability with respect to such Third-Party Claim or that requires the Indemnitee or any of its Representatives or Affiliates to make any payment that is not fully indemnified under this Agreement or to be subject to any non-monetary remedy. Subject to the Indemnifying Party's control rights, as specified herein, the Indemnitees may participate in such investigation and defense, at their own expense. Following the provision of notices to the Indemnifying Party, until such time as an Indemnifying Party has undertaken the defense of any Third-Party Claim as provided herein, such Indemnitee shall control the investigation and defense or settlement thereof, without prejudice to its right to seek indemnification hereunder.

(c) If an Indemnitee reasonably determines that there may be legal defenses available to it that are different from or in addition to those available to its Indemnifying Party which make it inappropriate for the Indemnifying Party to undertake the defense or settlement thereof, then such Indemnifying Party shall not be entitled to undertake the defense or settlement of such Third-Party Claim; and counsel for the Indemnifying Party shall be entitled to conduct the defense of such Indemnifying Party and counsel for the Indemnitee (selected by the Indemnitee) shall be entitled to conduct the defense of such Indemnitee, in which case the reasonable fees, costs and expenses of such counsel for the Indemnitee (but not more than one counsel reasonably satisfactory to the Indemnifying Party) shall be paid by such Indemnifying Party, it being understood that both such counsel shall cooperate with each other to conduct the defense or settlement of such action as efficiently as possible.

(d) In no event shall an Indemnifying Party be liable for the fees and expenses of more than one counsel for all Indemnitees (in addition to local counsel and its own counsel, if any) in connection with any one action, or separate but similar or related actions, in the same jurisdiction arising out of the same general allegations or circumstances of a Third-Party Claim.

(e) If the Indemnifying Party undertakes the defense or settlement of a Third-Party Claim, the Indemnitee shall make available to the Indemnifying Party and its counsel all information and documents reasonably available to it which relate to any Third-Party Claim, and otherwise cooperate as may reasonably be required in connection with the investigation, defense and settlement thereof, subject to the terms and conditions of a mutually acceptable joint defense agreement.

Section 4.4 *Reductions for Insurance Proceeds and Other Recoveries*. The amount that any Indemnifying Party is or may be required to pay to any Indemnitee pursuant to this Article IV shall be reduced (retroactively or prospectively) by any insurance proceeds or other amounts actually recovered from third parties by or on behalf of such Indemnitee in respect of the related Indemnifiable Losses (net of retrospective premium adjustments, experience-based premium adjustments or other costs to the Indemnifying Party). Notwithstanding the foregoing, it is understood and agreed that the possibility that insurance proceeds may be realized by the Indemnifying Party shall not delay payment or indemnification of such Indemnifiable Losses by Indemnifying Party. All Indemnifiable Losses shall be paid or reimbursed promptly upon determination; the Indemnifying Party shall reimburse the other party in the amount of any insurance proceeds received on account of the facts and circumstances resulting in such Indemnifiable Losses. The Indemnifying Party shall act in good faith to pursue insurance proceeds relating to the Indemnifiable Losses. The existence of a claim by an Indemnitee for insurance or against a third party in respect of any Indemnifiable Loss shall not, however, delay or reduce any payment pursuant to the indemnification provisions contained herein and otherwise determined to be due and owing by an Indemnifying Party. Rather the Indemnifying Party shall make payment in full of such amount so determined to be due and owing by it and, if, and to the extent that, there exists a claim against any third party (other than an insurer) in respect of such Indemnifiable Loss, the Indemnitee shall assign such claim against such third party to the Indemnifying Party or shall otherwise diligently pursue such claim against its insurer. Notwithstanding any other provisions of this Agreement, it is the intention of the parties hereto that no insurer or any other third party shall be (i) entitled to a benefit it would not be entitled to receive in the absence of the foregoing indemnification provisions or (ii) relieved of the responsibility to pay any claims for which it is obligated. If an Indemnitee shall have received the payment required by this Agreement from an Indemnifying Party in respect of any Indemnifiable Losses and shall subsequently actually receive insurance proceeds or other amounts in respect of such Indemnifiable Losses, then such Indemnitee shall hold such insurance proceeds in trust for the benefit of such Indemnifying Party and shall pay to such Indemnifying Party a sum equal to the amount of such insurance proceeds or other amounts actually received, up to the aggregate amount of any payments received from such Indemnifying Party pursuant to this Agreement in respect of such Indemnifiable Losses.

Section 4.5 *Specific Performance*. The parties hereby acknowledge and agree that the failure of any party to perform its agreements and covenants hereunder, including its failure to take all actions as are necessary on its part to the consummation of the Contribution and the Distribution, will cause irreparable injury to the other party for which damages, even if available, will not be an adequate remedy. Accordingly, each party hereby consents to the issuance of injunctive relief by any court of competent jurisdiction to compel performance of such party's obligations and to the granting by any court of the remedy of specific performance of its obligations hereunder.

Section 4.6 *Remedies Exclusive*. The remedies provided in this Article IV shall be the exclusive remedies of the parties with respect to a claim for Indemnifiable Losses hereunder or any other claim with respect to this Agreement.

Section 4.7 *Tax Treatment of Indemnity and Other Payments*. For all Tax purposes, the parties agree to treat any payment to the other party required by this Agreement as either a contribution by Quanex to Spinco or a distribution by Spinco to Quanex, as the case may be, occurring immediately prior to the Distribution, except as otherwise mandated by applicable Law.

Section 4.8 *Survival of Indemnities*. The obligations of each of Quanex and the Surviving Entity under this Article IV shall survive the sale or other transfer by it of any of its assets or business or the assignment by it of any of its Liabilities, with respect to any Indemnifiable Loss of the other related to such assets, business or Liabilities.

## ARTICLE V

### CERTAIN ADDITIONAL COVENANTS

Section 5.1 *Notices to Third Parties*. In addition to the actions described in Section 5.2, the members of the Quanex Group and the members of the Spinco Group shall cooperate to make all other filings and give notice to and obtain consents from all third parties that may reasonably be required to consummate the transactions contemplated by this Agreement and the other Transaction Agreements, including to cause a member of the Spinco Group to succeed Quanex as operator of any of the Spinco Assets (both of record and under contractual arrangements).

Section 5.2 *Licenses and Permits*. Each party hereto shall cause the appropriate members of its Group to prepare and file with the appropriate licensing and permitting authorities applications for the transfer or issuance, as may be necessary or advisable in connection with the transactions contemplated by this Agreement and the other Transaction Agreements, to its Group of all material governmental licenses and permits required for the members of its Group to operate its Business after the Distribution Date. The members of the Spinco Group and the members of the Quanex Group shall cooperate and use commercially reasonable efforts to secure the transfer or issuance of the licenses and permits.

Section 5.3 *Intercompany Agreements*. All contracts, licenses, agreements, commitments and other arrangements, formal and informal, between any member of the Quanex Group, on the one hand, and any member of the Spinco Group, on the other hand, in existence as of the Distribution Date, pursuant to which any member of either Group makes payments in respect of Taxes to any member of the other Group or provides to any member of the other Group goods or services (including management, administrative, legal, financial, accounting, data processing, insurance and technical support), or the use of any Assets of any member of the other Group, or the secondment of any employee, or pursuant to which rights, privileges or benefits are afforded to members of either Group as Affiliates of the other Group, shall terminate as of the close of business on the day prior to the Distribution Date, except as specifically provided in this Agreement or the other Transaction Agreements. From and after the Distribution Date, no member of either Group shall have any rights under any such contract, license, agreement, commitment or arrangement with any member of the other Group, except as specifically provided in this Agreement or the other Transaction Agreements. Each intercompany account between any member of the Quanex Group, on the one hand, and any member of the Spinco Group, on the other hand, as of October 31, 2007 shall be satisfied or settled in the equity accounts of the relevant members of the Spinco Group and the Quanex Group no later than the Distribution Date (unless previously satisfied in accordance with its terms). All intercompany balances created in the ordinary course of business in the Separation Period shall be settled in accordance with Section 5.7 below.

Section 5.4 *Further Assurances*. In addition to the actions specifically provided for elsewhere in this Agreement, each of the parties hereto shall use commercially reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws, regulations and agreements to consummate and make effective the transactions contemplated by this Agreement and the other Transaction Agreements. Without limiting the foregoing, each party hereto shall cooperate with the other party, and execute and deliver, or use commercially reasonable efforts to cause to be executed and delivered, all instruments, and to make all filings with, and to obtain all consents, approvals or authorizations of, any governmental or regulatory authority or any other Person under any permit, license, agreement, indenture or other instrument, and take all such other actions as such party may reasonably be requested to take by any other party hereto from time to time, consistent with the terms of this Agreement and the other Transaction Agreements, in order to effectuate the provisions and purposes of this Agreement.

Section 5.5 *Guarantee Obligations, Liens and Other Obligations*.

(a) Quanex and the Surviving Entity shall use their commercially reasonable efforts, and shall cause their respective Groups to use their commercially reasonable efforts: (x) to terminate, or to cause a member of the Spinco Group to be substituted in all respects for any member of the Quanex Group in respect of, all obligations of any member of the Quanex Group under any Spinco Liabilities for which such member of the Quanex Group may be liable, as guarantor, original tenant, primary obligor or otherwise, and (y) to terminate, or to cause Spinco Assets to be substituted in all respects for any Quanex Assets in respect of, any liens or encumbrances on Quanex Assets which are securing any Spinco Liabilities. If such a termination or substitution is not effected by the Distribution Date, without the prior written consent of Quanex, from and after the Distribution Date, the Surviving Entity shall not, and shall not permit any member of the Spinco Group to, renew or extend the term of, increase its obligations under, or transfer to a third party, any loan, lease, contract or other obligation for which a member of the Quanex Group is or may be liable or for which any Quanex Asset is or may be encumbered unless all obligations of the Quanex Group and all liens and encumbrances on any Quanex Asset with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to Quanex.

(b) Quanex and the Surviving Entity shall use their commercially reasonable efforts, and shall cause their respective Groups to use their commercially reasonable efforts: (x) to terminate, or to cause a member of the Quanex Group to be substituted in all respects for any member of Spinco Group in respect of, all obligations of any member of the Spinco Group under any Quanex Liabilities for which such member of the Spinco Group may be liable, as guarantor, original tenant, primary obligor or otherwise, and (y) to terminate, or to cause Quanex Assets to be substituted in all respects for any Spinco Assets in respect of, any liens or encumbrances on Spinco Assets which are securing any Quanex Liabilities. If such a termination or substitution is not effected by the Distribution Date, without the prior written consent of the Surviving Entity, from and after the Distribution Date, Quanex shall not, and shall not permit any member of the Quanex Group to, renew or extend the term of, increase its obligations under, or transfer to a third party, any loan, lease, contract or other obligation for which a member of the Spinco Group is or may be liable or for which any Spinco Asset is or may be encumbered unless all obligations of the Spinco Group and all liens and encumbrances on any Spinco Asset with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to Spinco.

#### Section 5.6 *Insurance.*

(a) *Rights Under Policies.* Notwithstanding any other provision of this Agreement, from and after the Distribution Date, the Surviving Entity and the Spinco Subsidiaries will have no rights with respect to any Policies, except that (i) Quanex will use commercially reasonable efforts to assist the Surviving Entity in asserting claims for any loss, liability or damage with respect solely to the Spinco Assets or Spinco Liabilities under Policies with third-party insurers which are “occurrence basis” insurance policies (“Occurrence Basis Policies”) arising out of insured incidents occurring from the date coverage thereunder first commenced until the Distribution Date to the extent that the terms and conditions of any such Occurrence Basis Policies and agreements relating thereto so allow and (ii) Quanex will use commercially reasonable efforts to assist the Surviving Entity to continue to prosecute claims with respect solely to Spinco Assets or Spinco Liabilities properly asserted with an insurer prior to the Distribution Date under Policies with third-party insurers which are insurance policies written on a “claims made” basis (“Claims Made Policies”) arising out of insured incidents occurring from the date coverage thereunder first commenced until the Distribution Date to the extent that the terms and conditions of any such Claims Made Policies and agreements relating thereto so allow; provided, that in the case of both clauses (i) and (ii) above, (A) all of Quanex’s and each Quanex Subsidiary’s reasonable costs and expenses incurred in connection with the foregoing are promptly paid by the Surviving Entity, (B) Quanex and the Quanex Subsidiaries may, at any time, without Liability or obligation to the Surviving Entity or any Spinco Subsidiary (other than as set forth in Section 5.6(c)), amend, commute, terminate, buy-out, extinguish liability under or otherwise modify any Occurrence Basis Policies or Claims Made Policies (and such claims shall be subject to any such amendments, commutations, terminations, buy-outs, extinguishments and modifications), and (C) any such claim will be subject to all of the terms and conditions of the applicable Policy. Quanex’s obligation to use commercially reasonable efforts to assist the Surviving Entity in asserting claims under applicable Policies will include using commercially reasonable efforts in assisting the Surviving Entity to establish its right to coverage under such Policies (so long as all of Quanex’s reasonable costs and expenses in connection therewith are promptly paid by Spinco). In the event that the terms and conditions of any Policy do not allow the Surviving Entity the right to assert or prosecute a claim as set forth in clause (i) or (ii) above, then in such case, Quanex shall use commercially reasonable efforts to pursue such claim under such Policy and the Surviving Entity shall promptly pay all of Quanex’s and each Quanex Subsidiary’s reasonable costs and expenses incurred in connection therewith.



(b) *Assistance by Quanex.* Until the first anniversary of the Distribution Date, Quanex will use commercially reasonable efforts to assist the Surviving Entity in connection with any efforts by the Surviving Entity to acquire insurance coverage with respect to the Spinco Business for incidents occurring prior to the Distribution Date; as described in Section 5.6(a) hereof, provided, that all of Quanex's reasonable costs and expenses incurred in connection with the foregoing are promptly paid by the Surviving Entity.

(c) *Quanex Actions.* In the event that after the Distribution Date, Quanex or any Quanex Subsidiary proposes to amend, commute, terminate, buy-out, extinguish liability under or otherwise modify any Policies under which the Surviving Entity has rights to assert claims pursuant to Section 5.6(a) in a manner that would adversely affect any such rights of the Surviving Entity (i) Quanex will give the Surviving Entity prior written notice thereof (it being understood that the decision to take any such action will be in the sole discretion of Quanex) and (ii) Quanex will pay to the Surviving Entity its equitable share (which shall be determined by Quanex in good faith based on the amount of premiums paid or allocated to the Spinco Business in respect of the applicable Policy) of any net proceeds actually received by Quanex from the insurer under the applicable Policy as a result of such action by Quanex (after deducting Quanex's reasonable costs and expenses incurred in connection with such action). The Tax treatment of any such payments to Spinco by Quanex shall be handled in accordance with Section 4.7.

(d) *Administration.* From and after the Distribution Date:

(i) Quanex or a Quanex Subsidiary, as appropriate, will be responsible for the Claims Administration with respect to claims of Quanex and the Quanex Subsidiaries under the Policies; and

(ii) the Surviving Entity or a Spinco Subsidiary, as appropriate, will be responsible for the Claims Administration with respect to claims of the Surviving Entity and the Spinco Subsidiaries under the Policies.

(e) *Insurance Premiums.* Subject to clause (B) of the proviso to Section 5.6(a), from and after the Distribution Date, Quanex will pay, if so directed by the Surviving Entity, all premiums (retrospectively-rated or otherwise) as required under the terms and conditions of the respective Policies in respect of periods prior to the Distribution Date, whereupon the Surviving Entity will upon the request of Quanex, promptly reimburse Quanex for that portion of such premiums paid by Quanex as are reasonably determined by Quanex (and reasonably approved by Spinco) to be attributable to the Spinco Business.

(f) *Agreement for Waiver of Conflict and Shared Defense.* In the event that a Policy provides coverage for both Quanex and/or a Quanex Subsidiary, on the one hand, and the Surviving Entity and/or a Spinco Subsidiary, on the other hand, relating to the same occurrence or claim, Quanex and the Surviving Entity agree to defend jointly and to waive any conflict of interest necessary to the conduct of that joint defense.

(g) Nothing in this Section 5.6 will be construed to limit or otherwise alter in any way the indemnity obligations of the parties to this Agreement, including those created by this Agreement.

*Section 5.7 Cash Separation.*

(a) During the Separation Period, Quanex covenants, represents and warrants with the Surviving Entity that separate and independent bank accounts (the "Quanex Accounts") or ledgers for the Quanex Business have and will be operated by, or, as applicable, on behalf of, Quanex and maintained in accordance with Quanex' normal practice and such records and bank accounts shall be capable of evidencing, on a daily basis, all Cash Inflows and Cash Outflows of the Quanex Business during the Separation Period.

(b) During the Separation Period, the Surviving Entity covenants, represents and warrants with Quanex that separate and independent bank accounts (the "Spinco Accounts") or ledgers for the Spinco Business have and will be operated by, or, as applicable, on behalf of, the Surviving Entity and maintained in accordance with normal practice.

(c) During the Separation Period, to the extent practicable, Quanex shall discharge Liabilities incurred by the Quanex Business with cash amounts held in the Quanex Accounts, and the Surviving Entity shall discharge Liabilities incurred by the Spinco Business with cash amounts held in the Spinco Accounts. Within ten days following the end of each calendar month during the Separation Period, Quanex and the Surviving Entity shall settle the net amount of any Liabilities paid for by the other during the previous calendar month. A final settlement between Quanex and the Surviving Entity of the net amount of any Liabilities paid for by the other in the calendar month including the Distribution Date shall be made prior to the Distribution.

(d) During the Separation Period, Quanex covenants, represents and warrants with the Surviving Entity and the Surviving Entity covenants, represents and warrants with Quanex that no intercompany receivable or payable has or shall be created other than in the ordinary course of business at the then applicable current market prices and on terms no less favorable than could be obtained from a third-party in the ordinary course of business.

(e) From and after the Distribution Date, no employee of the:

(i) Spinco Group shall have any authority to access or control any ledgers or bank accounts of the Quanex Group; and

(ii) Quanex Group shall have any authority to access or control any ledgers or bank accounts of the Spinco Group.

(f) Within ten Business Days from the Distribution Date, Quanex and Spinco shall prepare and send to the other statements showing ledgers, records and bank accounts which clearly evidence, on a daily basis and during the Separation Period:

(i) in respect of the Quanex Group all Cash Inflows and Cash Outflows of the Quanex Business; and

(ii) in respect of the Spinco Group all cash inflows and cash outflows of the Spinco Business.

Section 5.8 *The Merger*. Quanex agrees that it will complete the Merger promptly following the Distribution and in no case later than the date that the Distribution takes place. For U.S. federal income tax purposes, the parties will treat the Distribution and the Merger as a part of a single integrated transaction in redemption and disposition of the shares of Quanex Common Stock.

## ARTICLE VI

### ACCESS TO INFORMATION

Section 6.1 *Provision of Corporate Records*. Prior to or as promptly as practicable after the Distribution Date, Quanex shall deliver or make available to the Surviving Entity all corporate books and records of the Spinco Group in its possession and complete and accurate copies of all relevant portions of all corporate books and records of the Quanex Group relating directly and predominantly to the Spinco Assets, the Spinco Business, or the Spinco Liabilities. Quanex may retain complete and accurate copies of such books and records. From and after the Distribution Date, all such books, records and copies shall be the property of the Surviving Entity. Prior to or as promptly as practicable after the Distribution Date, the Surviving Entity shall deliver or make available to Quanex all corporate books and records of the Quanex Group in its possession and complete and accurate copies of all relevant portions of all corporate books and records of the Spinco Group relating directly and predominantly to the Quanex Assets, the Quanex Business, or the Quanex Liabilities. The Surviving Entity may retain complete and accurate copies of such books and records. From and after the Distribution Date, all such books, records and copies shall be the property of Quanex. The costs and expenses incurred in the provision of records or other information to a party shall be paid for (including reimbursement of costs incurred by the receiving party) by the delivering party.

Section 6.2 *Access to Information*. From and after the Distribution Date, each of Quanex and the Surviving Entity shall afford to the other and to the other's Representatives reasonable access and duplicating rights during normal business hours to all Information within the possession or control of such party's Group relating to the other party's Group's pre-Distribution business, Assets or Liabilities or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date, to the extent such access is reasonably required for a reasonable purpose, subject to the provisions below regarding Privileged Information. Without limiting the foregoing, Information may be requested under this Section 6.2 for audit, accounting, regulatory, claims and litigation purposes, as well as for purposes of fulfilling disclosure and reporting obligations.

In furtherance of the foregoing:

(a) Each party hereto acknowledges that: (i) each of Quanex and the Surviving Entity (and the members of the Quanex Group and the Spinco Group, respectively) has or may obtain Privileged Information; (ii) there are and/or may be a number of Litigation Matters affecting each or both of Quanex and the Surviving Entity; (iii) both Quanex and the Surviving Entity have a common legal interest in Litigation Matters, in the Privileged Information and in the preservation of the confidential status of the Privileged Information, in each case relating to the pre-Distribution business of the Quanex Group or the Spinco Group or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date; and (iv) both Quanex and the Surviving Entity intend that the transactions contemplated hereby and by the other Transaction Agreements and any transfer of Privileged Information in connection therewith shall not operate as a waiver of any potentially applicable privilege.

(b) Each of Quanex and the Surviving Entity agrees, on behalf of itself and each member of the Group of which it is a member, not to disclose or otherwise waive any privilege attaching to any Privileged Information relating to the pre-Distribution business of the other Group or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date, without providing prompt written notice to and obtaining the prior written consent of the other, which consent shall not be unreasonably withheld; provided, however, that Quanex and the Surviving Entity shall not be required to give any such notice or obtain any such consent and may make such disclosure or waiver with respect to Privileged Information if such Privileged Information relates solely to the pre-Distribution business of the Quanex Group in the case of Quanex or the Spinco Group in the case of the Surviving Entity. In the event of a disagreement between any member of the Quanex Group and any member of the Spinco Group concerning the reasonableness of withholding such consent, no disclosure shall be made prior to a resolution of such disagreement by a court of competent jurisdiction, provided that the limitations in this sentence shall not apply in the case of disclosure required by Law.

(c) Upon any member of the Quanex Group or any member of the Spinco Group receiving any subpoena or other compulsory disclosure notice from a court, other governmental agency or otherwise which requests disclosure of Privileged Information, in each case relating to pre-Distribution business of the Spinco Group or the Quanex Group, respectively, or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date, the recipient of the notice shall promptly provide to the other Group (following the notice provisions set forth herein) a copy of such notice, the intended response, and all materials or information relating to the other Group that might be disclosed. In the event of a disagreement as to the intended response or disclosure, unless and until the disagreement is resolved by a court of competent jurisdiction as provided in paragraph (b) of this Section, each of Quanex and the Surviving Entity shall cooperate to assert all defenses to disclosure claimed by either party's Group, and shall not disclose any disputed documents or information until all legal defenses and claims of privilege have been finally determined, except as otherwise required by a court order requiring such disclosure.

Section 6.3 *Production of Witnesses*. Subject to Section 6.2, after the Distribution Date, each of Quanex and the Surviving Entity shall, and shall cause each member of its respective Group to make available to the Surviving Entity or Quanex or any member of the Spinco Group or of the Quanex Group, as the case may be, upon written request, such Group's directors, officers, employees and agents as witnesses to the extent that any such Person may reasonably be required in connection with any Litigation Matters, administrative or other proceedings in which the requesting party may from time to time be involved and relating to the pre-Distribution business of the Quanex Group or the Spinco Group or relating to or in connection with the relationship between the Groups on or prior to the Distribution Date. The costs and expenses incurred in the provision of such witnesses shall be paid by the party requesting the availability of such persons.

Section 6.4 *Retention of Records*. Except as otherwise agreed in writing, or as otherwise provided in the other Transaction Agreements, each of Quanex and the Surviving Entity shall, and shall cause the members of the Group of which it is a member to, retain all Information in such party's Group's possession or under its control, relating directly and predominantly to the pre-Distribution business, Assets or Liabilities of the other party's Group until such Information is at least ten years old or until such later date as may be required by Law, except that if, prior to the expiration of such period, any member of either party's Group wishes to destroy or dispose of any such Information that is at least three years old, prior to destroying or disposing of any of such Information, (a) the party whose Group is proposing to dispose of or destroy any such Information shall provide no less than 30 days' prior written notice to the other party, specifying the Information proposed to be destroyed or disposed of, and (b) if, prior to the scheduled date for such destruction or disposal, the other party requests in writing that any of the Information proposed to be destroyed or disposed of be delivered to such other party, the party whose Group is proposing to dispose of or destroy such Information promptly shall arrange for the delivery of the requested Information to a location specified by, and at the expense of, the requesting party.

Section 6.5 *Confidentiality*. Subject to Section 6.2, which shall govern Privileged Information, from and after the Distribution Date, each of Quanex and the Surviving Entity shall hold, and shall use reasonable best efforts to cause its Affiliates and Representatives to hold, in strict confidence all Information concerning the other party's Group obtained by it prior to the Distribution Date or furnished to it by such other party's Group pursuant to this Agreement or the other Transaction Agreements and shall not release or disclose such Information to any other Person, except its Affiliates and Representatives, who shall be advised of the provisions of this Section 6.5, and each party shall be responsible for a breach by any of its Affiliates or Representatives; provided, however, that any member of the Quanex Group or the Spinco Group may disclose such Information to the extent that (a) disclosure is compelled by judicial or administrative process or, based on advice of such Person's counsel, by other requirements of law, so long as the other party is provided with reasonable prior notice of, and a reasonable opportunity to challenge, any such disclosure, or (b) such party can show that such Information was (i) in the public domain through no fault of such Person or (ii) lawfully acquired by such Person from another source after the time that it was furnished to such Person by the other party's Group, and not acquired from such source subject to any confidentiality obligation on the part of such source known to the acquiror. Notwithstanding the foregoing, each of Quanex and the Surviving Entity shall be deemed to have satisfied its obligations under this Section 6.5 with respect to any Information (other than Privileged Information) if it exercises the same care with regard to such Information as it takes to preserve confidentiality for its own similar Information, provided that such care is at least a reasonable degree of care.

Section 6.6 *Cooperation with Respect to Government Reports and Filings*. Quanex, on behalf of itself and each member of the Quanex Group, agrees to provide any member of the Spinco Group, and the Surviving Entity, on behalf of itself and each member of the Spinco Group, agrees to provide any member of the Quanex Group, with such cooperation and Information as may be reasonably requested by the other in connection with the preparation or filing of any government report or other government filing contemplated by this Agreement or in conducting any other government proceeding relating to the business of the Quanex Group or the Spinco Group, Assets or Liabilities of either Group or relating to or in connection with the relationship between the Groups prior to, on or after the Distribution Date. Each party shall promptly forward copies of appropriate notices, forms and other communications received from or sent to any government authority which relate to the Quanex Group, in the case of the Spinco Group, or the Spinco Group, in the case of the Quanex Group. Each party shall make its employees and facilities available during normal business hours and on reasonable prior notice to provide explanation of any documents or Information provided hereunder.

Section 6.7 *Tax Matters Agreement*. None of the provisions of this Article VI are intended to supersede any provision in the Tax Matters Agreement with respect to matters related to Taxes.

## ARTICLE VII

### REPRESENTATIONS AND WARRANTIES

Section 7.1 *No Representations or Warranties*. Except as expressly set forth in this Agreement or any other Transaction Agreement, the Surviving Entity and Quanex understand and agree that no member of the Quanex Group is representing or warranting to the Surviving Entity or any member of the Spinco Group in any way as to the Spinco Assets, the Spinco Business or the Spinco Liabilities. Except as expressly set forth in this Agreement or any other Transaction Agreement, Quanex and the Surviving Entity understand and agree that no member of the Spinco Group is representing or warranting to Quanex or any member of the Quanex Group in any way as to the Quanex Assets, the Quanex Business or the Quanex Liabilities.

Section 7.2 *Operations, No Liabilities*. The Surviving Entity hereby represents and warrants to Quanex that, as of the Distribution Date, none of Quanex Bar, Inc., Quanex Steel Inc., Quanex Solutions, Inc., Quanex Health Management Company, Inc., Quanex Nine, Inc., Quanex Ten, Inc., Quanex Eleven, Inc., and Quanex Twelve, Inc., has engaged in any business activities nor will have any material Liabilities.

Section 7.3 *Solvency*. Spinco hereby represents and warrants to Quanex that each of Spinco and the Spinco Subsidiaries will be Solvent as of the Distribution Date and immediately after the consummation of the Merger Agreement.

Section 7.4 *Organization, Good Standing, Authorization*.

(a) Each of Spinco and Spinco Sub hereby represents and warrants to Quanex as follows:

(i) Spinco is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware and has all limited liability company power required to consummate the transactions contemplated hereby, and Spinco Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all corporate power required to consummate the transactions contemplated hereby;

(ii) The execution, delivery and performance by Spinco and Spinco Sub of this Agreement and the consummation by Spinco and Spinco Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Spinco and Spinco Sub. This Agreement constitutes, and each other agreement or instrument executed and delivered or to be executed and delivered by Spinco and Spinco Sub pursuant to this Agreement will, upon such execution and delivery, constitute a legal, valid and binding obligation of Spinco and Spinco Sub, enforceable against Spinco and Spinco Sub in accordance with its terms, subject to the effects of bankruptcy or insolvency.

(b) Quanex hereby represents and warrants to Spinco and Spinco Sub as follows:

(i) Quanex is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all corporate power required to consummate the transactions contemplated hereby;

(ii) The execution, delivery and performance by Quanex of this Agreement and the consummation by Quanex of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Quanex. This Agreement constitutes, and each other agreement or instrument executed and delivered or to be executed and delivered by Quanex pursuant to this Agreement will, upon such execution and delivery, constitute a legal, valid and binding obligation of Quanex, enforceable against Quanex in accordance with its terms, subject to the effects of bankruptcy or insolvency.

Section 7.5 *Financial Statements*. Spinco hereby represents and warrants to Quanex as follows:

(a) The unaudited consolidating balance sheet and the unaudited corporate balance sheet contained Schedule 7.5 (the “Supplemental Financial Statements”) is complete and accurate and the Financial Statements were prepared in the ordinary course and on a basis and in a manner consistent with past practice.

(b) As of October 31, 2007 the Supplemental Financial Statements fairly present the financial position of the Quanex Business, the Spinco Business and the corporate level assets and liabilities of the Quanex.

## ARTICLE VIII

### MISCELLANEOUS

Section 8.1 *Conditions to the Distribution*. The following are conditions to consummate any part of the Distribution:

(a) All material consents, approvals and authorizations of any Governmental Entity legally required for the making of the Distribution and the consummation of the other transactions contemplated by this Agreement and the other Transaction Agreements shall have been obtained and be in effect in all material respects at the Distribution Date;

(b) No court of competent jurisdiction or other Governmental Entity shall have issued any decree, judgment, injunction, writ, rule or other order that is in effect restraining, enjoining, prohibiting or otherwise imposing any material restrictions or limitations on the Distribution;

(c) The Form 10 Registration Statement shall have become declared effective in accordance with the Securities Act and shall not be the subject of any stop order or proceedings seeking a stop order and all necessary permits and authorizations under state securities or "blue sky" laws, the Securities Act and the Exchange Act relating to the issuance of units of Spinco Interests to be issued in connection with the Distribution shall have been obtained and shall be in effect;

(d) The Spinco Sub Common Stock shall have been approved for listing on the Exchange, subject to official notice of issuance;

(e) No action, proceeding or investigation by any Governmental Entity with respect to the Distribution shall be pending that seeks to restrain, enjoin, prohibit or delay the making of the Distribution or to impose any material restrictions or requirements thereon or on any of the parties with respect thereto; and

(f) No action shall have been taken, and no statute, rule, regulation or executive order shall have been enacted, entered, promulgated or enforced by any Governmental Entity with respect to the Distribution that, individually or in the aggregate, would (i) restrain, prohibit or delay the making of the Distribution or (ii) impose any material restrictions or requirements thereon or on any of the parties with respect thereto.

Section 8.2 *Complete Agreement*. This Agreement (including the Schedules attached hereto), the other Transaction Agreements and other documents referred to herein shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter. In the case of any conflict between the terms of this Agreement and the terms of any other Transaction Agreement, the terms of such other Transaction Agreement shall be applicable.

Section 8.3 *Expenses*. Except as otherwise set forth herein, whether or not the Distribution or the other transactions contemplated by this Agreement are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby (including costs and expenses attributable to the separation of the Assets as contemplated herein) shall be divided evenly between Quanex and Spinco.

Section 8.4 *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without reference to its conflicts of laws principles.

Section 8.5 *Notices*. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed given upon (a) a transmitter's confirmation of a receipt of a facsimile transmission (but only if followed by confirmed delivery of a standard overnight courier the following Business Day or if delivered by hand the following Business Day), (b) confirmed delivery of a standard overnight courier or when delivered by hand or (c) the expiration of five Business Days after the date mailed by certified or registered mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):



If to Quanex or any member of the Quanex Group prior to the Distribution Date, to:

Quanex Corporation  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
Attention: General Counsel  
Facsimile: (713) 626-7549

and

Gerdau S.A.  
Avenida Farrapos, 1811  
Porto Alegre, RS 90220-005  
Brazil  
Attention: Expedito Luz  
Fax: 55-51-3323-2288

with a copy to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Michael W. Conlon  
Facsimile: (713) 651-5246

and

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
Attention: Alan Klein  
Facsimile: (212) 455-2502

If to Quanex or any member of the Quanex Group following the Distribution Date, to:

Gerdau S.A.  
Avenida Farrapos, 1811  
Porto Alegre, RS 90220-005  
Brazil  
Attention: Expedito Luz  
Fax: 55-51-3323-2288

with a copy to:

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
Attention: Alan Klein  
Facsimile: (212) 455-2502

If to Spinco, Spinco Sub, or any member of the Spinco Group, to:

Quanex Building Products LLC  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
Attention: President  
Facsimile: (713) 626-7549

with a copy (which shall not constitute effective notice) to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Michael W. Conlon  
Facsimile: (713) 651-5246

or to such other address as any party hereto may have furnished to the other parties by a notice in writing in accordance with this Section.

Section 8.6 *Amendment and Modification*. This Agreement may be amended, modified or supplemented only by a written agreement signed by all of the parties hereto.

Section 8.7 *Successors and Assigns; No Third-Party Beneficiaries*. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns, but neither this Agreement nor any of the rights, interests and obligations hereunder shall be assigned by any party hereto without the prior written consent of the other party. Except for the provisions of Sections 4.2 and 4.3 relating to indemnities, which are also for the benefit of the Indemnitees, this Agreement is solely for the benefit of Quanex and Spinco and their respective Subsidiaries, Affiliates, successors and assigns, and is not intended to confer upon any other Persons any rights or remedies hereunder.

Section 8.8 *Counterparts*. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 8.9 *Interpretation*. The Article and Section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties hereto and shall not in any way affect the meaning or interpretation of this Agreement. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”.

Section 8.10 *Severability*. If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party.

Section 8.11 *References; Construction*. References to any “Article,” “Exhibit,” “Schedule” or “Section,” without more, are to Articles, Exhibits, Schedules and Sections to or of this Agreement.

Section 8.12 *Termination*. Notwithstanding any provision hereof, this Agreement may be terminated and the Distribution abandoned at any time prior to the Distribution Date by and in the sole discretion of the Board of Directors of Quanex. In the event of such termination, neither Quanex, Spinco nor Spinco Sub shall have any Liability by reason of this Agreement, except as provided in any other Transaction Agreement.

Section 8.13 *Consent to Jurisdiction and Service of Process*. Each of the parties to this Agreement hereby irrevocably and unconditionally agrees to be subject to, and hereby consents and submits to, the jurisdiction of the courts of the State of Texas and of the federal courts sitting in the Southern District of Texas.

Section 8.14 *Waivers*. Except as provided in this Agreement, no action taken pursuant to this Agreement, including any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

Section 8.15 *Specific Performance*. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or in equity.

Section 8.16 *Waiver of Jury Trial*. Each of the parties hereto irrevocably and unconditionally waives all right to trial by jury in any litigation, claim, action, suit, arbitration, inquiry, proceeding, investigation or counterclaim (whether based in contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the parties hereto in the negotiation, administration, performance and enforcement thereof.

Section 8.17 *Use of Name*. Following the Distribution Date, certain of the Quanex Assets or Quanex Business may bear, contain or use “Quanex” marks, including signage, yellow pages, stationery and websites. Quanex will as soon as reasonably practicable, but in any event within 90 days following the Distribution Date, take such action to remove and/or replace such references and such removal or replacement shall not denigrate the “Quanex” mark.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

Quanex Corporation

By: /s/ Thomas M. Walker  
Thomas M. Walker  
Senior Vice President — Finance and  
Chief Financial Officer

Quanex Building Products LLC

By: /s/ Kevin P. Delaney  
Kevin P. Delaney  
Senior Vice President — General Counsel  
and Secretary

Quanex Building Products Corporation

By: /s/ Kevin P. Delaney  
Kevin P. Delaney  
Senior Vice President — General Counsel  
and Secretary

**TAX MATTERS AGREEMENT**

**BY AND AMONG**

**QUANEX CORPORATION,**

**QUANEX BUILDING PRODUCTS LLC**

**AND**

**QUANEX BUILDING PRODUCTS CORPORATION**

**Dated as of December 19, 2007**

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## TAX MATTERS AGREEMENT

This Tax Matters Agreement (this "Agreement") is entered into as of December 19, 2007, by and among Quanex Corporation, a Delaware corporation ("Quanex"), Quanex Building Products LLC, a Delaware limited liability company and a wholly-owned subsidiary of Quanex ("Spinco"), and Quanex Building Products Corporation, a Delaware corporation and a wholly-owned subsidiary of Spinco ("Spinco Sub").

### Recitals

WHEREAS, as of the date hereof, Quanex is the common parent corporation of an affiliated group (as defined in Section 1504 of the Code) of corporations (the "Quanex Consolidated Group") that has elected to file consolidated U.S. federal income tax returns;

WHEREAS, the Quanex Consolidated Group currently includes the eligible domestic Spinco Group Members;

WHEREAS, after the Cutoff Date and prior to the Distribution Date, Quanex intends, pursuant to the terms of the Distribution Agreement and subject to conditions set forth therein, to transfer or cause to be transferred to Spinco all of the Spinco Assets, which represent substantially all of the assets comprising the Building Products Business, and Spinco intends to assume all of the Spinco Liabilities, as contemplated by the Distribution Agreement (the "Contribution");

WHEREAS, after the Contribution and prior to the Distribution Date, Quanex may cause one or more of the Spinco Group Members that are corporations to convert into, merge with and into or otherwise transfer all of their assets, subject to all of their liabilities, to limited liability companies, of which Quanex or another Spinco Group Member will be the sole member (collectively, such transactions are the "Conversions");

WHEREAS, either before or after the Distribution, Spinco will merge with and into Spinco Sub (the "Spinco Merger") pursuant to the Spinco Merger Agreement;

WHEREAS, on the Distribution Date and pursuant to the terms of the Distribution Agreement and subject to conditions set forth therein, Quanex will distribute (the "Distribution") on a pro rata basis to the holders as of the Record Date of the outstanding Quanex Common Stock (the "Quanex Stockholders") either (a) all of the limited liability company interest (the "Membership Interest") of Spinco (if the Spinco Merger occurs after the Distribution) or (b) the shares of Spinco Sub stock (if the Spinco Merger occurs prior to the Distribution); and

WHEREAS, in contemplation of the Conversions, the Contribution, the Distribution and the Spinco Merger, the Companies desire to enter into this Agreement (a) to provide for the allocation between them of the liabilities for Taxes arising prior to, as a result of and subsequent to the Distribution and (b) to provide for and agree upon other matters relating to Taxes;

## AGREEMENTS

Now, THEREFORE, in consideration of the mutual agreements contained herein, the Companies hereby agree as follows:

### Section 1. Definition and Construction.

#### Section 1.1. Definitions of Capitalized Terms.

For purposes of this Agreement (including the recitals hereof), the following capitalized terms shall have the meanings set forth below:

“Accounting Cutoff Date” means, with respect to any Spinco Group Member, any date as of the end of which there is a closing of its financial accounting records.

“Additional Tax” means:

- (a) with respect to any Tax imposed on or attributable to any Group Member for which Quanex or the Surviving Entity, as applicable, is otherwise responsible under this Agreement, an amount equal to the excess (if any) of (1) the cumulative amount of Tax for which Quanex or the Surviving Entity, as applicable, is otherwise responsible under this Agreement determined after taking into account any and all actions described in Section 2.6(b), over (2) the cumulative amount of Tax that Quanex or the Surviving Entity, as applicable, would otherwise be responsible for under this Agreement determined without taking into account any actions described in Section 2.6(b); and
- (b) subject to clause (a) and without duplication, with respect to any action described in Section 2.6(b) that affects a Tax Asset of any Group Member, an amount equal to the Tax Benefits from such Tax Asset that Quanex or the Surviving Entity, as applicable, would have otherwise recognized if such action had not occurred.

For purposes of this Agreement, the term “Additional Tax” does not include any Distribution and Restructuring Taxes.

“Adjustment Request” means any formal or informal claim or request filed with any Tax Authority, or with any administrative agency or court, for the adjustment, refund or credit of Taxes, including (a) any amended Tax Return claiming adjustment to the Taxes as reported on the Tax Return or, if applicable, as previously adjusted, or (b) any claim for refund or credit of Taxes previously paid.

“Affiliate” means any Person that directly or indirectly is “controlled” by the other Person in question. For purposes of the term “Affiliate”, the term “controlled” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise. Except as otherwise provided herein, the term “Affiliate” shall refer to Affiliates of a Person as determined after the Distribution.

“Agreement” shall have the meaning provided in the preamble.

“Building Products Business” means the building products business conducted by Quanex through the Spinco Group.

“Carryback Item” means any net operating loss, net capital loss, excess tax credit or other similar Tax item which may or must be carried from a Tax Period to a previous Tax Period under the Code or other applicable Tax Law.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor law.

“Combined Tax Return” means, with respect to any Tax, a Tax Return filed on a combined, consolidated or unitary basis that includes one or more Quanex Group Members and one or more Spinco Group Members or in which Tax Items of one or more Quanex Group Members may be combined with or offset against the Tax Items of one or more Spinco Group Members.

“Companies” means Quanex, Spinco and Spinco Sub, collectively, and “Company” means, as the context requires, Quanex, Spinco or Spinco Sub.

“Controlling Company” shall have the meaning provided in Section 7.3.

“Contribution” shall have the meaning provided in the recitals to this Agreement.

“Conversions” shall have the meaning provided in the recitals to this Agreement.

“Cutoff Date” means October 31, 2007.

“Default Rate” means a rate of interest equal to the underpayment rate provided in Section 6621(c) of the Code, determined as of the date any applicable payment required to be made under this Agreement is due.

“Distributed Corporation” shall have the meaning provided in Section 4.3(b)(2)(ii).

“Distribution” shall have the meaning provided in the recitals to this Agreement.

“Distribution Agreement” means that certain Distribution Agreement dated December 19, 2007, as amended from time to time, among Quanex, Spinco and Spinco Sub setting forth the corporate transactions required to effect the Distribution, and to which this Agreement is attached as an exhibit.

“Distribution Date” means the Distribution Date as that term is defined in the Distribution Agreement.

“Distribution and Restructuring Taxes” means (i) any Taxes, calculated without regard to any Tax Assets of the Quanex Group, imposed on any Quanex or Spinco Group Member resulting from, or arising in connection with, the Distribution (for the avoidance of doubt, including any liability for Taxes, withholding taxes or other Taxes arising from a failure to properly withhold Taxes in respect of the Distribution) or (ii) any and all Taxes imposed on or attributable to any Quanex or Spinco Group Member that arise from or are attributable to such Group Member’s distribution, transfer, assignment, other disposition, receipt, purchase or other acquisition of the Spinco Assets pursuant to the Restructuring, however effected.

“Election Statement” shall have the meaning provided in Section 4.3(b)(2)(ii).

“Entity” means a partnership (whether general or limited), a corporation, a limited liability company, an association, a joint stock company, a trust, a joint venture, an unincorporated organization or any other entity, without regard to whether it is treated as a disregarded entity for U.S. federal tax purposes.

“Equity Award” means any equity-based incentive compensation award, grant or agreement that provides for the delivery of shares of Quanex stock to any Person as compensation for services, including, but not limited to, an option to acquire shares of Quanex stock (or other equity-based incentives, the economic value of which is designed to mirror that of an option, including incentive stock options, non-qualified stock options, discounted non-qualified stock options, cliff options and tandem stock options), restricted stock, restricted stock units, stock appreciation rights, phantom stock units, performance shares, dividend equivalents, stock payments, deferred stock payments, performance-based awards or warrants granted under any plan, agreement or arrangement to the extent shares of Quanex stock are issued, issuable or transferred (as opposed to cash compensation).

“Federal Income Tax” means any Tax imposed by Subtitle A or F of the Code.

“Final Determination” means the final resolution of liability for any Tax, which resolution may be for a specific issue or adjustment or for a Taxable Period, (a) by IRS Form 870 or 870-AD (or any successor forms thereto), on the date of acceptance by or on behalf of the Controlling Company, or by a comparable form under the Tax Laws of a state, local or foreign taxing jurisdiction, except that a Form 870 or 870-AD or comparable form shall not constitute a Final Determination to the extent that it reserves (whether by its terms or by operation of law) the right of the Controlling Company to file a claim for refund or the right of the Tax Authority to assert a further deficiency in respect of such issue or adjustment or for such Taxable Period (as the case may be); (b) by a decision, judgment, decree, or other order by a court of competent jurisdiction, which has become final and unappealable; (c) by a closing agreement or accepted offer in compromise under Sections 7121 or 7122 of the Code, or a comparable agreement under the Tax Laws of a state, local or foreign taxing jurisdiction; (d) by any allowance of a refund or credit in respect of an overpayment of Tax, but only after the expiration of all periods during which such refund may be recovered (including by way of offset) by the jurisdiction imposing such Tax; (e) by a final settlement resulting from a treaty-based competent authority determination; or (f) by any other final disposition, including by reason of the expiration of the applicable statute of limitations.

“Foreign Income Tax” means any Tax imposed by any foreign country or any possession of the United States, or by any political subdivision of any foreign country or possession of the United States, which is an “income tax” as defined in Treasury Regulations Section 1.901-2.

“Group” means the Quanex Group or the Spinco Group, as the context requires, and the term “Groups” means the Quanex Group and the Spinco Group.

“Group Member” means, as the context requires, any Quanex Group Member or any Spinco Group Member.

“Income Tax” means each of any Federal Income Tax, State Income Tax or Foreign Income Tax, as the context requires.

“Income Tax Return” means any Tax Return filed or required to be filed with any Tax Authority with respect to an Income Tax.

“Indemnification Expenses” shall have the meaning provided in Section 7.3.

“Indemnified Company” means (a) Quanex, in cases where it is entitled to be indemnified for Losses by the Surviving Entity under this Agreement, and (b) the Surviving Entity, in cases where it is entitled to be indemnified for Losses by Quanex under this Agreement.

“Indemnifying Company” means (i) Quanex, in cases where it is obligated to indemnify the Surviving Entity for Losses under this Agreement, and (ii) the Surviving Entity, in cases where it is obligated to indemnify Quanex for Losses under this Agreement.

“Independent Firm” means a nationally recognized accounting firm; provided, however, that such term shall not include any accounting firm that performs or has performed audit services with respect to any Company.

“IRS” means the Internal Revenue Service.

“Loss” means any loss, cost, fine, penalty, fee, damage, obligation, liability, payment in settlement, Tax or other expense of any kind, including reasonable attorneys’ fees and costs, but excluding any consequential, special, punitive or exemplary damages.

“Membership Interest” shall have the meaning provided in the recitals to this Agreement.

“Other Tax” means any Tax that is not an Income Tax, and specifically includes any value added tax, any real or personal property Tax, any flat minimum dollar Tax, any withholding Tax or any capital duty tax.

“Payment Period” shall have the meaning provided in Section 5.5.

“Person” means an individual, any Entity or a governmental entity or any department, agency or political subdivision thereof.

“Post-Cutoff Period” means, with respect to any Income Tax, any Tax Period beginning after the Cutoff Date, and, in the case of any Straddle Period, the portion of such Straddle Period beginning on the day after the Cutoff Date.

“Pre-Cutoff Period” means, with respect to any Income Tax, any Tax Period ending on or before the Cutoff Date, and, in the case of any Straddle Period, the portion of such Straddle Period ending on and including the Cutoff Date.

“Preparing Company” shall have the meaning provided in Section 5.1(c).

“Prior Tax Allocation Agreements” means any written or oral agreement or any other arrangements relating to the allocation of Taxes existing between or among any Quanex Group Member and any Spinco Group Member as of the Cutoff Date (other than this Agreement).

“Quanex” shall have the meaning provided in the preamble to this Agreement.

“Quanex Combined Tax Return” means a Combined Tax Return that a Quanex Group Member is responsible for filing under applicable Tax Law.

“Quanex’ Combined Tax Return Estimated Income Tax Payment” shall have the meaning provided in Section 5.1(a)(1)(ii).

“Quanex’ Combined Tax Return Separate Income Tax Liability” shall have the meaning provided in Section 5.1(b)(1)(ii).

“Quanex Consolidated Group” shall have the meaning provided in the recitals to this Agreement.

“Quanex’ Estimated Income Tax Payment” shall have the meaning provided in Section 5.1(a)(2).

“Quanex Filed Returns” shall have the meaning provided in Section 4.1(a).

“Quanex Group” means, collectively, Quanex and its direct and indirect Subsidiaries, but excluding any Spinco Group Member.

“Quanex Group Member” means, individually, each member of the Quanex Group, and the term “Quanex Group Members” means, collectively, as the context requires, all or less than all of the members of the Quanex Group.

“Quanex Indemnitees” shall have the meaning provided in Section 2.1(b).

“Quanex Separate Return” means, with respect to any Tax, a Tax Return that includes only Quanex Group Members.

“Quanex’ Separate Income Tax Liability” shall have the meaning provided in Section 5.1(b)(2).

“Quanex Stockholders” shall have the meaning provided in the recitals to this Agreement.

“Receiving Company” shall have the meaning provided in Section 5.1(c).

“Record Date” means the Record Date as that term is defined in the Distribution Agreement.

“Reimbursement Statement” shall have the meaning provided in Section 7.3.

“Restructuring” means the restructuring by Quanex of the Spinco Assets related to the Building Products Business to cause the Spinco Assets to be held by the Spinco Group, including the Conversions, but does not include the Distribution.

“Revised Tax Payment” shall have the meaning provided in Section 5.1(d).

“Revised Tax Schedule” shall have the meaning provided in Section 5.1(d).

“Section 336(e) Election” shall have the meaning provided in Section 4.3(b)(2)(ii).

“Separate Company Tax” means any Tax computed by reference to the assets and activities of a member or members of a single Group.

“Spinco” shall have the meaning provided in the preamble to this Agreement.

“Spinco Assets” means the Spinco Assets as that term is defined in the Distribution Agreement.

“Spinco Combined Tax Return” means a Combined Tax Return that a Spinco Group Member is responsible for filing under applicable Tax Law.

“Spinco’s Estimated Income Tax Payment” shall have the meaning provided in Section 5.1(a)(1)(i).

“Spinco Filed Returns” shall have the meaning provided in Section 4.2.

“Spinco Group” means, collectively, Spinco, Spinco Sub and the Entities listed on Schedule 1.1 and each successor to any such Entity and each Entity to which the assets and liabilities of any such Entity are transferred and assumed, respectively, as a result of the Conversions; provided, that if any Entity listed on Schedule 1.1 is not a Subsidiary of Spinco immediately after the Distribution, such Entity shall cease to be included in the Spinco Group immediately prior to the Distribution.

“Spinco Group Member” means, individually, each member of the Spinco Group, and the term “Spinco Group Members” means, collectively, as the context requires, all or less than all of the members of the Spinco Group.

“Spinco Indemnitees” shall have the meaning provided in Section 2.1(a).

“Spinco Liabilities” means the Spinco Liabilities as that term is defined in the Distribution Agreement.

“Spinco Merger” shall have the meaning provided in the recitals to this Agreement.

“Spinco Merger Agreement” means the Agreement and Plan of Merger to be entered into by and between Spinco and Spinco Sub prior to the Distribution Date.

“Spinco’s Separate Income Tax Liability” shall have the meaning provided in Section 5.1(b)(1)(i).

“Spinco Separate Return” means a Tax Return that includes one or more Spinco Group Members and does not include any Quanex Group Member, including any such Tax Return filed for Federal Income Tax purposes by an affiliated group (as defined in Section 1504 of the Code) of corporations the common parent of which is a Spinco Group Member or any other corporation that is not a Quanex Group Member.

“Spinco Sub” shall have the meaning provided in the preamble to this Agreement.

“State Income Tax” means any Tax imposed by any state of the United States, the District of Columbia or any political subdivision of the foregoing, which is imposed on or measured, in whole or in part, by income, including franchise Taxes based on income.

“Straddle Period” means any Tax Period that begins on or before and ends after the Cutoff Date.

“Stub Period” means the Tax Period, or the portion of any Tax Period, that begins on the day after the Cutoff Date and ends on the Distribution Date.

“Subsidiary” means, with respect to any Person, each Entity that such Person directly or indirectly owns, beneficially or of record (a) an amount of voting securities of other interests in such Entity that is sufficient to enable such Person to elect at least a majority of the members of such Entity’s board of directors or other governing body or (b) at least 50% of the outstanding equity or financial interests of such Entity.

“Surviving Entity” means (a) Spinco prior to the effective time of the Spinco Merger and (b) Spinco Sub at and after the effective time of the Spinco Merger.

“Tax” or “Taxes” means any income, gross income, gross receipts, profits, capital stock, capital duty, franchise, withholding, payroll, social security, workers compensation, unemployment, disability, property, ad valorem, stamp, excise, severance, occupation, service, sales, use, license, lease, transfer, import, export, value added, alternative minimum, estimated or other similar tax (including any fee, assessment, or other charge in the nature of or in lieu of any tax) imposed by any Tax Authority, and any interest, penalties, additions to tax or additional amounts in respect of the foregoing.

“Tax Asset” means any Tax Item that has accrued for Tax purposes, but has not been used during a Taxable Period, and that could reduce a Tax in another Tax Period, including a net operating loss, net capital loss, investment tax credit, foreign tax credit, research and experimentation credit, charitable deduction or credit related to alternative minimum tax or any other Tax credit, but does not include the tax basis of an asset.



“Tax Authority” means, with respect to any Tax, the governmental entity or political subdivision thereof that imposes such Tax, and the agency (if any) charged with the collection of such Tax for such governmental entity or political subdivision, including the IRS.

“Tax Benefit” means any refund received, credit or other reduction of a Tax liability (including any reduction in estimated Taxes) as a result of a Tax Item.

“Tax Contest” means an audit, review, examination or any other administrative or judicial proceeding with the purpose or effect of redetermining Taxes of any member of any Group (including any administrative or judicial review of any claim for refund) for any Tax Period.

“Tax Detriment” means an increase in the Tax liability of any Group Member for any Tax Period or a decrease in a Tax Asset of any Group Member. Except as otherwise provided in this Agreement, a Tax Detriment shall be deemed to have been realized from a Tax Item in a Tax Period only if and to the extent that the Tax liability of the Group Member for such Tax Period, after taking into account the effect of the Tax Item on the Tax liability of such Group Member in the current Tax Period and all prior Tax Periods, is more than it would have been if such Tax liability were determined without regard to such Tax Item.

“Tax Item” means, with respect to any Tax, any item of income, gain, loss, deduction or credit, or other attribute that may have the effect of increasing or decreasing any Tax.

“Tax Law” means the law of any Tax Authority, including the Code and any controlling judicial or administrative interpretations of such law relating to any Tax.

“Tax Payment” means any payment by the Surviving Entity to Quanex or by Quanex to the Surviving Entity, as the case may be, that is contemplated in Section 5.1.

“Tax Period” means, with respect to any Tax, the period for which the Tax is reported as provided under the Code or other applicable Tax Law.

“Tax Records” means Tax Returns, Tax Return workpapers, documentation relating to any Tax Contests and any other books of account or records required to be maintained under the Code or other applicable Tax Laws or under any record retention agreement with any Tax Authority.

“Tax Return” means any report, return, declaration, statement, form or other information required to be filed with or submitted to any Tax Authority in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Tax Law relating to any Tax, including any attachments, exhibits or other materials submitted with any of the foregoing, and including any amendments or supplements to any of the foregoing.

“Tax Schedule” shall have the meaning provided in Section 5.1(c).

“Treasury Regulations” means the regulations promulgated from time to time under the Code as in effect for the relevant Tax Period.

Other capitalized terms defined elsewhere in this Agreement shall have the meanings given them.

Section 1.2. Construction.

Unless the context otherwise requires: (a) references to a Section (other than in connection with the Code or the Treasury Regulations) refer to a section of this Agreement; (b) the word “including” shall mean “including, but not limited to”; and (c) words used in the singular shall also denote the plural, and words used in the plural shall also denote the singular. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 2. Indemnification; Allocation of Responsibility for Taxes.

Section 2.1. Indemnification.

(a) Quanex’ Indemnity of the Surviving Entity.

Quanex shall indemnify the Surviving Entity, each other Spingo Group Member and their respective directors, managers, officers and employees (collectively, the “Spingo Indemnitees”), and hold them harmless from and against any and all Losses that arise from or are attributable to:

(1) any and all Taxes that do not relate or are not attributable to the Building Products Business (for the avoidance of doubt, other than Taxes arising out of the Spingo Group’s operations after the Cutoff Date);

(2) any and all Taxes that are specifically allocated to or are the responsibility of Quanex under this Agreement;

(3) any failure by Quanex to make a payment required by this Agreement to the Surviving Entity when due;

(4) any breach or nonperformance, as appropriate, by Quanex of any of its representations, warranties or covenants contained in this Agreement; and

(5) except as provided in Section 2.1(b), any Taxes of Quanex or any member of the Quanex Consolidated Group imposed on any Spingo Group Member by reason of being severally liable for such Taxes pursuant to Treasury Regulations Section 1.1502-6 or any analogous provision of Tax Law.

(b) The Surviving Entity's Indemnity of Quanex.

The Surviving Entity shall indemnify Quanex, each other Quanex Group Member and their respective directors, officers and employees (collectively, the "Quanex Indemnitees"), and hold them harmless from and against any and all Losses that arise from or are attributable to:

- (1) any and all Taxes that are specifically allocated to or are the responsibility of the Surviving Entity under this Agreement;
- (2) any failure by the Surviving Entity to make a payment required by this Agreement to Quanex when due; and
- (3) any breach or nonperformance, as appropriate, by Spinco or Spinco Sub of any of its representations, warranties or covenants contained in this Agreement.

Section 2.2. Allocation of Federal Income Taxes.

Except as provided in Section 2.6, the responsibility for Federal Income Taxes, including any adjustment to such Federal Income Taxes as a result of a Final Determination, imposed on or attributable to the Building Products Business shall be allocated between Quanex and the Surviving Entity as follows:

(a) Quanex' Responsibility for Federal Income Taxes.

Quanex shall be responsible for any and all Federal Income Taxes to the extent such Federal Income Taxes are imposed on or are attributable to the Building Products Business for any Pre-Cutoff Period.

(b) The Surviving Entity's Responsibility for Federal Income Taxes.

Except as provided in Section 2.2(a), the Surviving Entity shall be responsible for any and all Federal Income Taxes that are imposed on or are attributable to the Building Products Business.

Section 2.3. Allocation of State Income Taxes.

Except as provided in Section 2.6, the responsibility for any and all State Income Taxes, including any adjustment to such State Income Taxes as a result of a Final Determination, imposed on or attributable to the Building Products Business shall be allocated between Quanex and the Surviving Entity as follows:

(a) Quanex' Responsibility for State Income Taxes.

Quanex shall be responsible for any and all State Income Taxes to the extent such State Income Taxes are imposed on or are attributable to the Building Products Business for any Pre-Cutoff Period.

(b) The Surviving Entity's Responsibility for State Income Taxes.

Except as provided in Section 2.3(a), the Surviving Entity shall be responsible for any and all State Income Taxes that are imposed on or are attributable to the Building Products Business.

Section 2.4. Foreign Income Taxes.

Except as provided in Section 2.6, the responsibility for Foreign Income Taxes, including any adjustment to such Foreign Income Taxes as a result of a Final Determination, imposed on or attributable to the Building Products Business shall be allocated between Quanex and the Surviving Entity as follows:

(a) Quanex' Responsibility for Foreign Income Taxes.

Quanex shall be responsible for any and all Foreign Income Taxes to the extent such Foreign Income Taxes are imposed on or are attributable to the Building Products Business for any Pre-Cutoff Period.

(b) The Surviving Entity's Responsibility for Foreign Income Taxes.

Except as provided in Section 2.4(a), the Surviving Entity shall be responsible for any and all Foreign Income Taxes that are imposed on or are attributable to the Building Products Business.

Section 2.5. Allocation of Other Taxes.

Except as provided in Section 2.6, the responsibility for Other Taxes, including any adjustment to such Other Taxes as a result of a Final Determination, imposed on or attributable to the Building Products Business shall be allocated between Quanex and the Surviving Entity as follows:

(a) Quanex' Responsibility for Other Taxes.

Quanex shall be responsible for any and all Other Taxes imposed on or attributable to the Building Products Business to the extent that such Other Taxes are due and payable on or prior to the Cutoff Date.

(b) The Surviving Entity's Responsibility for Other Taxes.

The Surviving Entity shall be responsible for any and all Other Taxes imposed on or attributable to the Building Products Business to the extent that such Other Taxes are due and payable after the Cutoff Date.

Section 2.6. Distribution Taxes; Restructuring Taxes; Additional Taxes.

(a) Distribution and Restructuring Taxes.

Notwithstanding any other provision of this Agreement to the contrary, the responsibility for Distribution and Restructuring Taxes shall be allocated between Quanex and the Surviving Entity as follows:

(1) Quanex' Responsibility for Distribution and Restructuring Taxes. Quanex shall be responsible for any and all Distribution and Restructuring Taxes to the extent the amount of the Distribution and Restructuring Taxes do not exceed \$85 million. If the Distribution and Restructuring Taxes do not exceed \$85 million, Quanex shall pay to the Surviving Entity an amount equal to the amount by which \$85 million exceeds the amount of the Distribution and Restructuring Taxes.

(2) The Surviving Entity's Responsibility for Distribution and Restructuring Taxes. The Surviving Entity shall be responsible for any and all Distribution and Restructuring Taxes to the extent the amount of the Distribution and Restructuring Taxes exceeds \$85 million. If the amount of the Distribution and Restructuring Taxes exceeds \$85 million, the Surviving Entity shall pay to Quanex an amount equal to the amount by which the amount of the Distribution and Restructuring Taxes exceeds \$85 million.

(3) Adjustments to Distribution and Restructuring Taxes. If there is any increase to Distribution and Restructuring Taxes described in this Section 2.6(a) (for the avoidance of doubt, including as a result of a failure to properly withhold Taxes in respect of the Distribution), whether as a result of a Tax Contest, Adjustment Request or otherwise, the Surviving Entity shall pay to Quanex the amount of such increase not more than 15 days after such adjustment is made. If there is a decrease to Distribution and Restructuring Taxes described in this Section 2.6(a), whether as a result of a Tax Contest, Adjustment Request or otherwise, Quanex shall pay to the Surviving Entity the amount of such decrease not more than 15 days after the refund from the relevant Tax Authority relating to such adjustment is made.

(b) Additional Taxes.

Except as provided in Section 2.6(a), but notwithstanding any other provision of this Agreement to the contrary:

(1) Quanex' Responsibility for Additional Taxes. Quanex shall be responsible for any and all Additional Taxes imposed on any Group Member that result or arise, in whole or in part, from Quanex' breach or nonperformance, as appropriate, of any representation, covenant or agreement contained in this Agreement, including Additional Taxes resulting or arising from any Quanex Group Member failing to provide assistance and cooperation to the Surviving Entity in accordance with Section 6.1 or failing to retain Tax Records in accordance with Section 6.2.

(2) The Surviving Entity's Responsibility for Additional Taxes. The Surviving Entity shall be responsible for any and all Additional Taxes imposed on any Group Member that result or arise, in whole or in part, from any Spinco Group Member's breach or nonperformance, as appropriate, of any representation, covenant or agreement contained in this Agreement that occurs after the Distribution, including Additional Taxes resulting or arising from any Spinco Group Member failing to provide assistance and cooperation to Quanex in accordance with Section 6.1 or failing to retain Tax Records in accordance with Section 6.2.

### Section 3. Proration of Tax Items; Allocation of Tax Assets.

For purposes of allocating Tax Items between Pre-Cutoff Periods and Post-Cutoff Periods and for purposes of preparing and filing Income Tax Returns under this Agreement, the following provisions shall apply:

#### Section 3.1. Proration of Tax Items.

Tax Items relating or attributable to the Building Products Business shall be apportioned between Pre-Cutoff Periods and Post-Cutoff Periods in accordance with the principles of Treasury Regulations Section 1.1502-76(b) or an applicable corresponding provision under the Tax Laws of any state, local or foreign jurisdiction by assuming (i) that each Spinco Group Member ceases to be a member of the Quanex Consolidated Group on the Cutoff Date, (ii) that no election is made under Treasury Regulations Section 1.1502-76(b)(2)(ii) (relating to ratable allocation of a year's items) and (iii) that any and all Tax Items of any Quanex Group Member that relate or are attributable to the Building Products Business were Tax Items of Spinco. If the Cutoff Date is not an Accounting Cutoff Date, the principles of Treasury Regulations Section 1.1502-76(b)(2)(iii) shall be applied to ratably allocate the Tax Items (other than extraordinary items) of the month that includes the Cutoff Date.

#### Section 3.2. Allocation of Tax Assets.

Quanex shall determine in accordance with applicable Tax Laws the allocation of any applicable Tax Assets among Quanex, each other Quanex Group Member, Spinco and each other Spinco Group Member. The Companies hereby agree that in the absence of controlling legal authority or unless otherwise provided under this Agreement, each Tax Asset shall be allocated to the Group Member who generated such Tax Asset.

#### Section 3.3. Quanex Equity Awards.

Except as otherwise required by applicable Tax Law and subject to the following sentence, Quanex shall be entitled to claim on its Tax Returns any and all Tax deductions attributable to an exercise, or a disqualifying disposition, grant, vesting, payment or delivery of shares, or other consideration in lieu of shares, by Quanex, under or in connection with an Equity Award (including a payment of dividends in connection with an Equity Award), and neither the Surviving Entity nor any Spinco Group Member shall attempt to claim on any Tax Return any such Tax deductions. Notwithstanding the foregoing sentence, if Quanex determines that under applicable Tax Law (or as a result of a Final Determination) no Quanex Group Member is entitled to claim such Tax deductions but the Surviving Entity or a Spinco Group Member is entitled to claim such Tax deductions, the Surviving Entity or such Spinco Group Member shall be entitled to claim such Tax deductions on its applicable Tax Returns, and the Surviving Entity shall pay to Quanex the "deemed tax benefit" of such Tax deductions, regardless of whether the Surviving Entity or any Spinco Group Member actually claims such Tax deductions or realizes a Tax Benefit from claiming any such Tax deductions. For purposes of this Section 3.3, the "deemed tax benefit" shall conclusively be the total amount of the available Tax deductions for any such exercise, disqualifying disposition, grant, vesting or payment multiplied by 36%. The Surviving Entity shall pay the "deemed tax benefit" amount, if any, to Quanex no later than 20 days after the later of (a) Quanex' notification to the Surviving Entity that the Surviving Entity or a Spinco Group Member is entitled to claim such Tax deductions or (b) the occurrence of any applicable exercise, disqualifying disposition, grant, vesting, payment or delivery of shares, or other consideration in lieu of shares, by Quanex under or in connection with an Equity Award. Further, if the performance of the obligations described in this Section 3.3 shall become impracticable or impossible due to any change in Tax Law or the interpretation thereof by any Tax Authority subsequent to the date of this Agreement, the Companies shall use their best efforts to find an alternative means to achieve the same or substantially the same result as that contemplated by this Section 3.3.

Section 4. Preparation and Filing of Tax Returns.

Section 4.1. Quanex' Responsibility.

(a) Quanex Filed Returns.

Quanex shall have the exclusive obligation and right to prepare and file, or to cause to be prepared and filed, all Quanex Separate Returns and all Quanex Combined Tax Returns ("Quanex Filed Returns"), and Quanex shall have the exclusive obligation and right to prepare and file, or to cause to be prepared and filed, all Adjustment Requests made with respect to Quanex Filed Returns. The Surviving Entity shall, and shall cause each Spinco Group Member to, assist and cooperate with Quanex in accordance with Section 6 with respect to the preparation and filing of all Quanex Filed Returns, including providing information required to be provided in Section 6. In the case of any Quanex Filed Return which is required by applicable Tax Law to be signed by any Spinco Group Member (or by its authorized representative), the Surviving Entity shall cause such Spinco Group Member (or its authorized representative) to sign such Quanex Filed Return.

(b) Election to Join in Quanex Combined Tax Returns.

The Surviving Entity shall cause each Spinco Group Member to elect and join in filing Quanex Combined Tax Returns with any Quanex Group Member that Quanex reasonably determines are required to be filed under applicable Tax Laws or will result in the minimization of the net present value of the aggregate Tax to the Group Members eligible to join in such Quanex Combined Tax Returns.

(c) Appointment as Agent.

The Surviving Entity hereby irrevocably designates, and agrees to cause each Spinco Group Member to so designate, Quanex as its sole and exclusive agent and attorney-in-fact to take such action (including execution of documents) as Quanex, in its reasonable discretion, may deem appropriate in any and all matters (including Tax Contests) relating to any Quanex Combined Tax Return.

Section 4.2. The Surviving Entity's Responsibility.

(a) Spinco Filed Returns.

The Surviving Entity shall have the exclusive obligation and right to prepare and file, or to cause to be prepared and filed, all Spinco Separate Returns and all Spinco Combined Tax Returns ("Spinco Filed Returns"), and the Surviving Entity shall have the exclusive obligation and right to prepare and file, or to cause to be prepared and filed, all Adjustment Requests made with respect to Spinco Filed Returns. Quanex shall, and shall cause each Quanex Group Member to, assist and cooperate with the Surviving Entity in accordance with Section 6 with respect to the preparation and filing of all Spinco Filed Returns, including providing information required to be provided in Section 6. In the case of any Spinco Filed Return which is required by applicable Tax Law to be signed by any Quanex Group Member (or by its authorized representative), Quanex shall cause such Quanex Group Member (or its authorized representative) to sign such Spinco Filed Return.

(b) Election to Join in Spinco Combined Tax Returns.

Quanex shall cause each Quanex Group Member to elect and join in filing Spinco Combined Tax Returns with any Spinco Group Member that the Surviving Entity reasonably determines are required to be filed under applicable Tax Laws or will result in the minimization of the net present value of the aggregate Tax to the Group Members eligible to join in such Spinco Combined Tax Returns.

(c) Appointment as Agent.

Quanex hereby irrevocably designates, and agrees to cause each Quanex Group Member to so designate, the Surviving Entity as its sole and exclusive agent and attorney-in-fact to take such action (including execution of documents) as the Surviving Entity, in its reasonable discretion, may deem appropriate in any and all matters (including Tax Contests) relating to any Spinco Combined Tax Return.

Section 4.3. Tax Accounting Practices.

(a) In General.

Except as otherwise provided in Section 4.3(b), to the extent the Tax accounting practices or reporting position with respect to Tax Items reported on any Spinco Filed Return might reasonably affect any Tax liability for which Quanex is responsible under this Agreement, the Surviving Entity shall prepare such Spinco Filed Return and report such Tax Items in a manner that is consistent with Quanex' past Tax accounting practices and reporting positions with respect to such Tax Items (unless such past Tax accounting practices or reporting positions are no longer permissible under the Code or other applicable Tax Law).



(b) Reporting of Distribution Tax Items.

(1) Tax Consequences of the Distribution. If the Spinco Merger has not occurred prior to the Distribution and Quanex distributes the Membership Interest of Spinco to the Quanex Stockholders, the Companies intend for U.S. federal income Tax purposes:

(i) that, prior to the Distribution, Spinco and each other Spinco Group Member (the “Disregarded Entities”) eligible to be disregarded as entities separate from Quanex for U.S. federal Tax purposes under Treasury Regulations section 301.7701-3 shall be so treated;

(ii) that the Distribution be treated for U.S. federal income Tax purposes as a distribution of the Spinco Assets (subject to the Spinco Liabilities) held by the Disregarded Entities to the Quanex Stockholders, followed by a contribution of such Spinco Assets (subject to the Spinco Liabilities) by the Quanex Stockholders to Spinco in exchange for a pro rata share of the Membership Interest of Spinco (which Company intends to be classified as a partnership for U.S. federal Tax purposes immediately following such exchange); and

(iii) that the Spinco Merger be treated for U.S. federal income Tax purposes as a contribution by Spinco of all of the Spinco Assets (subject to the Spinco Liabilities) to Spinco Sub in exchange for all of the outstanding shares of Spinco Sub stock, followed by the distribution of such Spinco Sub shares to the Quanex Stockholders in liquidation of Spinco.

(2) Reporting of Distribution.

(i) General. Notwithstanding any other provision of this Agreement to the contrary, the Surviving Entity shall determine, in a manner consistent with Section 4.3(b)(1) if applicable, the amount of the Distribution and Restructuring Taxes and the proper Tax treatment of Tax Items relating to the Restructuring and the Distribution and the method for reporting any such Tax Item on any Tax Return; provided, that Quanex shall have the opportunity to review and comment upon the Surviving Entity’s determinations, such comments to be reasonably accepted by the Surviving Entity. Such amount, treatment and reporting method shall be used by (i) the Surviving Entity in preparing and filing any Spinco Filed Return and (ii) Quanex in preparing and filing any Quanex Filed Return; provided that, after Quanex has had the opportunity to comment upon the Surviving Entity’s determinations, Quanex believes that it is more likely than not that such positions will be sustained. To the extent any Quanex Filed Return includes a Tax Item relating to the Distribution or the Restructuring, Quanex shall submit a copy of the relevant portion of such Quanex Filed Return to the Surviving Entity for its review. Quanex shall use its reasonable best efforts to make the relevant portions of such Quanex Filed Return available for the Surviving Entity’s review sufficiently in advance of the due date for filing such Quanex Filed Return to provide the Surviving Entity with a meaningful opportunity to analyze and comment on such Quanex Filed Return and have such Quanex Filed Return modified before filing. If, after reviewing Spinco’s determinations under this Section 4.3(b)(2)(i) there is any dispute regarding the proper Tax treatment of any Tax Item relating to the Distribution or the Restructuring, such dispute shall be referred for resolution pursuant to Section 9 sufficiently in advance of the filing date for such Quanex Filed Return (including extensions) to permit the timely filing of the Quanex Filed Return.

(ii) Section 336(e) Election. If the Spinco Merger has not occurred prior to the Distribution and Quanex distributes the Membership Interest of Spinco to the Quanex Stockholders, each Company shall make a protective election pursuant to Section 336(e) of the Code (the "Section 336(e) Election") with respect to the Distribution in the manner and form reasonably requested by the Surviving Entity and on any applicable Tax Return that includes a Tax Item relating to the Distribution by attaching a statement (the "Election Statement") to any such Tax Return explaining that in the event the Distribution is not treated for U.S. federal income Tax purposes as a distribution of the Spinco Assets (subject to the Spinco Liabilities) held by the Disregarded Entities to the Quanex Stockholders and is instead treated for U.S. federal income tax purposes as a distribution of shares of stock in a corporation (the "Distributed Corporation") to the Quanex Stockholders, such Company is making the Section 336(e) Election to treat the Distribution as a disposition of all of the assets held by the Distributed Corporation at the time of the Distribution. The form of the Election Statement to be used by each Company in making any Section 336(e) Election on any applicable Tax Return shall be provided by the Surviving Entity; provided, however, such form shall reflect any reasonable comments made by the Company.

#### Section 4.4. Right to Review Combined Tax Returns.

The Company responsible for preparing and filing a Combined Tax Return shall make the relevant portions of such Combined Tax Return and related workpapers available for review by the other Company, if requested, to the extent (i) such Combined Tax Return relates to Taxes for which the other Company may be responsible under this Agreement or (ii) the other Company reasonably determines that it must inspect such Combined Tax Return to confirm its compliance with the terms of this Agreement. The Company responsible for preparing and filing such Combined Tax Return shall use its reasonable best efforts to make the relevant portions of such Combined Tax Return available for review as required under this Section 4.4 sufficiently in advance of the due date for filing such Combined Tax Return to provide the other Company with a meaningful opportunity to analyze and comment on such Combined Tax Return and have such Combined Tax Return modified before filing. Quanex and the Surviving Entity shall attempt in good faith to resolve any issues arising out of the review of such Combined Tax Returns.

#### Section 4.5. Adjustment Requests; Carrybacks; Utilization of Tax Assets.

##### (a) Adjustment Requests and Carrybacks Requiring Quanex' Consent.

Except as otherwise required by applicable Tax Law or unless Quanex otherwise consents in writing, the Surviving Entity hereby agrees to cause each Spinco Group Member (i) to not make any Adjustment Request with respect to any Tax for any Pre-Cutoff Period applicable to such Spinco Group Member and (ii) to make any available elections to relinquish the right to claim in any Pre-Cutoff Period any Carryback Items of any Spinco Group Member arising in a Post-Cutoff Period, including making the election under Section 172(b)(3) of the Code (and any similar provision of any other applicable Tax Laws) to relinquish the right to carry back net operating losses. With respect to any Adjustment Request to which Quanex grants its consent under the preceding sentence, the Surviving Entity shall reimburse Quanex for its legal, accounting, administrative and other related expenses incurred in preparing, filing and making any such Adjustment Request.

(b) Carrybacks to Pre-Cutoff Periods.

Notwithstanding Section 4.5(a), if any Spinco Group Member is required by applicable Tax Law to carry back a Carryback Item arising in a Post-Cutoff Period to a Pre-Cutoff Period, the Companies agree that any Carryback Item of any Quanex Group Member that may be carried back to the same Pre-Cutoff Period shall be deemed to be used before any Carryback Item of any Spinco Group Member. If any Quanex Group Member receives a refund or realizes a Tax Benefit as a result of a Carryback Item of any Spinco Group Member arising in a Post-Cutoff Period being carried back to a Pre-Cutoff Period, Quanex shall make a payment to the Surviving Entity in an amount equal to such refund or the realized Tax Benefit within 30 days following either the receipt of such refund or the filing of the Tax Return reflecting the realization of such Tax Benefit.

(c) Other Adjustment Requests Permitted.

With respect to any Tax imposed on or attributable to any Group Member for any applicable Pre-Cutoff Period, Quanex may make an Adjustment Request with respect to such Tax, including carrying back a Carryback Item of any Quanex Group Member arising in a Post-Cutoff Period to any Pre-Cutoff Period. Any refund or other Tax Benefit obtained as a result of any such Adjustment Request pursuant to the preceding sentence shall be for the account of Quanex, and Quanex shall have no obligation to compensate or make a payment to any Spinco Group Member in the event any such Adjustment Request results in a Tax Detriment to any Spinco Group Member.

(d) Utilization of Tax Assets.

With respect to each Combined Tax Return and any adjustment to the Income Taxes reflected on a Combined Tax Return as a result of a Tax Contest, Adjustment Request or otherwise, each Group Member included in such Combined Tax Return shall be entitled to use, in accordance with applicable Tax Laws, any and all Tax Assets of each other Group Member included in such Combined Tax Return. Except as provided in Section 5.1, no Group Member that utilizes the Tax Assets of any other Group Member shall be required to compensate or make any payment to such other Group Member with respect to the utilization of such Tax Assets.

Section 5. Payments Under this Agreement.

Section 5.1. Tax Payments With Respect to Combined Tax Returns and Spinco Separate Returns.

(a) Estimated Income Tax Payments.

(1) Combined Tax Returns.

(i) Quanex Combined Tax Returns. With respect to any estimated Income Tax payable on a Quanex Combined Tax Return that takes into account the Tax Items of any Spinco Group Member that are allocable pursuant to Section 3.1 to the portion of the Stub Period for which such estimated Income Taxes are payable, the Surviving Entity shall pay, or cause to be paid, to Quanex an amount (“Spinco’s Estimated Income Tax Payment”) equal to the estimated Income Tax such Spinco Group Member would pay if it filed a separate Income Tax Return based solely on the income, apportionment factors and other Tax Items of such Spinco Group Member for the applicable portion of the Stub Period; provided, that to the extent that such Spinco Group Member would be entitled to file an Income Tax Return with respect to the applicable Income Tax on a consolidated, combined or unitary basis with any other Spinco Group Member, Spinco’s Estimated Income Tax Payment for such Spinco Group Members shall be determined as though such Spinco Group Members filed an Income Tax Return with respect to such Income Tax on a consolidated, combined or unitary basis based solely on the income, apportionment factors and other Tax Items of such Spinco Group Members for the Stub Period.

(ii) Spinco Combined Tax Returns. With respect to any estimated Income Tax payable on a Spinco Combined Tax Return that takes into account the Tax Items of any Quanex Group Member that are allocable pursuant to Section 3.1 to the portion of the Stub Period for which such estimated Income Taxes are payable, Quanex shall pay, or cause to be paid, to the Surviving Entity an amount (“Quanex’ Combined Tax Return Estimated Income Tax Payment”) equal to the estimated Income Tax such Quanex Group Member would pay if it filed a separate Income Tax Return based solely on the income, apportionment factors and other Tax Items of such Quanex Group Member for the applicable portion of the Stub Period; provided, that to the extent that such Quanex Group Member would be entitled to file an Income Tax Return with respect to the applicable Income Tax on a consolidated, combined or unitary basis with any other Quanex Group Member, Quanex’ Combined Tax Return Estimated Income Tax Payment for such Quanex Group Members shall be determined as though such Quanex Group Members filed an Income Tax Return with respect to such Income Tax on a consolidated, combined or unitary basis based solely on the income, apportionment factors and other Tax Items of such Quanex Group Members for the Stub Period.

(2) Spinco Separate Return. With respect to any estimated Income Tax payable on a Spinco Separate Return that takes into account the Tax Items of any Spinco Group Member that are allocable pursuant to Section 3.1 to Pre-Cutoff Periods for which such estimated Income Taxes are payable, Quanex shall pay, or cause to be paid, to the Surviving Entity an amount (“Quanex’ Estimated Income Tax Payment”) equal to the estimated Income Tax such Spinco Group Member would pay if the amount of such estimated Income Tax were determined based solely on the income, apportionment factors and other Tax Items of such Spinco Group Member for the applicable portion of the Pre-Cutoff Period; provided, that to the extent that such Spinco Group Member files an Income Tax Return with respect to the applicable Income Tax on a consolidated, combined or unitary basis with any other Spinco Group Member, the aggregate amount of Quanex’ Estimated Income Tax Payment payable with respect to such Spinco Group Members shall be determined by taking into account the fact that such Spinco Group Members file an Income Tax Return with respect to such Income Tax on a consolidated, combined or unitary basis.

(b) Income Tax Liability.

(1) Combined Tax Returns.

(i) Quanex Combined Tax Returns. With respect to any Income Tax payable on a Quanex Combined Tax Return that takes into account the Tax Items of any Spinco Group Member that are allocable pursuant to Section 3.1 to the portion of the Stub Period for which such Income Taxes are payable, the Surviving Entity shall pay, or cause to be paid, to Quanex an amount equal to the excess, if any, of (i) the amount of Income Taxes that would be incurred by the Spinco Group Member had such Spinco Group Member filed a separate Income Tax Return based solely on the income, apportionment factors and other Tax Items of such Spinco Group Member for the portion of the Stub Period for which such Income Taxes are payable (“Spinco’s Separate Income Tax Liability”), over (ii) the aggregate amount of Spinco’s Estimated Income Tax Payments actually paid to Quanex with respect to Spinco’s Separate Income Tax Liability. If the aggregate amount of Spinco’s Estimated Income Tax Payments actually paid to Quanex with respect to Spinco’s Separate Income Tax Liability exceeds Spinco’s Separate Income Tax Liability, Quanex shall pay to the Surviving Entity an amount equal to such excess. In addition, to the extent that any Quanex Group Member utilizes any Tax Assets of a Spinco Group Member that accrues after the Cutoff Date and such utilization results in a Tax Benefit being realized by such Quanex Group Member (treating any Tax Assets attributable to the Quanex Group as utilized prior to the utilization of any Tax Assets attributable to the Spinco Group), then Quanex shall pay to the Surviving Entity the amount of such Tax Benefit and such Tax Assets for which Quanex has paid the Surviving Entity shall not be utilizable by any Spinco Group Member. For purposes of determining Spinco’s Separate Income Tax Liability, to the extent that any Spinco Group Member would be entitled to file an Income Tax Return on a consolidated, combined or unitary basis with any other Spinco Group Member, Spinco’s Separate Income Tax Liability shall be determined as though such Spinco Group Members had filed a consolidated, combined or unitary Income Tax Return based solely on the income, apportionment factors and other Tax Items of such Spinco Group Members for the applicable portion of the Stub Period.

(ii) Spinco Combined Tax Returns. With respect to any Income Tax payable on a Spinco Combined Tax Return that takes into account the Tax Items of any Quanex Group Member that are allocable pursuant to Section 3.1 to the portion of the Stub Period for which such Income Taxes are payable, Quanex shall pay, or cause to be paid, to the Surviving Entity an amount equal to the excess, if any, of (i) the amount of Income Taxes that would be incurred by the Quanex Group Member had such Quanex Group Member filed a separate Income Tax Return based solely on the income, apportionment factors and other Tax Items of such Quanex Group Member for the portion of the Stub Period for which such Income Taxes are payable (“Quanex’ Combined Tax Return Separate Income Tax Liability”), over (ii) the aggregate amount of Quanex’ Combined Tax Return Estimated Income Tax Payments actually paid to the Surviving Entity with respect to Quanex’ Combined Tax Return Separate Income Tax Liability. If the aggregate amount of Quanex’ Combined Tax Return Estimated Income Tax Payments actually paid to the Surviving Entity with respect to Quanex’ Combined Tax Return Separate Income Tax Liability exceeds Quanex’ Combined Tax Return Separate Income Tax Liability, the Surviving Entity shall pay to Quanex an amount equal to such excess. In addition, to the extent that any Spinco Group Member utilizes any Tax Assets of a Quanex Group Member that accrues after the Cutoff Date and such utilization results in a Tax Benefit being realized by such Spinco Group Member (treating any Tax Assets attributable to the Spinco Group as utilized prior to the utilization of any Tax Assets attributable to the Quanex Group), then the Surviving Entity shall pay to Quanex the amount of such Tax Benefit and such Tax Assets for which the Surviving Entity has paid Quanex shall not be utilizable by any Quanex Group Member. For purposes of determining Quanex’ Combined Tax Return Separate Income Tax Liability, to the extent that any Quanex Group Member would be entitled to file an Income Tax Return on a consolidated, combined or unitary basis with any other Quanex Group Member, Quanex’ Combined Tax Return Separate Income Tax Liability shall be determined as though such Quanex Group Members had filed a consolidated, combined or unitary Income Tax Return based solely on the income, apportionment factors and other Tax Items of such Quanex Group Members for the applicable portion of the Stub Period.

(2) Spinco Separate Returns. With respect to any Income Tax payable on a Spinco Separate Return that takes into account the Tax Items of any Spinco Group Member that are allocable pursuant to Section 3.1 to Pre-Cutoff Periods, Quanex shall pay, or cause to be paid, to the Surviving Entity an amount equal to the excess, if any, of (i) the amount of Income Taxes that would be incurred by the Spinco Group Member had such Spinco Group Member filed an Income Tax Return based solely on the income, apportionment factors and other Tax Items of such Spinco Group Member for the portion of the Pre-Cutoff Period for which such Income Tax is payable (“Quanex’ Separate Income Tax Liability”), over (ii) the aggregate amount of Quanex’ Estimated Income Tax Payments actually paid to the Surviving Entity with respect to Quanex’ Separate Income Tax Liability. If the aggregate amount of Quanex’ Estimated Income Tax Payments actually paid to the Surviving Entity with respect to Quanex’ Separate Income Tax Liability exceeds Quanex’ Separate Income Tax Liability, the Surviving Entity shall pay to Quanex an amount equal to such excess. In addition, to the extent that any Spinco Group Member utilizes any Tax Assets of a Spinco Group Member that accrues before the Cutoff Date and such utilization results in a Tax Benefit being realized by such Spinco Group Member (treating any Tax Assets accruing before the Cutoff Date as utilized prior to the utilization of any Tax Assets accruing after the Cutoff Date), then the Surviving Entity shall pay to Quanex the amount of such Tax Benefit. For purposes of determining Quanex’ Separate Income Tax Liability, to the extent that any Spinco Group Member files an Income Tax Return on a consolidated, combined or unitary basis with any other Spinco Group Member, Quanex’ Separate Income Tax Liability for such Spinco Group Members shall be determined by taking into account the fact that such Spinco Group Members file a consolidated, combined or unitary Income Tax Return.

(c) Timing of Tax Payments.

With respect to each Tax Payment required to be made by the Surviving Entity to Quanex or by Quanex to the Surviving Entity, as the case may be, under this Section 5.1, the Company responsible for preparing the Income Tax Return with respect to which such Tax Payment is attributable (the “Preparing Company”) shall prepare and deliver a schedule (the “Tax Schedule”) to the other Company (the “Receiving Company”) showing in reasonable detail the Preparing Company’s calculation of such Tax Payment not later than 15 days prior to the due date (including extensions if an extension with respect to the applicable Tax Return is requested) of such Income Tax Return. Within 15 days after the Receiving Company’s receipt of the Tax Schedule, the Receiving Company shall pay to the Preparing Company the amount of the Tax Payment reflected on the Tax Schedule.

(d) Adjustments to Tax Payments.

If there is any adjustment to any Income Tax described in Section 5.1(b), whether as a result of a Tax Contest, Adjustment Request or otherwise, the Preparing Company shall redetermine the amount of the Tax Payments due under Section 5.1(b) (the “Revised Tax Payment”) and deliver a statement (the “Revised Tax Schedule”) to the Receiving Company setting forth in appropriate detail the Preparing Company’s determination of the Revised Tax Payment. If the Revised Tax Payment exceeds the Tax Payment previously paid by the Receiving Company under Section 5.1(b) with respect to such Income Tax, the Receiving Company shall pay to the Preparing Company the difference between the Revised Tax Payment and the Tax Payment not more than 15 days after the Receiving Company’s receipt of the Revised Tax Schedule. If the Revised Tax Payment is less than the Tax Payment previously paid by the Receiving Company under Section 5.1(b) with respect to such Income Tax, the Preparing Company shall pay to the Receiving Company the difference between the Revised Tax Payment and the Tax Payment within 15 days after such adjustment.

Section 5.2. Payments to Tax Authorities.

With respect to each Tax Return that a Company is required to prepare and file under this Agreement, such Company shall pay, or cause to be paid, to the applicable Tax Authority when due (including extensions) all Taxes determined to be due and payable.

Section 5.3. Timing of Payments.

In the event a Company is required to make a payment to another Company under this Agreement and the time for making such payment is not otherwise provided for in this Agreement, the first Company shall make such payment within 15 days of its receipt of such other Company’s written demand for such payment, which written demand shall include in reasonable detail an explanation and computation of the amount due.

Section 5.4. Tax Treatment of Payments.

Unless otherwise required by applicable Tax Law, the Companies agree that any payments made by one Company to another Company (other than any reimbursement of expense pursuant to Section 4.5(a) and interest payments pursuant to Section 5.5) pursuant to this Agreement shall be treated for all Tax and financial accounting purposes as nontaxable payments (dividend distributions or capital contributions, as the case may be, between Quanex and Spinco) made immediately prior to the Distribution and, accordingly, as not includible in the Taxable income of the recipient Company or as deductible by the payor Company.

Section 5.5. Interest.

Any payment that is not made within the period prescribed in this Agreement (the “Payment Period”) shall bear interest at the Default Rate, compounded semiannually, for the period from and including the date immediately following the last date of the Payment Period through and including the date of payment. Notwithstanding Section 5.4, the interest payment shall be treated as interest expense to the payor (deductible to the extent provided by applicable Tax Law) and as interest income by the recipient (includible in income to the extent provided by applicable Tax Law).

Section 6. Assistance and Cooperation; Retention of Tax Records.

Section 6.1. Assistance and Cooperation.

Each Company shall cause each Group Member to cooperate with the other Company and its agents, including accounting firms and legal counsel, in connection with Tax matters relating to Group Members including (i) the preparation and filing of Tax Returns, (ii) determining the liability for and the amount of any Taxes due (including estimated Taxes) or the right to an amount of any refund of Taxes and (iii) any Tax Contest. Such cooperation shall include making all information and documents, including Tax Records, in any Group Member's possession relating to any Group Member available to the other Company for inspection during normal business hours upon reasonable notice and, upon request by the other Company, providing copies, at the expense of the Company providing such information and documents, of such information and documents, including Tax Records. Each Company shall also make available to the other Company, as reasonably requested and available, personnel (including each Group Member's officers, directors, employees and agents) responsible for preparing, maintaining and interpreting information and documents relevant to Taxes, and personnel reasonably required as witnesses or for purposes of providing information or documents in connection with any Tax Contest. Any information or documents provided under this Section 6 shall be kept confidential by the Company receiving such information or documents, except as may otherwise be necessary in connection with the filing of Tax Returns or in connection with any Tax Contest.

Section 6.2. Retention of Tax Records.

Each Company shall preserve and keep all Tax Records exclusively relating to Separate Company Taxes of their respective Groups for Pre-Cutoff Periods, and Quanex shall preserve and keep all other Tax Records relating to Taxes of the Groups for Pre-Cutoff Periods, for so long as the contents thereof may become material in the administration of any matter under the Code or other applicable Tax Law, but in any event until the later of (i) the expiration of any applicable statutes of limitation, and (ii) seven years after the date of the Distribution. If, prior to the expiration of the applicable statute of limitation and such seven-year period, a Company reasonably determines that any Tax Records which it is required to preserve and keep under this Section 6.2 are no longer material in the administration of any matter under the Code or other applicable Tax Law, such Company may dispose of such Tax Records upon 90 days prior notice to the other Companies. Such notice shall include a list of the Tax Records to be disposed of describing in reasonable detail each file, book or other record accumulation being disposed. The notified Company shall have the opportunity, at its cost and expense, to copy or remove, within such 90-day period, all or any part of such Tax Records.



Section 7. Tax Contests.

Section 7.1. Notice.

Each of the Companies shall provide prompt notice to the other Companies of any pending or threatened Tax audit, assessment or proceeding or other Tax Contest of which it becomes aware that could affect any Tax liability for which any of the other Companies may be responsible under this Agreement, provided, however, that failure to give prompt notice shall not affect the indemnification obligations hereunder except to the extent the Indemnifying Company is actually prejudiced thereby. Such notice shall contain factual information (to the extent known) describing such matters in reasonable detail and shall be accompanied by copies of any notice and other documents received from any Tax Authority in respect of any such matters.

Section 7.2. Control of Tax Contests.

(a) Tax Contests Relating to Tax Returns.

Except as otherwise provided in this Agreement, the Company responsible for preparing and filing a Tax Return pursuant to Section 4 of this Agreement shall have the exclusive right, in its sole discretion, to control, contest and represent the interests of each Group in any Tax Contest relating to such Tax Return and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Tax Contest. Such Company's rights shall extend to any matter pertaining to the management and control of the Tax Contest, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item. Provided, however, if such Tax Contest relates to Taxes for which the other Company may be responsible under this Agreement, such Company shall be entitled to jointly control such Tax Contest at its own expense and such Tax Contest shall not be settled without the consent of such Company, which consent shall not be unreasonably withheld.

(b) Distribution and Restructuring Taxes.

Notwithstanding any other provision of this Agreement to the contrary, the Surviving Entity shall have the exclusive right, in its sole discretion, to control, contest and represent the interests of each Group in any Tax Contest relating, in whole or in part, to Distribution and Restructuring Taxes and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Tax Contest. The Surviving Entity's rights shall extend to any matter pertaining to the management and control of the Tax Contest, including execution of waivers, choice of forum, scheduling of conferences and the resolution of any Tax Item. Provided, that Quanex may participate in such Tax Contests described in this Section 7.2(b) at its own expense, and such Tax Contest shall not be settled without the consent of Quanex, which consent shall not be unreasonably withheld.

(c) Other Taxes.

In the case of any Tax Contest with respect to any Other Tax for which the Surviving Entity is solely responsible under Section 2.5, the Surviving Entity shall have the exclusive right, in its sole discretion, to control, contest and represent the interests of the Spinco Group in such Tax Contest and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Tax Contest. With respect to any Other Tax not described in the preceding sentence, Quanex shall have the exclusive right, in its sole discretion, to control, contest and represent the interests of the Groups in such Tax Contest and to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of any such Tax Contest.

### Section 7.3. Reimbursement of Expenses.

If the Indemnifying Company is not the Company that has the right to control an applicable Tax Contest pursuant to Section 7.2 (the "Controlling Company"), the Indemnifying Company shall reimburse the Controlling Company for its reasonable costs (including accountant's fees, investigatory fees and fees and disbursements of tax counsel) ("Indemnification Expenses") incurred in any Tax Contest that are reasonably allocable to the portion of the contested Taxes that would be the responsibility of the Indemnifying Company hereunder upon a Final Determination that such contested Taxes are due. The Controlling Company shall provide the Indemnifying Company with a written statement (a "Reimbursement Statement") periodically (but not more often than monthly) that sets forth the amount of the Controlling Company's Indemnification Expenses since the most recent Reimbursement Statement and due hereunder. Within 15 days of the Indemnifying Company's receipt of each Reimbursement Statement, the Indemnifying Company shall pay to the Controlling Company the total amount of the Indemnification Expenses shown on such Reimbursement Statement.

### Section 8. Covenants Relating to Taxes.

Except as otherwise provided in this Agreement, each Company (for itself and its Affiliates) agrees (i) not to take any action reasonably expected to result in an increased Tax liability to another Company, a reduction in a Tax Asset of another Company or an increased liability to another Company under this Agreement and (ii) to take any action reasonably requested by another Company that would reasonably be expected to result in a Tax Benefit or avoid a Tax Detriment to such requesting Company; provided, that such action does not result in any additional direct or indirect cost not fully compensated for by the requesting Company.

### Section 9. Dispute Resolution.

In the event that the Companies disagree as to the amount or calculation of any payment to be made under this Agreement, including a Tax Payment, or the interpretation or application of any provision under this Agreement, the Companies shall attempt in good faith to resolve such dispute. If such dispute is not resolved within 60 days following the commencement of the dispute, the Companies shall jointly retain an Independent Firm, reasonably acceptable to the Companies, to resolve the dispute; provided, however, that in order to pursue any such dispute resolution under this Section 9, the Indemnifying Company must first pay to the Indemnified Company, or place in an escrow reasonably satisfactory to the Indemnified Company pending resolution of such dispute, an amount equal to the payment, including any Tax Payment, which is the subject of such dispute. The Independent Firm shall act as an arbitrator to resolve all points of disagreement and its decision shall be final and binding upon the Companies. Following the decision of the Independent Firm, the Companies shall take, or cause to be taken, any action necessary to implement the decision of the Independent Firm. The fees and expenses relating to the Independent Firm shall be borne by the Company that does not prevail in the dispute resolution proceeding. Notwithstanding any provision of this Agreement to the contrary, the dispute resolution provisions set forth in this Section 9 shall not be applicable to any disagreement between the Companies in connection with any matter relating to any Tax Contest.

Section 10. General Provisions.

Section 10.1. Effectiveness; Termination of Prior Tax Allocation Agreements.

This Agreement shall be effective on the date first written above. Immediately prior to the close of business on the date hereof (i) all Prior Tax Allocation Agreements shall be terminated, and (ii) amounts due under such Prior Tax Allocation Agreements as of the date hereof shall be settled. Upon such termination and settlement, no further payments by or to any Quanex Group Member or by or to any Spinco Group Member, with respect to such Prior Tax Allocation Agreements, shall be made, and all other rights and obligations resulting from such Prior Tax Allocation Agreements between the Quanex Group Members and Spinco Group Members shall cease at such time. Any payments pursuant to such Prior Tax Allocation Agreements shall be ignored for purposes of computing amounts due under this Agreement.

Section 10.2. Survival of Obligations.

The representations, warranties, covenants and agreements set forth in this Agreement shall be unconditional and absolute and shall remain in effect until 30 days after the statute of limitations (taking into account extensions) has expired on all Taxes set forth in this Agreement.

Section 10.3. Addresses and Notices.

All notices, consents, requests, instructions, approvals, statements, reports and other communications provided for herein shall be validly given, made or served, if in writing and delivered personally or sent by registered mail, postage prepaid, or by facsimile transmission:

If to Quanex prior to the Distribution Date, to:

Quanex Corporation  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
Attention: General Counsel  
Facsimile (713) 626-7549

and

Gerdau S.A.  
Avenida Farrapos, 1811  
Porto Alegre, RS 90220-005  
Brazil  
Attention: Expedito Luz  
Fax: 55-51-3323-2288

with a copy to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Michael W. Conlon  
Facsimile: (713) 651-5246

and

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
Attention: Alan Klein  
Facsimile: (212) 455-2502

If to Quanex after the Distribution Date, to:

Gerdau S.A.  
Avenida Farrapos, 1811  
Porto Alegre, RS 90220-005  
Brazil  
Attention: Expedito Luz  
Fax: 55-51-3323-2288

with a copy to:

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
Attention: Alan Klein  
Facsimile: (212) 455-2502

If to Spinco, to:

Quanex Building Products LLC  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
Attention: President  
Facsimile (713) 626-7549

with a copy to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Michael W. Conlon  
Facsimile: (713) 651-5246

If to Spinco Sub, to:

Quanex Building Products Corporation  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
Attention: President  
Facsimile (713) 626-7549

with a copy to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Michael W. Conlon  
Facsimile: (713) 651-5246

or to such other address that a Company may, from time to time, designate in a written notice to the other Companies given in a like manner. Notice delivered personally shall be deemed delivered when received by the recipient. Notice given by mail as set out above shall be deemed delivered five calendar days after the date the same is mailed. Notice given by facsimile transmission shall be deemed delivered on the day of transmission provided telephone confirmation of receipt is obtained promptly after completion of transmission.

Section 10.4. Binding Effect.

This Agreement shall be binding upon and inure to the benefit of the Companies and their successors and assigns.

Section 10.5. Waiver.

No failure by any Company to insist upon the strict performance of any obligation under this Agreement or to exercise any right or remedy under this Agreement shall constitute waiver of any such obligation, right or remedy or any other obligation, right or remedy under this Agreement.

Section 10.6. Invalidity of Provisions.

If any provision of this Agreement is or becomes invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not be affected thereby.

Section 10.7. Further Action.

Each Company shall execute and deliver all documents, provide all information and take or refrain from taking action as may be necessary or appropriate to achieve the purposes of this Agreement, including the execution and delivery to the other Companies and their Affiliates and representatives of such powers of attorney or other authorizing documentation as is reasonably necessary or appropriate in connection with Tax Contests under the control of any such other Company in accordance with Section 7.

Section 10.8. Integration.

This Agreement constitutes the entire agreement among the Companies pertaining to the subject matter of this Agreement and supersedes all prior agreements and understandings pertaining thereto. In the event of any inconsistency between this Agreement and the Distribution Agreement or any other agreements relating to the transactions contemplated by the Distribution Agreement, the provisions of this Agreement shall control.

Section 10.9. Construction.

The language in all parts of this Agreement shall in all cases be construed according to its fair meaning and shall not be strictly construed for or against any Company.

Section 10.10. No Double Recovery.

No provision of this Agreement shall be construed to provide an indemnity or other recovery for any costs, damages or other amounts for which the damaged Company has been fully compensated under any other provision of this Agreement or under any other agreement or action at law or equity. Unless expressly required in this Agreement, a Company shall not be required to exhaust all remedies available under other agreements or at law or equity before recovering under the remedies provided in this Agreement.

Section 10.11. Setoff.

All payments to be made by any Company to another Company under this Agreement may be netted against payments due to such Company by such other Company under this Agreement, but otherwise shall be made without setoff, counterclaim or withholding, all of which are hereby expressly waived.

Section 10.12. Counterparts.

This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument.

Section 10.13. No Third Party Rights.

This Agreement is only intended to allocate the responsibility for certain Taxes between the Companies and to address the other Tax matters stated herein. Nothing in this Agreement, express or implied, is intended or shall confer any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement upon any Person other than the Companies. The Companies acknowledge and agree that the respective rights of the Quanex Indemnitees and the Spinco Indemnitees expressly provided under this Agreement may only be enforced by Quanex and the Surviving Entity, respectively.

Section 10.14. Governing Law.

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware applicable to contracts executed in and to be performed in the State of Delaware.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the Companies have caused this Agreement to be executed by their respective officers as of the date set forth above.

Quanex Corporation

By: /s/ Thomas M. Walker  
Tom Walker  
Senior Vice President-Finance and Chief  
Financial Officer

Quanex Building Products LLC

By: /s/ Kevin P. Delaney  
Kevin Delaney  
Senior Vice President-General Counsel and  
Secretary

Quanex Building Products Corporation

By: /s/ Kevin P. Delaney  
Kevin Delaney  
Senior Vice President-General Counsel and  
Secretary



Schedule 1.1

Members of Spinco Group

Besten Equipment, Inc., a Delaware corporation

Colonial Craft, Inc., a Delaware corporation

Imperial Products, Inc., a Delaware corporation

Mikron Industries, Inc., a Washington corporation (including (A) Mikron Washington LLC, a Washington limited liability company and wholly-owned subsidiary of Mikron Industries, Inc., (B) VL Investors I LLC, a Delaware limited liability company and wholly-owned subsidiary of Mikron Industries, Inc. and (C) Vinyl Link LLC, a Delaware limited liability company and 49% subsidiary of VL Investors I LLC)

Nichols Aluminum, Inc., a Delaware corporation

Nichols Aluminum-Alabama, Inc., a Delaware corporation

Quanex Foundation

Quanex Homeshield, Inc., a Delaware corporation

Truseal Technologies, Inc., a Delaware corporation (including Truseal Technologies, Ltd., a New Brunswick corporation and wholly-owned subsidiary of Truseal Technologies, Inc.)

**TRANSITION SERVICES AGREEMENT**

THIS TRANSITION SERVICES AGREEMENT, dated as of December 19, 2007 but effective pursuant to Section 7 (this "Agreement"), is between Quanex Corporation, a Delaware corporation ("Quanex"), and Quanex Building Products LLC, a Delaware limited liability company ("Spinco").

WHEREAS, Quanex and Spinco have entered into a Distribution Agreement, dated as of December 19, 2007 (the "Distribution Agreement"), pursuant to which (i) Quanex will transfer or cause to be transferred to Spinco all of the Spinco Assets (as such term and other capitalized terms not defined herein are defined in the Distribution Agreement), which represent substantially all of the assets comprising Quanex's building products divisions, and Spinco intends to assume all of the Spinco Liabilities and (ii) all of the issued and outstanding Spinco Common Stock will be distributed on a pro rata basis to the holders as of the Record Date of the outstanding Quanex Common Stock;

WHEREAS, this Agreement, the Distribution Agreement, the Tax Sharing Agreement between Quanex and Spinco dated as of December 19, 2007, and the Employee Matters Agreement between Quanex and Spinco dated as of December 19, 2007 (collectively, the "Transaction Agreements") set forth certain transactions that are conditions to consummation of the transactions contemplated by the Distribution Agreement;

WHEREAS, Quanex and one or more of the Quanex Subsidiaries (collectively, the "Quanex Group"), on the one hand, and Spinco and one or more of the Spinco Subsidiaries (collectively, the "Spinco Group"), on the other hand, will provide certain services (the "Services") to each other in accordance with the terms and subject to the conditions set forth herein for a period described herein on and after the Distribution Date in order to assist in the transition of the Spinco Business;

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

**SECTION 1. SERVICES**

1.1 **Services Provided by Quanex Group to Spinco Group.** In order to continue the operation of the Spinco Business and to facilitate the orderly and effective transition of the Spinco Business from Quanex to Spinco, the Quanex Group shall use commercially reasonable efforts to provide the Spinco Group the Services set forth in Exhibit A, a copy of which is attached to and made a part of this Agreement, to the extent such Services may be requested by Spinco from time to time for the term of this Agreement. The applicable rates, fees and charges associated with each Service are also set forth in Exhibit A. Any additional services to be provided by the Quanex Group but not specifically detailed in Exhibit A or any change in the fees to be charged from that set forth on Exhibit A shall be mutually agreed upon by the parties as an amendment to Exhibit A.

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1.2 **Services Provided by Spinco Group to Quanex Group.** In order to continue the operation of the Quanex business and to facilitate the orderly and effective transition of the Spinco Business from Quanex to Spinco, the Spinco Group shall use commercially reasonable efforts to provide the Quanex Group the Services set forth in Exhibit B, a copy of which is attached to and made a part of this Agreement, to the extent such Services may be requested by Quanex from time to time for the term of this Agreement. The applicable rates, fees and charges associated with each Service are also set forth in Exhibit B. Any additional services to be provided by the Spinco Group but not specifically detailed in Exhibit B or any change in the fees to be charged from that set forth on Exhibit B shall be mutually agreed upon by the parties as an amendment to Exhibit B.

## **SECTION 2. PERFORMANCE OF SERVICES**

2.1 **Manner of Performance.** Each of the Quanex Group and the Spinco Group agrees that it shall use commercially reasonable efforts to cause each of its respective personnel who previously provided the Services being requested herein prior to the Distribution Date to perform the Services with the same degree of care, skill, confidentiality and diligence with which such personnel perform similar services for such party, but in no event less than in conformance with industry standards. Each of Quanex and Spinco shall ensure that its personnel occupying positions related to the support of the Spinco Business and the Quanex business, respectively, shall devote sufficient time and effort as reasonably required to perform the Services. If a dispute arises over the nature or quality of the Services, the prior practice of Quanex with respect to the Services, as determined from the books and records of Quanex relating to its business or the Spinco Business, shall be conclusive as to the nature and quality of the Services.

2.2 **Provision of Information.** Any data, information, equipment or general directions necessary for the Quanex Group or the Spinco Group to perform the Services shall be submitted to the party performing the Services in a timely manner.

2.3 **Termination of Any Service.** The termination of any one or more of the specific Services shall have no impact on the Quanex Group's or the Spinco Group's obligation to continue to provide any other Services.

2.4 **Laws and Regulations.** Quanex represents and agrees that it and each member of the Quanex Group, and Spinco represents and agrees that it and each member of the Spinco Group, will use the Services provided hereunder only in accordance with all applicable federal, state and local laws and regulations, and in accordance with the conditions, rules, regulations and specifications which may be set forth in any manuals, materials, documents or instructions provided on or prior to the date of this Agreement.

2.5 **Modification of Service Levels.** Prior to the end of the first calendar month following the Distribution Date and prior to the end of every calendar month thereafter, the parties will review the Services provided to discuss whether the Services will remain at the same level or decrease during the next immediately succeeding month. Each party will notify the other in writing of any Service reduction or termination of Services pursuant to Section 8.

2.6 **No Warranty.** THIS IS A SERVICE AGREEMENT. EXCEPT AS EXPRESSLY STATED IN THIS AGREEMENT, THERE ARE NO EXPRESS WARRANTIES OR GUARANTIES, AND THERE ARE NO IMPLIED WARRANTIES OR GUARANTIES, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY, TITLE AND FITNESS FOR A PARTICULAR PURPOSE.

2.7 **Use of Subcontractors.** Each of Quanex and Spingo may hire or engage one or more subcontractors to perform any or all of its Services; provided, that, each of Quanex and Spingo will in all cases remain responsible for all of their respective obligations under this Agreement, including, without limitation, with respect to the scope of the Services, the standard for Services and the content of the Services provided. Under no circumstances will Spingo be responsible for making any payments directly to any subcontractor engaged by Quanex, nor will Quanex be responsible for making any payments directly to any subcontractor engaged by Spingo.

### **SECTION 3. CHARGES FOR SERVICES**

From and after the date of this Agreement and throughout the term of this Agreement, Spingo agrees to pay to Quanex on a monthly basis the service fees set forth on Exhibit A, and Quanex agrees to pay Spingo on a monthly basis the service fees set forth on Exhibit B. The parties agree that the amounts to be paid for Services rendered hereunder are intended to both reasonably cover the Quanex Group's and the Spingo Group's costs in providing the Services and be competitive with the amount charged by third parties for similar services.

### **SECTION 4. PAYMENT OF CHARGES AND REIMBURSEMENTS**

On or before the 15th day of each month during the term of this Agreement, each party (or its designee) shall submit to the other party an invoice for the Services provided hereunder during the immediately preceding calendar month representing amounts determined in accordance with Section 3 above, if any. Subject to Section 5.2, each party shall remit payment to the other party within fifteen days after its receipt of such invoice. Unless otherwise agreed to in writing, each party shall remit all funds due under this Agreement to the other party (or its designee) by wire transfer in immediately available funds based on the instructions set forth in Exhibit C, a copy of which is attached to and made a part of this Agreement.

### **SECTION 5. RECORDS AND AUDITS**

5.1 **Records Maintenance and Audits.** All records and other information generated, gathered or maintained by each party in connection with its provision of the Services pursuant to this Agreement shall be the proprietary material of the party receiving the Services. Each party shall provide the party receiving the Services the originals of such records and other information, and any copies kept by Quanex with Spingo's consent or by Spingo with Quanex's consent shall remain subject to Section 6 hereof. Each of Quanex and Spingo shall, for two years after the termination of this Agreement, maintain records and other evidence sufficient to accurately and properly calculate the amounts due determined in accordance with Section 3 hereof. Each of

Quanex and Spinco or each of their respective representatives shall have reasonable access, after requesting such access in writing, during normal business hours to such records for the purpose of auditing and verifying the accuracy of the invoices submitted regarding such amounts due. Any such audits performed by or on behalf of Quanex or Spinco shall be at the requesting party's sole cost and expense. The party being audited shall fully cooperate with the auditing party's representatives to accomplish the audit. Each party shall have the right to audit the other party's books for a period of one year after the month in which the Services were rendered.

5.2 ***Disputed Amounts.*** In the event of a good-faith dispute as to the amount or propriety of any invoice or any portions thereof submitted pursuant to Sections 3 and 4, the party receiving the Services shall pay all charges on such invoice other than disputed amounts and shall promptly notify the other party in writing of such disputed amounts. So long as the parties are attempting in good faith to resolve the dispute, neither party shall be entitled to terminate the Services related to, or that are the cause of, the disputed amounts. If it is determined that the party receiving Services is required to pay all or a portion of the disputed amounts to the party providing Services, the party receiving the Services shall pay such amounts promptly and in no case more than five days after such determination is made.

5.3 ***Undisputed Amounts.*** Any statement or payment not disputed in writing by Spinco or Quanex within one year after the month in which the Services were rendered shall be considered final and no longer subject to adjustment.

5.4 ***Set Off.*** Each party shall have the right to set off any amounts owed to such party by the other party under this Agreement.

#### ***SECTION 6. CONFIDENTIALITY***

Each party acknowledges that in connection with its performance under this Agreement, it may gain access to confidential material and information that is of a proprietary, technical or business nature to the other party with respect to the Services being performed hereunder. Therefore, each party agrees that it shall not, and shall cause each of its respective officers, directors, employees, and other agents and representatives, including attorneys, agents, customers, suppliers, contractors and consultants (collectively, such party's "Representatives"), not to, directly or indirectly, disclose, reveal, divulge or communicate to any person (other than Representatives of such party who reasonably need to know such information in providing Services hereunder) or use or otherwise exploit for its own benefit or for the benefit of any third party, any of the other party's Confidential Information (as defined below). If any disclosures are made by a party to its Representatives in connection with such Representatives providing Services hereunder, then the Confidential Information so disclosed shall be used only as required to perform the Services. Such party shall use the same degree of care to prevent and restrain the unauthorized use or disclosure of the other party's Confidential Information by any of its Representatives as they currently use for their own confidential information of a like nature, but in no event less than a reasonable standard of care. If a party is required to disclose Confidential Information of the other party due to a provision of law or a compulsory disclosure notice of a court or governmental agency, the party needing to make such disclosure shall promptly notify the other party and shall assist the other party in obtaining confidential treatment of such

Confidential Information. "Confidential Information" of a party means any information, material or documents relating to the business of such party currently or formerly conducted, or proposed to be conducted, by such party furnished to or in possession of the other party, irrespective of the form of communication, and all notes, analyses, compilations, forecasts, data, translations, studies, memoranda or other documents prepared by or on behalf of the other party that contain or otherwise reflect such information, material or documents. "Confidential Information" does not include, and there shall be no obligation hereunder with respect to, information that (i) is or becomes generally available to the public, other than as a result of a disclosure by any member of the other party or any of its Representatives not otherwise permissible hereunder, (ii) the other party can demonstrate was or became available to such other party from a source other than the first party, or (iii) is developed independently by the other party without reference to the Confidential Information; provided, however, that, in the case of clause (ii) above, the source of such information was not known by the other party to be bound by a confidentiality agreement with, or other contractual, legal or fiduciary obligation of confidentiality to, the first party with respect to such information.

Following termination of the Services hereunder, upon written request at any time by either party, the parties shall account for and return or destroy all papers, books, records and electronic records containing any Confidential Information.

#### ***SECTION 7. TERM OF AGREEMENT***

Unless sooner terminated pursuant to Section 8 hereof, this Agreement shall become effective and shall be for a term commencing on the Distribution Date and ending on the last day of the twelfth calendar month following the month in which the Distribution Date occurs.

#### ***SECTION 8. TERMINATION***

8.1 ***Termination of Agreement.*** At any time or from time to time, either party may terminate this Agreement for any reason whatsoever by giving the other party at least 45 days' prior written notice to that effect. Each party shall pay the other party for all charges determined pursuant to Section 3 and incurred up to the date of such termination. Subject to Section 5, either party may also immediately terminate this Agreement if the other party does not tender payment for the Services within fifteen days after such party is given written notice of a failure to pay.

8.2 ***Termination of Services.*** At any time or from time to time, either party may terminate any one or more of the specific Services provided hereunder by giving the other party at least thirty days' prior written notice to that effect. At any time or from time to time, either party may immediately terminate any one or more of the specific Services if the providing of such Service would violate any applicable regulation, statute, ordinance or other law; *provided, however*, that a party shall give the other party prompt written notice when it intends to terminate any specific Services for this reason.

## SECTION 9. MISCELLANEOUS

9.1 **Force Majeure.** Neither party shall have any obligation to perform any specific Service hereunder if its failure to do so is caused by or results from any act of God, governmental action, natural disaster, strike, terrorism, war, insurrection or other cause or circumstances beyond its control, which acts or occurrences make it impossible for such party to carry out its obligations under this Agreement. During the term of the force majeure, the party receiving the Service shall have no obligation to pay for the specific Service that the other party does not provide as a result of the force majeure.

9.2 **Limitation of Liability.** EXCEPT FOR FAILURE TO COMPLY WITH THE CONFIDENTIALITY PROVISIONS HEREIN AND FOR FRAUD, GROSS NEGLIGENCE OR WILLFUL MISCONDUCT, NEITHER PARTY SHALL BE LIABLE TO THE OTHER FOR ANY INCIDENTAL, INDIRECT, SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL LOSSES OR DAMAGES OF ANY KIND OR NATURE WHATSOEVER, INCLUDING LOST PROFITS AND GOODWILL, WITH RESPECT TO THE SERVICES PROVIDED UNDER THIS AGREEMENT. IN NO EVENT SHALL EITHER PARTY'S LIABILITY HEREUNDER EXCEED THE TOTAL AMOUNT OF CASH COMPENSATION THAT SUCH PARTY IS PAID UNDER THIS AGREEMENT.

9.3 **Indemnification.** Each party shall release, defend (upon the other party's request), protect, indemnify and save the other party, its employees, contractors, subcontractors (of any tier) and agents harmless from and against all liability, claims, costs, expenses, demands, suits and causes of action of every kind and character arising in favor of or against the first party, its employees, contractors, subcontractors (of any tier) or agents, on account of personal injuries to or death of any person, or damages to or the loss or destruction of property, incident to or in connection with or arising out of: (a) the presence of any of such party's employees, contractors, subcontractors (of any tier) or agents on the other party's premises, (b) the negligent act or omission of such party or its employees, contractors, subcontractors (of any tier) or agents or (c) the failure of such party to comply with the provisions of this Agreement. The foregoing shall not be interpreted to require either party to indemnify the other party against the gross negligence or willful misconduct of the other party, its employees, contractors or agents.

9.4 **Independent Contractor:** The parties hereto agree that the Services rendered by the Quanex Group and the Spinco Group in the fulfillment of the terms and obligations of this Agreement shall be as an independent contractor and not as an employee, and with respect thereto, the Quanex Group, the Spinco Group and their respective employees, contractors or agents are not entitled to the benefits provided by the other party to its employees including, but not limited to, group insurance and participation in any employee benefit and pension plans. Further, nothing stated in this Agreement shall be construed to make any member of the Quanex Group an agent, partner or joint venturer of or with any member of the Spinco Group or to make any member of the Spinco Group an agent, partner or joint venturer of or with any member of the Quanex Group. No employee, contractor or agent of either the Quanex Group or the Spinco Group shall represent himself to third persons to be other than an independent contractor of the other party, nor shall he permit himself to offer or agree to incur or assume any obligations or commitments in the name of such party or for such party without the prior consent and authorization of such party.

9.5 **Complete Agreement.** This Agreement and the Exhibits hereto, the other Transaction Agreements and other documents referred to herein and therein shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter.

9.6 **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to its conflicts of laws principles.

9.7 **Notices.** All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed given upon (a) a transmitter's confirmation of a receipt of a facsimile transmission (but only if followed by confirmed delivery of a standard overnight courier the following business day or if delivered by hand the following business day), (b) confirmed delivery of a standard overnight courier or when delivered by hand or (c) the expiration of five business days after the date mailed by certified or registered mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to Quanex or any member of the Quanex Group prior to the Distribution Date, to:

Quanex Corporation  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
Attention: General Counsel  
Facsimile: (713) 626-7549

and

Gerdau S.A.  
Avenida Farrapos, 1811  
Porto Alegre, RS 90220-005  
Brazil  
Attention: Expedito Luz  
Fax: 55-51-3323-2288

with a copy to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Michael W. Conlon  
Facsimile: (713) 651-5246



and

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
Attention: Alan Klein  
Facsimile: (212) 455-2502

If to Quanex or any member of the Quanex Group following the Distribution Date, to:

Gerdau S.A.  
Avenida Farrapos, 1811  
Porto Alegre, RS 90220-005  
Brazil  
Attention: Expedito Luz  
Fax: 55-51-3323-2288

with a copy to:

Simpson Thacher & Bartlett LLP  
425 Lexington Avenue  
New York, New York 10017  
Attention: Alan Klein  
Facsimile: (212) 455-2502

If to Spinco or any member of the Spinco Group, to:

Quanex Building Products LLC  
1900 West Loop South, Suite 1500  
Houston, Texas 77027  
Attention: President  
Facsimile: (713) 626-7549

with a copy (which shall not constitute effective notice) to:

Fulbright & Jaworski L.L.P.  
1301 McKinney, Suite 5100  
Houston, Texas 77010  
Attention: Michael W. Conlon  
Facsimile: (713) 651-5246

or to such other address as any party hereto may have furnished to the other parties by a notice in writing in accordance with this Section.

9.8 **Amendment and Modification.** This Agreement may be amended, modified or supplemented only by a written agreement signed by all of the parties hereto.

9.9 **Successors and Assigns; No Third-Party Beneficiaries.** This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns, but neither this Agreement nor any of the rights, interests and obligations hereunder shall be assigned by any party hereto without the prior written consent of the other party. Except for the provisions of Section 9.3, which are also for the benefit of the indemnitees, this Agreement is solely for the benefit of Quanex and Spinco and their respective subsidiaries, affiliates, successors and assigns, and is not intended to confer upon any other persons any rights or remedies hereunder

9.10 **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

9.11 **Interpretation.** The Section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties hereto and shall not in any way affect the meaning or interpretation of this Agreement.

9.12 **Severability.** If any provision of this Agreement or the application thereof to any person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party.

9.13 **References; Construction.** References to any "Exhibit" or "Section," without more, are to Exhibits and Sections to or of this Agreement. Unless otherwise expressly stated, clauses beginning with the term "including" or similar words set forth examples only and in no way limit the generality of the matters thus exemplified.

9.14 **Termination.** Notwithstanding any provision hereof, this Agreement may be terminated at any time prior to the Distribution Date by and in the sole discretion of the Board of Directors of Quanex. In the event of such termination, no party hereto shall have any liability to the other party hereto by reason of this Agreement.

9.15 **Consent to Jurisdiction and Service of Process.** Each of the parties to this Agreement hereby irrevocably and unconditionally (i) agrees to be subject to, and hereby consents and submits to, the jurisdiction of the courts of the State of Delaware and of the federal courts sitting in the State of Delaware, (ii) to the extent such party is not otherwise subject to service of process in the State of Delaware, appoints the Corporation Trust Company as such party's agent in the State of Delaware for acceptance of legal process and (iii) agrees that service made on any such agent set forth in (ii) above shall have the same legal force and effect as if served upon such party personally within the State of Delaware.

9.16 **Waivers**. Except as provided in this Agreement, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

9.17 **Specific Performance**. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or in equity.

9.18 **Waiver of Jury Trial**. Each of the parties hereto irrevocably and unconditionally waives all right to trial by jury in any litigation, claim, action, suit, arbitration, inquiry, proceeding, investigation or counterclaim (whether based in contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the parties hereto in the negotiation, administration, performance and enforcement thereof.

The parties hereto have executed this Agreement on the date first written above, to be effective on the Distribution Date.

Quanex Corporation

By: /s/ Thomas M. Walker  
Thomas M. Walker  
Senior Vice President — Finance and  
Chief Financial Officer

Quanex Building Products LLC

By: /s/ Kevin P. Delaney  
Kevin P. Delaney  
Senior Vice President —  
General Counsel and Secretary

**EMPLOYEE MATTERS AGREEMENT**

**DATED AS OF DECEMBER 19, 2007**

**BY AND AMONG**

**QUANEX CORPORATION,**

**QUANEX BUILDING PRODUCTS LLC**

**AND**

**QUANEX BUILDING PRODUCTS CORPORATION**

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## EMPLOYEE MATTERS AGREEMENT

THIS EMPLOYEE MATTERS AGREEMENT (this "Agreement") is entered into as of December 19, 2007 by and among Quanex Corporation, a Delaware corporation ("Quanex"), Quanex Building Products LLC, a Delaware limited liability company and a wholly owned subsidiary of Quanex ("Spinco LLC"), and Quanex Building Products Corporation, a Delaware corporation and a wholly-owned subsidiary of Spinco ("Spinco Sub").

WHEREAS, Quanex intends to transfer or cause to be transferred to Spinco LLC certain assets, which represent its businesses involving the manufacture and sale of aluminum sheet and engineered materials and components primarily used in the United States building products market, and Spinco LLC intends to assume certain liabilities, as contemplated by the Distribution Agreement as defined below (the "Contribution");

WHEREAS, either before or after the Distribution, Spinco LLC will merge with and into Spinco Sub (the "Spinco Merger") pursuant to the Spinco Merger Agreement;

WHEREAS, Quanex and Spinco have entered into a Distribution Agreement dated as of the date hereof (the "Distribution Agreement") pursuant to which and subject to conditions set forth therein, Quanex will distribute (the "Distribution") on a pro rata basis to the holders as of the Record Date of the outstanding Quanex Common Stock (the "Quanex Stockholders") either (a) all of the limited liability company interest (the "Membership Interest") of Spinco LLC (if the Spinco Merger occurs after the Distribution) or (b) the shares of Spinco Sub stock (if the Spinco Merger occurs prior to the Distribution); and

WHEREAS, Quanex, Spinco LLC and Spinco Sub have entered into certain other agreements dated as of the date hereof that will govern matters relating to the Distribution and the relationship of Quanex, Spinco LLC and Spinco Sub following the Distribution;

WHEREAS, pursuant to the Distribution Agreement, Quanex, Spinco LLC and Spinco Sub have agreed to enter into this Agreement for purposes of allocating employees, assets, liabilities, and responsibilities with respect to employee compensation, benefits and other matters between Quanex, Spinco LLC and Spinco Sub; and

WHEREAS, Quanex, Spinco LLC and Spinco Sub have determined to "spinoff" certain assets and liabilities of Quanex employee benefit plans to Spinco employee benefit plans.

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

---

## ARTICLE I

### DEFINITIONS

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

“Affiliate” has the meaning given in the Distribution Agreement.

“Agreement” means this Employee Matters Agreement, and all exhibits and schedules hereto.

“Change in Control Agreements” means the agreements listed on Schedule 1.

“Change in Control Payments” means payments under (i) the Change in Control Agreements, (ii) the Waiver and Release Agreements, (iii) payments due upon the termination of the Quanex Director Plan as provided in Section 9.5, (iv) payments due upon termination of Quanex restricted stock units as provided in Section 10.3, (v) payments of the bonuses as required under Section 11.2(b)(i) and Section 11.2(b)(iii), and (vi) any Section 280G gross-up payments made with respect to any such payment, each as in addition to, and in excess of, the amounts indicated for such payments, if any, on the unaudited balance sheet of Quanex dated October 31, 2007 (attached as Schedule 1 to the Distribution Agreement).

“Closing” has the meaning given in the Merger Agreement.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Distribution” has the meaning given in the Recitals of this Agreement.

“Distribution Agreement” has the meaning given in the Recitals of this Agreement.

“Distribution Date” has the meaning given in the Distribution Agreement.

“Distribution Time” means the time at which the Distribution shall be effective under the terms of the Distribution Agreement.

“DOL” means the U.S. Department of Labor.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Estimated Pension Plan Transfer Amount” has the meaning given in Section 6.2(b)(i).

“Final Offering Period Ending Date” has the meaning give in Section 11.1.

“Final Pension Plan Transfer Amount” has the meaning given in Section 6.2(b)(iii).

“Former Quanex Employee” means any individual who, as of the Distribution Time, (a) was formerly employed by Quanex and (b) is not a Spinco Employee.

“Initial Transfer Amount” has the meaning given in Section 6.2(b)(ii).

“IRS” means the U.S. Internal Revenue Service.

“Liability” and “Liabilities” have the meanings given in the Distribution Agreement.

“Merger Agreement” has the meaning given in Section 7.4(b).

“Merger Consideration” has the meaning given in the Merger Agreement.

“Minimum Statutory Tax Withholding Amount” means, with respect to a relevant option or share of restricted stock, the amount the employer is required to withhold for federal, state and local taxes based upon the applicable minimum statutory withholding rates required by the relevant tax authorities.

“Option Payments” has the meaning given in Section 10.1(b).

“Parent” has the meaning given in Section 7.4(b).

“Quanex” has the meaning given in the preamble of this Agreement.

“Quanex Bargaining Unit Employee Savings Plan” means the Quanex Corporation Bargaining Unit Employee Savings Plan.

“Quanex Common Stock” has the meaning given in the Distribution Agreement.

“Quanex Deferred Compensation Plan” means the Quanex Corporation Deferred Compensation Plan.

“Quanex Director” means any individual who was a member or former member of the board of directors of Quanex at or before the Distribution Time and who is not a Spinco Director.

“Quanex Director Plan” means the frozen Quanex Corporation Non-Employee Director Retirement Plan.

“Quanex Employee” means collectively, the Retained Quanex Employees and Former Quanex Employees.

“Quanex Employee Liabilities” has the meaning given in Section 3.2(b).

“Quanex Employees Pension Plan” means the Quanex Corporation Employees’ Pension Plan.

“Quanex Group” has the meaning given in the Distribution Agreement.

“Quanex Hourly Savings Plan” means the Quanex Corporation Savings Plan for Hourly Employees.

“Quanex Participant” means any individual who is a Quanex Director, Quanex Employee or former Quanex Employee or a beneficiary, dependent or alternate payee of any of the foregoing.

“Quanex Plans” means the Quanex Employees Pension Plan, Quanex Savings Plan, Quanex Hourly Savings Plan, Quanex Bargaining Unit Employee Savings Plan, Quanex Deferred Compensation Plan, Quanex Supplemental Benefit Plan, Quanex Supplemental Salaried Employees’ Pension Plan, Quanex Severance Plan, Quanex Corporation Employee Stock Purchase Plan, Quanex Corporation Executive Incentive Compensation Plan, Quanex Corporation Long-Term Incentive Plan, Quanex Corporation Management Incentive Plan, Quanex Stock Plans, Quanex Corporation Non-Employee Director Pension Plan, Quanex Corporation Group Health Plan and Quanex Welfare Plans and all other employee benefit plans, policies, agreements and arrangements of Quanex.

“Quanex Rabbi Trust” has the meaning given in Section 9.2(d).

“Quanex Reimbursement Account Plan” has the meaning given in Section 8.1(c).

“Quanex Restricted Stock” means a share of Quanex Common Stock granted pursuant to a Quanex Incentive Plan that is subject to forfeiture restrictions and provided under the applicable plan.

“Quanex Restricted Stock Unit” means a notional restricted stock unit, the value of which is based on a share of Quanex Common Stock and which is granted pursuant to a Quanex Incentive Plan.

“Quanex Savings Plan” means the Quanex Corporation Employees’ 401(k) Savings Plan.

“Quanex SERP Rabbi Trust” has the meaning given in Section 9.4(d).

“Quanex Service Plans” shall mean, collectively, the Quanex Employees Pension Plan, Quanex Hourly Savings Plan, Quanex Bargaining Unit Employee Savings Plan, Quanex Savings Plan, Quanex Severance Plans, the Quanex Corporation Group Health Plan and Quanex Welfare Plans to the extent eligibility for or level of benefits thereunder is dependent upon length of service.

“Quanex Severance Plans” means the Quanex Corporation Severance Allowance Program and the Quanex Corporation Corporate Office-Houston Supplemental Severance Policy.

“Quanex Stock Option” means an option to purchase Quanex Common Stock granted pursuant to a Quanex Stock Plan.

“Quanex Stock Plans” means (a) the Quanex Corporation 2006 Omnibus Incentive Plan; (b) Quanex Corporation 1989 Non-Employee Director Stock Option Plan, (c) Quanex Corporation 1997 Non-Employee Director Stock Option Plan, (d) Quanex Corporation 1987 Non-Employee Director Stock Option Plan, (e) Quanex Corporation 1988 Stock Option Plan, (f) Quanex Corporation 1996 Employee Stock Option and Restricted Stock Plan, (g) Quanex Corporation 1997 Key Employee Stock Plan and (h) Quanex Corporation Employee Stock Option and Restricted Stock Plan.

“Quanex Stock Purchase Plan” means the Quanex Corporation Employee Stock Purchase Plan.

“Quanex Supplemental Benefit Plan” means the Quanex Corporation Supplemental Benefit Plan.

“Quanex Supplemental Pension Plan” means the Quanex Corporation Supplemental Salaried Employees’ Pension Plan.

“Quanex Welfare Plans” has the meaning given in Section 8.1(a).

“Quanex Vacation Policy” means the Quanex vacation policy.

“Record Date” has the meaning given in the Distribution Agreement.

“Retained Quanex Employee” means any individual who, as of the Distribution Time, (a) is actively employed by, or on an approved leave of absence or layoff with right of recall from, Quanex and (b) is not a Spinco Employee.

“Revised Pension Plan Transfer Amount” has the meaning given in Section 6.2(b)(iii).

“Service Crediting Date” has the meaning given in Section 5.3(b)(i).

“Spinco” means (a) Spinco LLC prior to the effective time of the Spinco Merger and (b) Spinco Sub at and after the effective time of the Spinco Merger.

“Spinco Assets” has the meaning given in the Distribution Agreement.

“Spinco Business” has the meaning given in the Distribution Agreement.

“Spinco CBAs” has the meaning given in Article II.

“Spinco Common Stock” has the meaning given in the Distribution Agreement.

“Spinco Director” means any individual who is a member of the board of directors of Spinco after the Distribution Time.

“Spinco Employee” means (a) any individual employed at the former corporate office of Quanex in Houston at or following the Distribution Time, (b) any individual who is employed by Spinco or its Subsidiaries at or following the Distribution Time and (c) any individual who was (i) a former employee of Quanex or any direct or indirect Subsidiary of Quanex in existence prior to the Distribution Time and (ii) whose employment was primarily associated with the Spinco Business.

“Spinco Employee Liabilities” has the meaning given in Section 3.2(a).

“Spinco Group” has the meaning given in the Distribution Agreement.

“Spinco Hourly Savings Plan” has the meaning given in Section 7.2.

“Spinco LLC” has the meaning given in the preamble of this Agreement.

“Spinco Mirror Plans” has the meaning given in Section 5.1.

“Spinco Participant” shall mean any individual who is a Spinco Employee, a former Spinco Employee, or a beneficiary, dependent or alternate payee of any of the foregoing.

“Spinco Pension Plan” has the meaning given in Section 6.1.

“Spinco Pension Plan Participants” has the meaning given in Section 6.1.

“Spinco Plans” means the Spinco Pension Plan, Spinco Hourly Savings Plan, Spinco Savings Plan, Spinco Severance Plans, SPINCO\* Group Health Plan, Spinco Supplemental Benefit Plan, Spinco Supplemental Pension Plan, the Spinco Welfare Plans and all other employee benefit plans, policies, agreements and arrangements of Spinco.

“Spinco Reimbursement Account Plan” has the meaning given in Section 8.1(c).

“Spinco Savings Plan” has the meaning given in Section 7.3(a).

“Spinco Service Plans” shall mean, collectively, the Spinco Pension Plan, Spinco Hourly Savings Plan, Spinco Savings Plan, Spinco Severance Plans, SPINCO\* Group Health Plan and the Spinco Welfare Plans to the extent eligibility for or level of benefits thereunder is dependent upon length of service, including the Spinco vacation, sick and retiree medical, dental and life programs.

“Spinco Sub” has the meaning given in the preamble of this Agreement.

“Spinco Supplemental Benefit Plan” has the meaning given in Section 9.4(a).

“Spinco Supplemental Pension Plan” has the meaning given in Section 9.3(a).

“Spinco Severance Plans” has the meaning give in Section 11.3(a).

“Spinco Welfare Plans” has the meaning given in Section 8.1(a).

“Subsidiary” shall mean any entity, whether incorporated or unincorporated, of which at least a majority of the securities or ownership interests having by their terms voting power to elect a majority of the board of directors or other persons performing similar functions is directly or indirectly owned or controlled by such party or by one or more of its respective subsidiaries.

“Third-Party Claim” has the meaning given in the Distribution Agreement.

“Transaction Agreements” has the meaning given in the Distribution Agreement.

“Transition Services Agreement” has the meaning given in the Distribution Agreement.

“True-Up Amount” has the meaning given in Section 6.2(b)(iv).

“Unrestricted Quanex Common Stock” has the meaning given in Section 10.2.

“Waiver and Release Agreements” has the meaning given in Section 4.1.

## ARTICLE II

### COLLECTIVE BARGAINING AGREEMENTS

As of the Distribution Time, the unions representing the employees of any member of the Spinco Group will continue to represent those employees for purposes of collective bargaining with their respective employers, and the collective bargaining agreements between those Spinco Group members and the unions representing their employees, which are listed on Schedule 2 (the "Spinco CBAs"), shall remain in effect. All and any obligations and Liabilities of any member of the Quanex Group under the Spinco CBAs shall be assumed by, and become the obligations and Liabilities of, and shall be performed by Spinco or one of the members of the Spinco Group, regardless of when or where such obligations and Liabilities arose or arise or were or are incurred, and each member of the Spinco Group agrees to take any and all steps necessary to assume such obligations and Liabilities under the Spinco CBAs.

## ARTICLE III

### EMPLOYEES; ASSUMPTION OF LIABILITIES

#### Section 3.1 *Employees.*

(a) *General.* Effective as of the Distribution Time, (i) each Spinco Employee who was actively employed by, or on short- or long-term disability, approved leave of absence or layoff with right of recall from, Quanex or any of its Affiliates immediately prior to the Distribution Time, shall become an employee of Spinco and (ii) each Retained Quanex Employee shall continue to be an employee of Quanex or its Affiliate. Except as otherwise expressly provided herein or as required by applicable law, effective as of the Distribution Time each Spinco Employee shall cease to participate in all Quanex Plans. Except as otherwise expressly provided herein, no provision of this Agreement or the other Transaction Agreements shall be construed to create any right, or accelerate entitlement, to any compensation or benefit whatsoever on the part of any Spinco Employee or other future, present, or former employee of Quanex or Spinco under any Quanex Plan or otherwise.

(b) *No Quanex Severance Payment.* Except as otherwise specified in this Agreement, no Spinco Employee will be entitled to receive termination pay, separation pay, salary continuation, severance payments or similar benefits from Quanex or any other entity which, immediately following the Distribution Time, is a member of the Quanex Group.

(c) *Termination of Participation in Quanex Plans.* Except as otherwise specified in the Agreement, each member of the Spinco Group shall terminate its participation in any and all Quanex Plans and each Spinco Employee shall cease to be a participant in any and all Quanex Plans as of the Distribution Time or at such earlier time as Quanex, in its discretion, may direct.

#### Section 3.2 *Assumption of Liabilities.*

(a) *Assumption by Spinco.* Effective as of the Distribution Time, Spinco and its Affiliates hereby assume and agree to pay, perform, fulfill and discharge, in accordance with their respective terms, as such relate to the Spinco Employees and Spinco Directors, (i) all of the Liabilities relating to, arising out of, or resulting from obligations, Liabilities, and responsibilities expressly assumed or retained by Spinco pursuant to this Agreement, regardless of when or where such Liabilities arose or arise or were or are incurred and (ii) all of the Liabilities relating to or arising from the Spinco Employees and Spinco Directors but excluding any and all of the Liabilities for Spinco Directors and Spinco Employees who were employed at the corporate office in Houston of Quanex to the extent accrued on the unaudited balance sheet as of the Distribution Date (other than any such Liabilities relating to benefits under the Quanex Plans that are assumed by Spinco pursuant to the express terms of the Transaction Agreements) (collectively, the “Spinco Employee Liabilities”).



(b) *Liabilities Retained and Assumed by Quanex.* All Liabilities relating to or arising from (i) the Quanex Directors, (ii) the Quanex Employees and (iii) Spinco Employees who were employed at the corporate office in Houston of Quanex to the extent accrued on the unaudited balance sheet of Quanex dated as of the Distribution Date (other than any such Liabilities relating to benefits under the Quanex Plans that are assumed by Spinco pursuant to the express terms of the Transaction Agreements), shall be retained by Quanex, and Quanex agrees to pay, perform, fulfill, and discharge in accordance with their respective terms all of such Liabilities, regardless of when or where such Liabilities arose or arise or were or are incurred (“Quanex Employee Liabilities”).

*Section 3.3 Transfer of Assets.*

Assets, if any, attributable to the Liabilities referenced in the preceding provisions of this Article III shall be allocated (if applicable) as provided in the remaining provisions of this Agreement.

*Section 3.4 Non-Solicitation of Employees.*

For a period of two years after the Distribution Date, (a) Spinco shall not, and shall cause its Subsidiaries to not, directly or indirectly solicit, hire or assist in soliciting or hiring any Retained Quanex Employee and (b) Quanex shall not, and shall cause its Subsidiaries to not, directly or indirectly, solicit, hire or assist in soliciting or hiring any Spinco Employee (regardless of whether such employee is actively employed at such time); provided that any solicitation or hiring of a Spinco Employee by Quanex or a Quanex Employee by Spinco through general advertising or public solicitations shall not constitute a breach of this Section 3.4.

## ARTICLE IV

### CHANGE IN CONTROL ARRANGEMENTS

#### Section 4.1 *Waiver and Release Agreements.*

Effective as of the Distribution Time, Spinco shall assume the waiver and release agreements by and between Quanex and each of Raymond A. Jean, Kevin P. Delaney, Thomas M. Walker, Paul A. Hammonds, John J. Mannion and Brent A. Korb (collectively, the "Waiver and Release Agreements") and offer employment to each of the foregoing with (i) the same title, (ii) substantially the same duties and responsibilities, and (iii) a level of base pay and cash incentive bonus opportunities at or higher than each such individual had with Quanex immediately prior to the Distribution Time. Following the Closing, Quanex shall continue to fulfill any remaining obligations it may have under the Waiver and Release Agreements.

#### Section 4.2 *Change in Control Agreements.*

Effective as of the Distribution Time, Spinco shall enter into change in control agreements with Raymond A. Jean, Kevin P. Delaney, Thomas M. Walker, Paul A. Hammonds, John J. Mannion and Brent A. Korb substantially identical to the change in control agreements attached as Exhibit A to the Waiver and Release Agreements by and between Quanex and Raymond A. Jean, Kevin P. Delaney, Thomas M. Walker, Paul A. Hammonds, John J. Mannion and Brent A. Korb, respectively. Effective as of the Closing, Quanex shall have no further obligations under the Change in Control Agreements by and between Quanex and Raymond A. Jean, Kevin P. Delaney, Thomas M. Walker, Paul A. Hammonds, John J. Mannion and Brent A. Korb, respectively.

#### Section 4.3 *Spinco Severance Agreements.*

Effective as of the Distribution Time, Spinco shall enter into severance agreements with Raymond A. Jean, Kevin P. Delaney, Thomas M. Walker, Paul A. Hammonds, John J. Mannion and Brent A. Korb substantially identical to the severance agreements attached as Exhibit B to the Waiver and Release Agreements by and between Quanex and Raymond A. Jean, Kevin P. Delaney, Thomas M. Walker, Paul A. Hammonds, John J. Mannion and Brent A. Korb, respectively.

#### Section 4.4 *True-Up of Certain Change in Control Payments.*

Notwithstanding any other provision of this Agreement to the contrary, the responsibility for the Change in Control Payment shall be allocated between Quanex and Spinco as follows:

(a) Quanex' Responsibility for Change in Control Payments. Quanex shall be responsible for any and all Change in Control Payments to the extent the amount of the Change in Control Payments does not exceed \$2.8 million. If the amount of the Change in Control Payments does not exceed \$2.8 million, not later than three (3) business days following the Distribution Time (or such later time as mutually agreed by the parties) Quanex shall pay to Spinco an amount equal to the amount by which \$2.8 million exceeds the amount of the Change in Control Payments.

(b) Spinco's Responsibility for Change in Control Payments. Spinco shall be responsible for any and all Change in Control Payments to the extent the amount of the Change in Control Payments exceeds \$2.8 million. If the amount of the Change in Control Payments exceeds \$2.8 million, not later than three (3) business days following the Distribution Time (or such later time as mutually agreed by the parties) Spinco shall pay to Quanex an amount equal to the amount by which the amount of the Change in Control Payments exceeds \$2.8 million.

## ARTICLE V

### SPINCO PLANS GENERALLY

#### Section 5.1 *Establishment of Spinco Plans.*

Spinco shall have adopted, or shall have caused to be adopted, effective as of the Distribution Time, the SPINCO\* Group Health Plan, the Spinco Welfare Plans, Spinco Deferred Compensation Plan, Spinco Supplemental Benefit Plan, Spinco Supplemental Pension Plan, Spinco Savings Plan and Spinco Pension Plan (the “Spinco Mirror Plans”). Spinco or one of its Affiliates shall become the plan sponsor of, and from and after the date of adoption of each Spinco Mirror Plan, shall have sole responsibility for each Spinco Mirror Plan. Each Spinco Mirror Plan shall be substantially identical in all material respects to the corresponding Quanex Plan as in effect immediately prior to the adoption of such Spinco Mirror Plan.

#### Section 5.2 *Terms of Participation by Spinco Employees.*

Each of the Spinco Mirror Plans shall be, with respect to Spinco Employees who are participants in such plan, in all respects the successors in interest to and shall recognize all rights and entitlements as of the Distribution Time, under the corresponding Quanex Plan in which such Spinco Employee participated prior to the Distribution Time. Quanex and Spinco agree that Spinco Employees are not entitled to receive duplicative benefits from the Quanex Plans and the Spinco Plans. Spinco and Quanex shall agree on methods and procedures, including amending the respective plan documents, to prevent Quanex Employees and Spinco Employees from receiving duplicative benefits from the Spinco Plans and the Quanex Plans; *provided, however*, that nothing shall prevent Quanex or Spinco from unilaterally amending the Quanex Plans or the Spinco Plans, as applicable, to avoid any such duplication.

Nothing in this Agreement, other than those provisions specifically set forth herein and the other Transaction Agreements to the contrary, shall preclude Spinco (or, as applicable, any member of the Spinco Group) from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any Spinco Plan, any benefit under any Spinco Plan or any trust, insurance policy or funding vehicle related to any Spinco Plan.

#### Section 5.3 *Service Recognition.*

(a) *Pre-Distribution Service Credit.* Spinco shall give each Spinco Participant full credit for purposes of eligibility, vesting, determination of level of benefits, and, to the extent applicable, benefit accruals under any Spinco Plan for such Spinco Participant’s service with any member of the Quanex Group prior to the Distribution Date to the same extent such service was recognized by the applicable Quanex Plans immediately prior to the Distribution Date; *provided, that*, such service shall not be recognized to the extent that such recognition would result in the duplication of benefits.

(b) *Post-Distribution Reciprocal Service Crediting.* Each of Quanex and Spinco (acting directly or through their respective Affiliates) shall cause each of the Quanex Service Plans and the Spinco Service Plans, respectively, to provide the following service crediting rules effective as of the Distribution Date:

(i) If a Quanex Employee who participates in any of the Quanex Service Plans becomes employed by a member of the Spinco Group prior to the first anniversary of the Distribution Date (or such later date as mutually agreed to by the parties) (the “Service Crediting Date”) and such Quanex Employee is continuously employed by the Quanex Group from the Distribution Date through the date such Quanex Employee commences active employment with a member of the Spinco Group, then such Quanex Employee’s service with the Quanex Group following the Distribution Date shall be recognized for purposes of eligibility, vesting and level of benefits under the appropriate Spinco Service Plans, in each case to the same extent as such Quanex Employee’s service with the Quanex Group was recognized under the corresponding Quanex Service Plans.

(ii) If a Quanex Employee who participates in any of the Quanex Service Plans becomes employed by a member of the Spinco Group either (A) on or after the Service Crediting Date or (B) without having been continuously employed by the Quanex Group from the Distribution Date through the date such Quanex Employee commences active employment with a member of the Spinco Group, then, except to the extent required by applicable law, such individual’s service with the Quanex Group following the Distribution Date will not be recognized for any purpose under any Spinco Service Plan.

(iii) If a Spinco Employee who participates in any of the Spinco Service Plans becomes employed by a member of the Quanex Group prior to the Service Crediting Date and such Spinco Employee is continuously employed by the Spinco Group from the Distribution Date through the date such Spinco Employee commences active employment with a member of the Quanex Group, then such Spinco Employee’s service with the Spinco Group following the Distribution Date shall be recognized for purposes of eligibility, vesting and level of benefits under the appropriate Quanex Service Plans, in each case to the same extent as such Spinco Employee’s service with the Spinco Group was recognized under the corresponding Spinco Service Plans.

(iv) If a Spinco Employee who participates in any of the Spinco Service Plans becomes employed by a member of the Quanex Group either (A) on or after the Service Crediting Date or (B) without having been continuously employed by the Spinco Group from the Distribution Date through the date such Spinco Employee commences active employment with a member of the Quanex Group, then the corresponding Quanex Service Plans will only take into consideration such individual’s service with the Quanex Group and the Spinco Group, in each case, prior to the Distribution Date and, thus, except to the extent required by applicable law, such Spinco Employee’s service with the Spinco Group following the Distribution Date will not be recognized for any purpose under any Quanex Service Plan.

(v) Nothing herein shall limit Quanex or Spinco or their respective Affiliates from recognizing service in addition to the recognition of service required hereunder.

#### Section 5.4 *Transition Services*.

Quanex shall provide transition services to Spinco Group and Spinco shall provide transition services to Quanex Group, each in accordance with the Transition Services Agreement.

## ARTICLE VI

### QUALIFIED DEFINED BENEFIT PLANS

Section 6.1 *Establishment of Spinco Pension Plan*. Effective as of the Distribution Time, Spinco shall, or shall have caused one or more members of the Spinco Group to, establish a defined benefit pension plan and related trust to provide retirement benefits to Spinco Participants who immediately prior to the Distribution Time were participants in, or entitled to present or future benefits (except as provided in Section 6.2(e) of this Agreement, whether or not vested) under, the Quanex Employees Pension Plan (such Spinco Participants, the "Spinco Pension Plan Participants"). Spinco shall be responsible for taking all necessary, reasonable, and appropriate action to establish, maintain and administer the Spinco Pension Plan so that it is qualified under section 401(a) of the Code and that the related trust thereunder is exempt under section 501(a) of the Code. Spinco (acting directly or through its Affiliates) shall be responsible for any and all Liabilities (including Liability for funding) and other obligations with respect to the Spinco Pension Plan.

#### Section 6.2 *Spinco Pension Plan Participants*.

(a) *Assumption of Quanex Employees Pension Plan Liabilities*. Effective as of the Distribution Time, Spinco (acting directly or through its Affiliates) hereby agrees to cause the Spinco Pension Plan to assume, fully perform, pay and discharge, all Liabilities under the Quanex Employees Pension Plan relating to all Spinco Pension Plan Participants as of the Distribution Time.

#### (b) *Transfer of Quanex Employees Pension Plan Assets*.

(i) The parties intend that the portion of the Quanex Employees Pension Plan covering Spinco Pension Plan Participants shall be transferred to the Spinco Pension Plan in accordance with section 414(l) of the Code, Treasury Regulation § 1.414(l)-1, and Section 208 of ERISA. Any surplus assets under the Quanex Employees Pension Plan (*i.e.*, any assets held under the Quanex Employees Pension Plan that are in excess of the assets required to be allocated to the Quanex Employees Pension Plan and the Spinco Pension Plan in accordance with the preceding sentence) shall be transferred to the Spinco Pension Plan in the same proportion as the other assets of the Quanex Employees Pension Plan are transferred to the Spinco Pension Plan in accordance with the succeeding provisions of this subsection (b). Prior to the Distribution Date (or such later time as mutually agreed by the parties), Quanex shall cause the actuary of the Quanex Employees Pension Plan to determine the estimated value, as of the Distribution Date, of the assets to be transferred to the Spinco Pension Plan in accordance with the assumptions and valuation methodology set forth on Schedule 6.2(b) attached hereto (the "Estimated Pension Plan Transfer Amount").

(ii) Not later than ten (10) business days following the Distribution Date (or such later time as mutually agreed by the parties), Quanex and Spinco (each acting directly or through their respective Affiliates) shall cooperate in good faith to cause an initial transfer of assets from the Quanex Employees Pension Plan to the Spinco Pension Plan in an amount equal (as determined in the discretion of Quanex) to ninety percent (90%) of the Estimated Pension Plan Transfer Amount (such amount, the "Initial Transfer Amount"). Quanex shall satisfy its obligation pursuant to this Section 6.2(b)(ii) by causing the Quanex Employees Pension Plan to transfer assets, in kind, equal to the Initial Transfer Amount.

(iii) Within one hundred twenty (120) days (or such later time as mutually agreed by the parties) following the Distribution Date, Quanex shall cause the actuary of the Quanex Employees Pension Plan to provide Spinco with a revised calculation of the value, as of the Distribution Date, of the assets to be transferred to the Spinco Pension Plan determined in accordance with the assumptions and valuation methodology set forth on Schedule 6.2(b) attached hereto (the "Revised Pension Plan Transfer Amount"). Spinco may submit, at its sole cost and expense, the Revised Pension Plan Transfer Amount to the actuary for the Spinco Pension Plan (which actuary may be the same actuary as retained by the Quanex Plan) for verification; *provided, that*, such verification process and any calculation performed by the actuary of the Spinco Pension Plan in connection therewith shall be performed solely on the basis of the assumptions and valuation methodology set forth on Schedule 6.2(b) attached hereto. In order to perform such verification, upon request from Spinco, the actuary of the Spinco Pension Plan will receive the data and additional detailed methodology used to calculate the Initial Transfer Amount and the Final Pension Plan Transfer Amount (if reasonably needed) from the actuary of the Quanex Employees Pension Plan. Spinco will be responsible for the cost and expense of the actuary of the Spinco Pension Plan and Quanex will be responsible for the cost and expense for the actuary of the Quanex Employees Pension Plan for such data transfer. If the actuary of the Spinco Pension Plan so determines that the value, as of the Distribution Date, of the assets to be transferred to the Spinco Pension Plan differs from the Revised Pension Plan Transfer Amount, the actuary of the Spinco Pension Plan shall identify in writing to the actuary of the Quanex Employees Pension Plan all objections to the determination within sixty (60) days following provision of the revised value calculation to Spinco pursuant to the first sentence of this paragraph (iii), and the actuaries shall use good faith efforts to reconcile any such difference. If the actuaries fail to reconcile such difference, the actuaries shall jointly designate a third, independent actuary whose calculation of the value, as of the Distribution Date, of the assets to be transferred to the Spinco Pension Plan shall be final and binding; *provided, that*, such calculation must be performed within sixty (60) days following designation of such third actuary and in accordance with the assumptions and valuation methodology set forth on Schedule 6.2(b) attached hereto; and *provided, further*, that such value shall be between the value determined by the actuary of the Spinco Pension Plan and the Revised Pension Plan Transfer Amount or equal to either such value. Quanex and Spinco shall each pay one-half of the costs incurred in connection with the retention of such independent actuary. The final, verified value, as of the Distribution Date, of the assets to be transferred to the Spinco Pension Plan as determined in accordance with this Section 6.2(b)(iii) shall be referred to herein as the "Final Pension Plan Transfer Amount."

(iv) Within thirty (30) days (or such later time as mutually agreed by the parties) of the determination of the Final Pension Plan Transfer Amount, Quanex shall cause the Quanex Employees Pension Plan to transfer to the Spinco Pension Plan (the date of such transfer, the "Final Transfer Date") an amount (as determined by Quanex in its discretion, in kind, in cash, cash-like securities or other cash equivalents), equal to (A) the Final Pension Plan Transfer Amount minus (B) the Initial Transfer Amount (such difference, as adjusted to reflect earnings or losses as described below, the "True-Up Amount"); *provided, that*, if the True-Up Amount is negative, Quanex shall not be required to cause any such additional transfer and instead Spinco shall be required to cause a transfer of cash, cash-like securities or other cash equivalents (or, if determined by Quanex in its discretion, assets in kind) from the Spinco Pension Plan to the Quanex Employees Pension Plan in amount equal to the True-Up Amount. The parties acknowledge that the Quanex Employees Pension Plan's transfer of the True-Up Amount to the Spinco Pension Plan shall be in full settlement and satisfaction of the obligations of Quanex to cause the transfer of, and the Quanex Employees Pension Plan to transfer, assets to the Spinco Pension Plan pursuant to this Section 6.2(b)(iv).

The True-Up Amount shall be paid from the Quanex Employees Pension Plan to the Spinco Pension Plan, as determined by Quanex in its discretion in kind, in cash, cash-like securities or other cash equivalents, and shall be adjusted to reflect earnings or losses during the period from the Distribution Date to the Final Transfer Date. Such earnings or losses shall be determined based on the actual rate of return of the Quanex Employees Pension Plan for the period commencing on the first day of the calendar month in which the Distribution Date occurs and ending on the last calendar day of the month ending immediately prior to the Final Transfer Date. Earnings or losses for the period from such last day of the month to the Final Transfer Date shall be based on the actual rate of return of the Quanex Employees Pension Plan during the last calendar month ending immediately prior to the Final Transfer Date determined as of the date that is as close as administratively practicable to the Final Transfer Date. If Spinco is obligated to cause the Spinco Pension Plan to reimburse the Quanex Employees Pension Plan pursuant to this Section 6.2(b)(iv), such reimbursement shall be performed in accordance with the same principles set forth herein with respect to the payment of the True-Up Amount. The parties acknowledge that the Spinco Pension Plan's transfer of such reimbursement amount to the Quanex Employees Pension Plan shall be in full settlement and satisfaction of the obligations of Spinco to cause the transfer of, and the Spinco Pension Plan to transfer, assets to the Quanex Employees Pension Plan pursuant to this Section 6.2(b)(iv).

(c) *Form 5310-A.* No later than thirty (30) days prior to the Distribution Date, Quanex and Spinco (acting directly or through their respective Affiliates) shall, to the extent necessary, file an IRS Form 5310-A regarding the transfer of assets and Liabilities from the Quanex Employees Pension Plan to the Spinco Pension Plan.

(d) *Continuation of Elections.* As of the Distribution Date, Spinco (acting directly or through its Affiliates) shall cause the Spinco Pension Plan to recognize and maintain all existing elections, including, but not limited to, beneficiary designations, payment form elections and rights of alternate payees under qualified domestic relations orders with respect to Spinco Pension Plan Participants under the Quanex Employees Pension Plan.

(e) *Terminated Non-Vested Employees.* Notwithstanding anything herein to the contrary, the Quanex Employees Pension Plan will retain all Liabilities (if any) under the Quanex Employees Pension Plan in respect of any Quanex Employee whose employment with the Quanex Group terminated on or before the Distribution Date with no vested benefit under the Quanex Employees Pension Plan, the Spinco Pension Plan will assume all Liabilities (if any) from the Quanex Employees Pension Plan in respect of any Spinco Employee whose employment with the Quanex Group terminated on or before the Distribution Date with no vested benefit under the Quanex Employees Pension Plan.



## ARTICLE VII

### QUALIFIED DEFINED CONTRIBUTION PLANS

#### Section 7.1 *Quanex Savings Plan and Quanex Bargaining Unit Employee Savings Plan.*

At the Distribution Time, to the extent doing so will not adversely affect the tax-qualified status of the Quanex Savings Plan and the Quanex Bargaining Unit Employee Savings Plan, Spinco Employees who are not 100% vested in their benefits in the respective plans, if any, will be 100% vested in their benefits accrued as of such date. Effective as of the Distribution Time, Spinco Employees shall be considered to have incurred a termination of employment for purposes of the Quanex Savings Plan and Quanex Bargaining Unit Employee Savings Plan; *provided, however*, that, due to the pending transfer of assets and Liabilities with respect to the Spinco Employees from the Quanex Savings Plan to the Spinco Savings Plan as contemplated in Section 7.3(b), a Spinco Employee shall be deemed to have not incurred a termination of employment (unless such employee has also terminated employment after the Distribution Time with Spinco and its Affiliates) for purposes of (i) outstanding loans under the Quanex Savings Plan as of the Distribution Time, (ii) the right to make in-service withdrawals under the Quanex Savings Plan and (iii) the entitlement to distributions upon termination of employment under the Quanex Savings Plan.

#### Section 7.2 *Quanex Hourly Savings Plan.*

Effective immediately as of the Distribution Time, Spinco shall assume sponsorship of the Quanex Hourly Savings Plan and its related trust and shall be bound by all of the terms, provisions, limitations and conditions of the Quanex Hourly Savings Plan and its related trust to the same extent as if it had been the original sponsor thereto, and Quanex shall terminate its participation in the Quanex Hourly Savings Plan and transfer the sponsorship of the Quanex Hourly Savings Plan and its related trust to Spinco. Following Spinco's assumption of sponsorship of the Quanex Hourly Savings Plan, such plan shall be renamed the "SPINCO\* Savings Plan for Hourly Employees" (the "Spinco Hourly Savings Plan"). Spinco or one of its Affiliates shall have sole responsibility for the Spinco Hourly Savings Plan.

#### Section 7.3 *Spinco Savings Plan.*

(a) *Establishment of Spinco Savings Plan.* Effective as of the Distribution Time, Spinco shall, or shall have caused one of its Affiliates to, establish a defined contribution plan and trust for the benefit of Spinco Participants who have an account balance under the Quanex Savings Plan immediately prior to the Distribution Time (the "Spinco Savings Plan"). Spinco shall be responsible for taking all necessary, reasonable and appropriate action to establish, maintain and administer the Spinco Savings Plan so that each is qualified under section 401(a) of the Code and that their related trust(s) is exempt under section 501(a) of the Code. Spinco (acting directly or through its Affiliates) shall be responsible for any and all Liabilities and other obligations with respect to the Spinco Savings Plan.

(b) *Transfer of Quanex Savings Plan Assets.* Not later than sixty (60) days following the Distribution Date (or such later time as mutually agreed by the parties), Quanex shall cause the accounts (including any outstanding loan balances) in the Quanex Savings Plan attributable to Spinco Participants and all of the assets in the Quanex Savings Plan related thereto to be transferred in-kind to the Spinco Savings Plan, and Spinco shall cause the Spinco Savings Plan to accept such transfer of accounts and underlying assets and, effective as of the date of such transfer, to assume and to fully perform, pay and discharge, all obligations of the Quanex Savings Plan relating to the accounts of Spinco Participants (to the extent the assets related to those accounts are actually transferred from the Quanex Savings Plan to the Spinco Savings Plan) as of the date of such transfer. The transfer of assets shall be conducted in accordance with section 414(l) of the Code, Treasury Regulation § 1.414(l)-1, and Section 208 of ERISA.

(c) *Continuation of Elections.* Subject to Section Section 7.4, as of the Distribution Time, Spinco (acting directly or through its Affiliates) shall cause the Spinco Savings Plan to recognize and maintain all Quanex Savings Plan elections including, but not limited to, deferral, investment, and payment form elections, beneficiary designations, and the rights of alternate payees under qualified domestic relations orders with respect to Spinco Participants, to the extent such election or designation is available under the Spinco Savings Plan.

(d) *Form 5310-A.* No later than thirty (30) days prior to the Distribution Date, Quanex and Spinco (each acting directly or through their respective Affiliates) shall, to the extent necessary, file IRS Forms 5310-A regarding the transfer of assets and Liabilities from the Quanex Savings Plan to the Spinco Savings Plan as discussed in this Section 7.3(d).

#### Section 7.4 *Employer Securities.*

(a) *Spinco Common Stock.* Investments in Spinco Common Stock under the Quanex Savings Plan, Quanex Bargaining Unit Employee Savings Plan or Quanex Hourly Savings Plan, respectively, may be maintained on a wasting basis for a period of up to 12 months following the Distribution Time at the end of which time (or as soon as administratively practicable thereafter) such investments, if any, must be liquidated and the proceeds of such liquidations reallocated as determined by the respective administrative committees of such plans.

(b) *Quanex Common Stock.* Each share, if any, of Quanex Common Stock held under the Quanex Savings Plan, Quanex Bargaining Unit Employee Savings Plan, Quanex Hourly Savings Plan, Spinco Savings Plan and Spinco Hourly Savings Plan shall receive the same treatment as each other share of Quanex Common Stock in accordance with the terms of the Agreement and Plan of Merger among Gerdau S.A. ("Parent"), Gerdau Delaware, Inc. and Quanex Corporation dated November 18, 2007 (the "Merger Agreement").

Section 7.5 *Contributions as of the Distribution Time.* All contributions payable to the Quanex Savings Plan and Quanex Hourly Savings Plan with respect to employee deferrals and contributions, matching contributions and other contributions for Spinco Participants through the Distribution Time, determined in accordance with the terms and provisions of the Quanex Savings Plan, the Quanex Hourly Savings Plan, ERISA and the Code, shall be paid by Quanex to the Quanex Savings Plan and Quanex Hourly Savings Plan, as applicable, prior to the date of the asset transfer described in Section 7.3(b) of this Agreement.

## ARTICLE VIII

### HEALTH AND WELFARE PLANS

#### Section 8.1 Health And Welfare Plans Maintained By Quanex Prior To The Distribution Date.

(a) *Establishment of the Spinco Welfare Plans.* Quanex or one or more of its Affiliates maintain the Quanex Corporation Group Health Plan and other health and welfare plans for the benefit of eligible Quanex Participants and Spinco Participants (collectively, the “Quanex Welfare Plans”). Effective as of the Distribution Time, Spinco shall, or shall cause a Spinco Affiliate to, adopt, for the benefit of eligible Spinco Participants, health and welfare plans, the terms of which are substantially identical to the applicable terms of the Quanex Welfare Plans as in effect immediately prior to the Distribution Time (collectively, the “Spinco Welfare Plans”).

(b) *Terms of Participation in Spinco Welfare Plans.* Spinco (acting directly or through its Affiliates) shall cause all Spinco Welfare Plans to (i) waive all limitations as to preexisting conditions, exclusions, and service conditions with respect to participation and coverage requirements applicable to Spinco Participants, other than limitations that were in effect with respect to Spinco Participants as of the Distribution Time under the Quanex Welfare Plans, (ii) waive any waiting period limitation or evidence of insurability requirement that would otherwise be applicable to a Spinco Participant following the Distribution Time to the extent such Spinco Participant had satisfied any similar limitation under the analogous Quanex Welfare Plan and (iii) credit towards the deductibles, copayments or other expenses for the year in which the Distribution Time occurs any amounts paid by the Spinco Participants as deductibles, copayments and other expenses under the corresponding Quanex Welfare Plans, respectively, during the year in which the Distribution Time occurs. Spinco shall provide that Spinco Participants shall initially be eligible for participation in and benefits under Spinco retiree welfare plans on the same basis under which they were eligible for participation in and benefits under the Quanex retiree welfare plans immediately before the Distribution.

(c) *Reimbursement Account Plan.* Effective as of the Distribution Time, Spinco (acting directly or through its Affiliates) shall have established a health and dependent care reimbursement account plan (the “Spinco Reimbursement Account Plan”) with features that are substantially identical to those contained in the health and dependent care reimbursement account plan maintained by Quanex for the benefit of Spinco Participants immediately prior to the Distribution Time (the “Quanex Reimbursement Account Plan”).

(i) With respect to Spinco Participants, Spinco (acting directly or through its Affiliates) shall assume responsibility for administering under the Spinco Reimbursement Account Plan all reimbursement claims of Spinco Participants with respect to the plan year in which the Distribution Date occurs, whether arising before, on, or after the Distribution Date. Spinco shall take all actions necessary and legally permissible to ensure that the Spinco Reimbursement Account Plan provides that as of the Distribution Time and for the plan year in which the Distribution Date occurs, but not for any specific time thereafter, (A) the Spinco Participants shall become participants in the Spinco Reimbursement Account Plan as of the beginning of the Quanex Reimbursement Account Plan’s plan year and at the level of coverage provided under the Quanex Reimbursement Account Plan; (B) the Spinco Participants’ salary reduction elections under the Quanex Reimbursement Account Plan, if any, shall be taken into account for the remainder of the Spinco Reimbursement Account Plan plan year as if made under the Spinco Reimbursement Account Plan; and (C) the Spinco Reimbursement Account Plan shall reimburse medical expenses incurred by the Spinco Participants at any time during the Quanex Reimbursement Account Plan’s plan year (including claims incurred prior to the Distribution Time but unpaid prior to the Distribution Time), up to the amount of the Quanex Reimbursement Account Plan Participants’ elections and reduced by amounts previously reimbursed by the Quanex Reimbursement Account Plan.

(ii) Quanex will make available to Spinco, no less than five calendar days prior to the Distribution Date, a list of individuals who will become Spinco Employees as of the Distribution Time and who are participants in the Quanex Reimbursement Account Plan, together with the elections made prior to the Distribution Time with respect to such accounts through the Distribution Time.

(d) *Continuation of Elections.* As of the Distribution Time, Spinco (acting directly or through its Affiliates) shall cause the Spinco Welfare Plans to recognize and maintain all elections and designations (including all coverage and contribution elections and beneficiary designations) made by Spinco Participants under, or with respect to, the Quanex Welfare Plans and apply such elections and designations under the Spinco Welfare Plans for the remainder of the period or periods for which such elections or designations are by their original terms applicable, to the extent such election or designation is available under the corresponding Spinco Welfare Plan.

(e) *COBRA and HIPAA.* Effective as of the Distribution Time, Spinco (acting directly or through its Affiliates) shall assume, or shall have caused the Spinco Welfare Plans to assume, responsibility for compliance with the health care continuation coverage requirements of COBRA with respect to eligible Spinco Participants. Quanex (acting directly or through its Affiliates) shall be responsible for administering compliance with any certificate of creditable coverage requirements of HIPAA or Medicare applicable to the Quanex Welfare Plans with respect to Spinco Participants. The parties hereto agree that neither the Distribution nor any transfers of employment that occur as of the Distribution Time shall constitute a COBRA qualifying event for purposes of COBRA; *provided, that*, in all events, Spinco (acting directly or through its Affiliates) shall assume, or shall have caused the Spinco Welfare Plans to assume, responsibility for compliance with the health care continuation coverage requirements of COBRA with respect to those Quanex Employees whose employment is transferred directly from the Quanex Group to the Spinco Group as of the Distribution Time to the extent such individual was, as of the day prior to such transfer of employment, covered under a Quanex Welfare Plan.

(f) *Liabilities.*

(i) Insured Benefits. With respect to employee welfare and fringe benefits that are provided through the purchase of insurance, Quanex shall cause the Quanex Welfare Plans to fully perform, pay and discharge all claims of Spinco Participants that are incurred at or before the Distribution Time and Spinco shall cause the Spinco Welfare Plans to fully perform, pay and discharge all claims of Spinco Participants that are incurred after the Distribution Time.

(ii) Self-Insured Benefits. With respect to employee welfare and fringe benefits that are provided on a self-insured basis, (A) Quanex (acting directly or through its Affiliates) shall fully perform, pay and discharge, under the Quanex Welfare Plans, all claims of Spinco Participants who are Spinco Employees that are incurred but not paid at or before the Distribution Time, and (B) Spinco (acting directly or through its Affiliates) shall fully perform, pay and discharge, under the Spinco Welfare Plans, after the Distribution Time, all claims of Spinco Participants who are Spinco Employees that are incurred after the Distribution Time.

(iii) Incurred Claim Definition. For purposes of this Section 8.1(f), a claim or Liability is deemed to be incurred (A) with respect to medical, dental, vision and/or prescription drug benefits, upon the rendering of health services giving rise to such claim or Liability; (B) with respect to life insurance, accidental death and dismemberment and business travel accident insurance, upon the occurrence of the event giving rise to such claim or Liability; (C) with respect to disability benefits, upon the date of an individual's disability, as determined by the disability benefit insurance carrier or claim administrator, giving rise to such claim or Liability; and (D) with respect to a period of continuous hospitalization, upon the date of admission to the hospital.

(iv) Treatment of Other Liabilities, Recoveries and Adjustments. For purposes of applying the claim Liability provisions of clause (iii) above as it relates to retiree medical and dental claims: (A) recoveries made by the Quanex Welfare Plans or Quanex with respect to claims incurred at or before the Distribution Time, including subrogation/reimbursement recoveries, claim adjustment recoveries and demutualization proceeds, shall be taken into account as positive claim adjustments; and (B) other non-routine claim Liabilities paid by the Quanex Welfare Plans or Quanex with respect to claims incurred prior to the Distribution Time, including Medicare Secondary Payer Liability, shall be taken into account as claim Liabilities.

(v) Claim Experience. Notwithstanding the foregoing, the parties (acting directly or through their Affiliates) shall take any action necessary to ensure that any claims experience under the Quanex Welfare Plans attributable to Spinco Participants shall be allocated to the Spinco Welfare Plans.

#### *Section 8.2 Leave of Absence Programs.*

Effective as of the Distribution Time, Spinco shall be responsible for the administration and compliance of all leaves of absences and related programs (including compliance with the Family and Medical Leave Act) affecting Spinco Employees following the Distribution Time.

#### *Section 8.3 Time-Off Benefits.*

Spinco shall credit each Spinco Participant with the amount of accrued but unused vacation time, sick time and other time-off benefits as such Spinco Participant had with the Quanex Group as of the Distribution Time. Notwithstanding the above, Spinco shall not be required to credit any Spinco Participant with any accrual to the extent that a benefit attributable to such accrual is provided by the Quanex Group.

## ARTICLE IX

### NONQUALIFIED PENSION PLANS

#### Section 9.1 *Generally.*

(a) Except as provided under this Article IX, Quanex shall retain all Liabilities for any benefits accrued by Quanex Participants or Spinco Participants under the Quanex Deferred Compensation Plan, the Quanex Supplemental Salaried Employee's Pension Plan, the Quanex Supplemental Benefit Plan, and the Quanex Director Plan.

#### Section 9.2 *Quanex Corporation Deferred Compensation Plan.*

(a) *Establishment of Spinco Deferred Compensation Plan.* Effective as of the Distribution Time, Spinco shall, or shall cause one of its Affiliates to, establish a non-qualified deferred compensation plan and rabbi trust to benefit Spinco Participants who have accrued, or were eligible to accrue, benefits under the Quanex Deferred Compensation Plan immediately prior to the Distribution Time, the terms of which are substantially identical to the terms of the Quanex Deferred Compensation Plan and its related rabbi trust as in effect immediately prior to the Distribution Time (the "Spinco Deferred Compensation Plan"). Effective as of the Distribution Time, Spinco hereby agrees to cause the Spinco Deferred Compensation Plan to assume responsibility for all Liabilities and fully perform, pay and discharge all obligations, when such obligations become due, of the Quanex Deferred Compensation Plan with respect to all Spinco Participants therein and Spinco Directors covered thereby. Spinco (acting directly or through its Affiliates) shall be responsible for any and all Liabilities (including Liability for funding) and other obligations with respect to the Spinco Deferred Compensation Plan.

(b) *Deemed Investments in Quanex Common Stock.* Each unit deemed invested in Quanex Common Stock under the Quanex Deferred Compensation Plan or Spinco Deferred Compensation Plan, shall, as of the Closing, be deemed liquidated and cancelled. The account of each Quanex Participant or Spinco Participant in the Quanex Deferred Compensation Plan or Spinco Deferred Compensation Plan who have amounts deemed invested in Quanex Common Stock shall, as of the Closing, be credited with an amount equal to the product of (x) the total number of shares in such Participant's account deemed invested in Quanex Common Stock times the sum of (y) the Merger Consideration and (z) the closing sales price of a share of Spinco Stock on the Distribution Date as reported on the Exchange (as defined in the Distribution Agreement). The amounts credited to a Quanex Participant's or Spinco Participant's accounts under this Section 9.2(b) shall be allocated proportionately among the remaining deemed investments in such participants accounts and thereafter be subject to the terms and conditions of the respective plans.

(c) *Vesting.* At the Distribution Time, Spinco Participants and Quanex Participants who are not 100% vested in their benefits in the Quanex Deferred Compensation Plan will be 100% vested in their benefits accrued as of such time.

(d) *Transfer of Rabbi Trust Assets.* Not later than ten (10) days following the Distribution Date (or such later time as mutually agreed by the parties), Quanex shall cause the accounts in the Quanex Deferred Compensation Plan attributable to Spinco Participants and a certain portion (as determined below) of the assets in the rabbi trust that are used to fund the accounts of Spinco Participants in the Quanex Deferred Compensation Plan (the “Quanex Rabbi Trust”) to be transferred in-kind to the Spinco Deferred Compensation Plan, and Spinco shall cause the Spinco Deferred Compensation Plan to accept such transfer of accounts and underlying assets. Prior to the Distribution Date (or such later time as mutually agreed by the parties), Quanex shall cause the record keeper of the Quanex Deferred Compensation Plan to determine the estimated value, as of the Distribution Time, of the Liabilities under the Quanex Deferred Compensation Plan and the Spinco Deferred Compensation Plan and the trustee of the Quanex Rabbi Trust to determine the estimated value, as of the Distribution Time, of the assets maintained in the Quanex Rabbi Trust. At or prior to the Distribution Date (or such later time as mutually agreed by the parties), Quanex shall direct the trustee of the Quanex Rabbi Trust to transfer to the Spinco Deferred Compensation Plan an amount equal to the assets in the Quanex Rabbi Trust as of the Distribution Time multiplied by a fraction, the numerator of which is the amount of Liabilities transferred to the Spinco Deferred Compensation Plan at the Distribution Time and the denominator of which is the sum of the amount of Liabilities transferred to the Spinco Deferred Compensation Plan at the Distribution Time and the amount of Liabilities retained under the Quanex Deferred Compensation Plan at the Distribution Time. Each share, if any, of Quanex Common Stock held in the Quanex Rabbi Trust or trust that is used to fund the Spinco Deferred Compensation Plan shall be considered as held on behalf of third parties and shall receive the same treatment as each other share of Quanex Common Stock in accordance with the terms of the Merger Agreement.

### Section 9.3 *Quanex Corporation Supplemental Salaried Employees’ Pension Plan*

(a) *Establishment of Spinco Supplemental Pension Plan.* Effective as of the Distribution Time, Spinco shall, or shall cause one of its Affiliates to, establish a non-qualified deferred compensation plan to benefit Spinco Participants who have accrued, or were eligible to accrue, benefits under the Quanex Supplemental Pension Plan immediately prior to the Distribution Date, the terms of which are substantially identical to the terms of the Quanex Supplemental Pension Plan as in effect immediately prior to the Distribution Time (the “Spinco Supplemental Pension Plan”). Effective as of the Distribution Time, Spinco hereby agrees to cause the Spinco Supplemental Pension Plan to assume responsibility for all Liabilities and fully perform, pay and discharge all obligations, when such obligations become due, of the Quanex Supplemental Pension Plan with respect to all Spinco Participants therein. Spinco (acting directly or through its Affiliates) shall be responsible for any and all Liabilities (including Liability for funding) and other obligations with respect to the Spinco Supplemental Pension Plan.

(b) *Continuation of Elections.* As of the Distribution Time, Spinco (acting directly or through an Affiliate) shall cause the Spinco Supplemental Pension Plan to recognize and maintain all elections (including deferral, distribution and investment elections) and beneficiary designations with respect to Spinco Participants under the Quanex Supplemental Pension Plan to the extent such elections or designations are available under the Spinco Supplemental Pension Plan until a new election that by its terms supersedes such original election is made by the Spinco Participant in accordance with applicable law and the terms and conditions of the Spinco Supplemental Pension Plan.

(c) *No Vesting.* The establishment of the Spinco Supplemental Pension Plan shall not affect the vesting, accrual or payment of any benefits to any Spinco Participants and Quanex Participants under the Quanex Supplemental Salaried Employees’ Pension Plan or the Spinco Supplemental Salaried Employees’ Pension Plan.

#### Section 9.4 *Quanex Corporation Supplemental Benefit Plan*

(a) *Establishment of Spinco Supplemental Benefit Plan.* Effective as of the Distribution Time, Spinco shall, or shall cause one of its Affiliates to, establish a non-qualified deferred compensation plan and rabbi trust to benefit Spinco Participants who have accrued, or were eligible to accrue, benefits under the Quanex Supplemental Benefit Plan immediately prior to the Distribution Time, the terms of which are substantially identical to the terms of the Quanex Supplemental Benefit Plan and its related rabbi trust as in effect immediately prior to the Distribution Time (the “Spinco Supplemental Benefit Plan”). Effective as of the Distribution Time, Spinco hereby agrees to cause the Spinco Supplemental Benefit Plan to assume responsibility for all Liabilities and fully perform, pay and discharge all obligations, when such obligations become due, of the Quanex Supplemental Benefit Plan with respect to all Spinco Participants therein. Spinco (acting directly or through its Affiliates) shall be responsible for any and all Liabilities (including Liability for funding) and other obligations with respect to the Spinco Supplemental Benefit Plan.

(b) *Continuation of Elections.* As of the Distribution Time, Spinco (acting directly or through an Affiliate) shall cause the Spinco Supplemental Benefit Plan to recognize and maintain all elections (including deferral, distribution and investment elections) and beneficiary designations with respect to Spinco Participants under the Quanex Supplemental Benefit Plan to the extent such elections or designations are available under the Spinco Supplemental Benefit Plan until a new election that by its terms supersedes such original election is made by the Spinco Participant in accordance with applicable law and the terms and conditions of the Spinco Supplemental Benefit Plan.

(c) *No Vesting.* The establishment of the Spinco Supplemental Benefit Plan shall not affect the vesting, accrual or payment of any benefits to any Spinco Participants and Quanex Participants under the Quanex Supplemental Benefit Plan or the Spinco Supplemental Benefit Plan, respectively.

(d) *Transfer of Quanex SERP Rabbi Trust Assets.* On or prior to the Distribution Time (or such later time as mutually agreed by the parties), Quanex shall cause the company-owned life insurance policies that cover any Spinco Participant that are held in the rabbi trust that is used to fund the Quanex Supplemental Benefit Plan (the “Quanex SERP Rabbi Trust”) to be assigned to the Spinco Supplemental Benefit Plan and its related trust, and shall direct the trustee of the Quanex SERP Rabbi Trust to transfer in-kind such policies to the Spinco Supplemental Benefit Plan. On or prior to the Distribution Time (or such later time as mutually agreed by the parties), Spinco shall cause the Spinco Supplemental Benefit Plan and its related trust to accept such assignment and transfer.

#### Section 9.5 *Quanex Director Plan.*

The Quanex Director Plan shall be terminated effective as of the Closing. Quanex shall retain all Liabilities for any benefits accrued by Quanex Directors under the Quanex Director Plan. Each participant under the Quanex Director Plan shall be entitled to a lump sum distribution of his or her accrued benefits, (discounted using the annual interest rate on 30-year Treasury securities as specified by the Secretary of Treasury for the month of August 2007 or the month immediately preceding the month in which the Closing occurs if that would result in a larger distribution), as soon as practicable following the Closing (but in no event later than ten business days after the Closing).



## ARTICLE X

### LONG-TERM INCENTIVE AWARDS

#### Section 10.1 *Quanex Options*

(a) *Cancellation and Payment.* Effective as of the Distribution Time, each Quanex Stock Option shall become 100% vested. Each Quanex Stock Option that is outstanding immediately prior to the Distribution Time shall be cashed out and then cancelled as provided for in the Merger Agreement.

(b) *Stock Option True-Up of Payments.* Notwithstanding any other provision of this Agreement to the contrary, the responsibility for payments under Section 10.1(a) ("Option Payments") shall be allocated between Quanex and Spinco as follows:

(i) Quanex' Responsibility for Option Payments. Quanex shall be responsible for any and all Option Payments to the extent the amount of the Option Payments does not exceed \$40.6 million. If the amount of the Option Payments does not exceed \$40.6 million, not later than three (3) business days following the Distribution Time (or such later time as mutually agreed by the parties), Quanex shall pay to Spinco an amount equal to the amount by which \$40.6 million exceeds the Option Payments.

(ii) Spinco's Responsibility for Option Payments. Spinco shall be responsible for any and all Option Payments to the extent the amount of the Option Payments exceeds \$40.6 million. If the amount of the Option Payments exceeds \$40.6 million, not later than three (3) business days following the Distribution Time (or such later time as mutually agreed by the parties), Spinco shall pay to Quanex an amount equal to the amount by which the amount of the Option Payments exceeds \$40.6 million.

#### Section 10.2 *Quanex Restricted Stock.*

Effective immediately prior to the Record Date, each outstanding share of Quanex Restricted Stock shall be 100% vested and all restrictions thereon shall lapse immediately prior to the Record Date ("Unrestricted Quanex Common Stock"). For the avoidance of doubt, the parties acknowledge that Unrestricted Quanex Common Stock shall be Quanex Common Stock for purposes hereof and the holder of such stock shall be a holder of Quanex Common Stock on the Record Date. Accordingly, the holders of each share of Unrestricted Quanex Common Stock shall receive the consideration provided under the Distribution Agreement to all other shareholders of Quanex Common Stock as determined on the Record Date and thereafter receive the same treatment as each other share of Quanex Common Stock in accordance with the terms of the Merger Agreement.

Quanex shall satisfy any Minimum Statutory Tax Withholding Obligation arising upon the vesting of any shares of Unrestricted Quanex Common Stock by delivering to the holder a reduced number of shares of Quanex Common Stock in the manner specified herein. At the time of vesting of such shares, Quanex shall (a) calculate the amount of the Minimum Statutory Tax Withholding Amount on the assumption that all such shares of Quanex Common Stock vested under the award are made available for delivery, (b) reduce the number of such shares of Quanex Common Stock made available for delivery so that the fair market value of the shares of Quanex Common Stock withheld on the vesting date approximates the Minimum Statutory Tax Withholding Amount and (c) in lieu of the withheld shares of Quanex Common Stock, remit cash to the United States Treasury and/or other applicable governmental authorities, on behalf of the holder, in the amount of the Minimum Statutory Tax Withholding Amount.

Section 10.3 *Quanex Restricted Stock Units.*

Each Quanex Restricted Stock Unit held by a Quanex Director that is outstanding immediately prior to the Closing shall be cashed out and then cancelled as provided for in the Merger Agreement.

Section 10.4 *Amendments.*

Prior to the Distribution Date, Quanex shall take such actions as may be required to effect this Article, including amending the applicable Quanex Stock Plans and award agreements as necessary.

Section 10.5 *SEC Registration.*

The parties mutually agree to use commercially reasonable efforts to maintain effective registration statements with the SEC with respect to the long-term incentive awards described in this Article X, to the extent any such registration statement is required by applicable law.

## ARTICLE XI

### ADDITIONAL COMPENSATION MATTERS

#### Section 11.1 *Quanex Stock Purchase Plan.*

Quanex and Spinco Employees will continue to participate in the Quanex Stock Purchase Plan through the last payroll date immediately preceding the Distribution Time, or such earlier time as determined by Quanex (the "Final Offering Period Ending Date"). Spinco shall pay to Quanex, within five days following the close of such offering period, the fair market value of the shares of Quanex Common Stock purchased under the Quanex Stock Purchase Plan during the offering period on behalf of Spinco Employees, less any amounts contributed under the Quanex Stock Purchase Plan through salary reductions by the Spinco Employees for such offering period. For this purpose, the fair market value of a share of Quanex Common Stock shall be the closing price of Quanex Common Stock on the New York Stock Exchange on the last trading day prior to the last payroll date preceding the Final Offering Period Ending Date.

#### Section 11.2 *Incentive Awards.*

(a) *Quanex Assumption or Retention of Incentive Liability.* Except as otherwise provided herein and as provided in the attached Schedule 11.2, effective as of the Distribution Time, Quanex shall assume or retain, as applicable, responsibility for all Liabilities and fully perform, pay and discharge all obligations relating to any incentive awards that any Spinco Participant is eligible to receive under the Quanex Corporation Long Term Incentive Plan, Quanex Corporation Management Incentive Plan or Quanex Corporation 2006 Omnibus Incentive Plan. These amounts shall be paid to such Spinco Participants no later than 30 days following the Distribution Time.

#### (b) *Special Bonus Provisions.*

(i) Quanex Corporation Long Term Incentive Plan Bonuses. Effective as of the Distribution Time, all incentive awards granted to Quanex Participants and Spinco Participants under the Quanex Corporation Long Term Incentive Plan shall fully vest and be distributable; *provided, however*, that with respect to awards granted under such plan in December 2005, such awards shall be payable based on the target amounts provided in the award and pro-rated by rounding up to the next full year in accordance with the terms of the Plan.

(ii) Quanex Corporation Management Incentive Plan. Effective as of the Distribution Time, all incentive awards granted to Quanex or Spinco Participants who are or were employed in the corporate office of Quanex under the Quanex Corporation Management Incentive Plan shall fully vest and be distributable; *provided, however*, that the following rules shall apply:

(1) RONA Awards. With respect to RONA awards granted under such plan to Quanex or Spinco Participants who are or were employed in the corporate office of Quanex, such Participants shall be paid an amount under the award, if any, for the portion of the plan year prior to the Distribution Date based on year-to-date results and forecast for the remainder of the year, to be based on year-to-date eligible wages.

(2) Non-RONA Awards. With respect to non-RONA awards granted under such plan to Quanex or Spinco Participants who are or were employed in the corporate office of Quanex, such Spinco Participant shall be paid an amount under the award, if any, for the portion of the plan year prior to the Distribution Date based on year-to-date results and year-to-date eligible wages; provided, however, that in those instances where a formula requires a full year, the calculation shall be conducted using year-to-date results and forecast for the remainder of the year.

(iii) Quanex Corporation 2006 Omnibus Incentive Plan. Effective as of the Distribution Time, all annual incentive awards or performance unit awards granted to Quanex and Spinco Participants under the Quanex Corporation 2006 Omnibus Incentive Plan shall fully vest and be distributable; *provided, however*, that the following rules shall apply:

(1) Annual Incentive Awards. With respect to annual incentive awards granted under the Quanex Corporation 2006 Omnibus Incentive Plan to Quanex Participants or Spinco Participants who are officers or division presidents, such Participant shall be paid an amount under the award, if any, for the portion of the plan year prior to the Distribution Date based on year-to-date results and forecast for the remainder of the year, to be paid based on year-to-date eligible wages.

(2) Performance Unit Awards. With respect to performance unit awards granted under the Quanex Corporation 2006 Omnibus Incentive Plan to Spinco Participants and Quanex Participants, such Participant shall be paid an amount under the award, if any, based on the target value of the performance unit and pro-rated by rounding up to the next full year in accordance with the terms of the Plan.

(c) *Time of Payment*. Any payments distributable under this Section 11.2 shall be paid no later than thirty days after the Closing.

#### Section 11.3 *Severance Plans*.

(a) *Establishment of Spinco Severance Plans*. Effective as of the Distribution Time, Spinco shall take all steps necessary to establish a severance plan(s), which shall provide severance benefits in such amounts and to such employees as set forth in the Quanex Severance Plan (such Spinco severance plan(s) referred to herein as the “Spinco Severance Plans”).

(b) *Assumption of Severance and Retention Liabilities*. Effective as of the Distribution Time, Spinco shall assume or retain, as applicable, responsibility for all Liabilities and fully perform, pay and discharge all obligations, when such obligations become due, relating to any severance or retention benefit to which a Spinco Employee is entitled under a Quanex Severance Plan or retention or severance agreement as of the Distribution Time. Likewise, Quanex shall assume or retain, as applicable, responsibility for all Liabilities and fully perform, pay and discharge all obligations, when such obligations become due, relating to any severance or retention benefit to which a Quanex Employee is entitled under a Quanex Severance Plan or severance or retention agreement.

Section 11.4 *Director, Officer and Key Man Life Insurance.*

Effective as of the Distribution Time, to the extent permitted under the policies, Spinco shall assume and maintain the life insurance policies applicable to Spinco Employees and Spinco Directors listed on Schedule 11.4, and Quanex shall have no further obligations under such policies. Except as provided in the first sentence of this Section, Quanex shall retain all director-owned and company-paid life insurance and current and former executive officer life insurance policies as listed on Schedule 11.4.

Section 11.5 *Quanex Vacation Policy.*

Effective as of the Distribution Time, Spinco shall assume all Liability with respect to any vacation which has accrued, in respect of the calendar year in which the Distribution Time occurs and the calendar year following the calendar year in which the Distribution Time occurs for those locations where vacation is accrued a year in advance, for the benefit of any Spinco Employee as of the Distribution Time under the Quanex Vacation Policy.

Section 11.6 *Sections 162(m)/409A.*

Notwithstanding anything in this Agreement to the contrary (including the treatment of supplemental and deferred compensation plans, outstanding long-term incentive awards and annual incentive awards as described herein), the parties agree to negotiate in good faith regarding the need for any treatment different from that otherwise provided herein to ensure that (i) a federal income Tax deduction for the payment of such supplemental or deferred compensation or long-term incentive award, annual incentive award or other compensation is not limited by reason of section 162(m) of the Code, and (ii) the treatment of such supplemental or deferred compensation or long-term incentive award, annual incentive award or other compensation does not cause the imposition of a tax under section 409A of the Code.

Section 11.7 *Payroll Taxes and Forms W-2*

Pursuant to Section 5 of Revenue Procedure 2004-53, Spinco assumes Quanex's or a member of the Quanex's Group's respective obligations to furnish Forms W-2 to Spinco Employees for the calendar year in which the Distribution Time occurs. Quanex shall provide Spinco with any information relating to periods ending at the Distribution Time necessary for Spinco to prepare and distribute Forms W-2 to Spinco Employees for the calendar year in which the Distribution Time occurs, which Forms W-2 will include all remuneration earned by Spinco Employees from Quanex or a member of the Quanex Group and Spinco during such year, and Spinco will prepare and distribute such forms.

## ARTICLE XII

### GENERAL

#### Section 12.1 *Approval by Quanex As Sole Stockholder.*

Effective as of the Distribution Time, Spinco shall have adopted the Spinco Plans in order to provide the benefits contemplated herein. The Spinco Plans shall be approved prior to the Distribution by Quanex as Spinco's sole shareholder.

#### Section 12.2 *Sharing of Employee Information.*

Quanex and Spinco and their respective authorized agents shall, subject to and in compliance with all applicable laws regarding confidentiality, including but not limited to HIPAA, be given reasonable and timely access to, and may make copies of, all information relating to the subjects of this Agreement in the custody of the other party, to the extent necessary for implementation of this Agreement. Any information shared or exchanged pursuant to this Agreement shall be subject to all applicable confidentiality laws as well as the confidentiality requirements set forth in the Distribution Agreement. The parties also hereby agree to enter into any business associate agreements that may be required for the sharing of any information pursuant to this Agreement to comply with the requirements of HIPAA.

#### Section 12.3 *Reasonable Efforts/Cooperation.*

Each of the parties hereto will use its commercially reasonable efforts to promptly take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the transactions contemplated by this Agreement, including adopting plans or plan amendments. Each of the parties hereto shall cooperate fully on any issue relating to the transactions contemplated by this Agreement for which the other Party seeks a determination letter or private letter ruling from the IRS, an advisory opinion from the DOL or any other filing, consent or approval with respect to or by a governmental entity

#### Section 12.4 *Employer Rights.*

Nothing in this Agreement shall prohibit Spinco or any Spinco Affiliate from amending, modifying or terminating any Spinco Plan at any time within its sole discretion. In addition, nothing in this Agreement shall prohibit Quanex or any Quanex Affiliate from amending, modifying or terminating any Quanex Plan at any time within its sole discretion.

#### Section 12.5 *Effect on Employment.*

Except as expressly provided in this Agreement, the occurrence of the Distribution alone shall not cause any employee to be deemed to have incurred a termination of employment which entitles such individual to the commencement of benefits under any of the Quanex Plans. Furthermore, nothing in this Agreement is intended to confer upon any employee or former employee of Quanex, Spinco or any of their respective Affiliates any right to continued employment, or any recall or similar rights to an individual on layoff or any type of approved leave, except as provided in any applicable collective bargaining agreement.

*Section 12.6 Consent Of Third Parties.*

If any provision of this Agreement is dependent on the Consent of any third party and such consent is withheld, the parties hereto shall use their reasonable best efforts to implement the applicable provisions of this Agreement to the fullest extent practicable. If any provision of this Agreement cannot be implemented due to the failure of such third party to consent, the parties hereto shall negotiate in good faith to implement the provision in a mutually satisfactory manner.

*Section 12.7 Access To Employees.*

Following the Distribution Time, Quanex and Spinco shall, or shall cause each of their respective Affiliates to, make available to each other those of their employees who may reasonably be needed in order to defend or prosecute any legal or administrative action (other than a legal action between Quanex and Spinco) to which any employee, director or Benefit Plan of the Quanex Group or Spinco Group is a party and which relates to their respective Benefit Plans prior to the Distribution Time. The Party to whom an employee is made available in accordance with this Section 12.7 shall pay or reimburse the other Party for all reasonable expenses which may be incurred by such employee in connection therewith, including all reasonable travel, lodging, and meal expenses, but excluding any amount for such employee's time spent in connection therewith.

*Section 12.8 Beneficiary Designation/Release Of Information/Right To Reimbursement.*

To the extent permitted by applicable law and except as otherwise provided for in this Agreement, all beneficiary designations, authorizations for the release of information and rights to reimbursement made by or relating to Spinco Participants under Quanex Plans shall be transferred to and be in full force and effect under the corresponding Spinco Plans until such beneficiary designations, authorizations or rights are replaced or revoked by, or no longer apply, to the relevant Spinco Participant.

*Section 12.9 Effect if Distribution Does Not Occur.*

Notwithstanding anything in this Agreement to the contrary, if the Distribution Agreement is terminated prior to the Distribution Time, then all actions and events that are, under this Agreement, to be taken or occur effective prior to, as of or following the Distribution Time, or otherwise in connection with the Distribution, shall not be taken or occur except to the extent specifically agreed to in writing by Quanex and Spinco and neither party shall have any Liability or further obligation to the other party under this Agreement.

*Section 12.10 Relationship of Parties.*

Nothing in this Agreement shall be deemed or construed by the parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the parties, it being understood and agreed that no provision contained herein, and no act of the parties, shall be deemed to create any relationship between the parties other than the relationship set forth herein.

Section 12.11 *Affiliates.*

Each of Quanex and Spinco shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by each of their Affiliates, respectively.

Section 12.12 *Survival.*

This Agreement shall survive the Distribution Time.

Section 12.13 *Notices.*

Any notice, demand, claim, or other communication under this Agreement shall be in writing and shall be given in accordance with the provisions for giving notice under the Distribution Agreement.

Section 12.14 *Interpretation.*

The Article and Section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties hereto and shall not in any way affect the meaning or interpretation of this Agreement. Whenever the words “include,” “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation.”

Section 12.15 *Governing Law.*

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to its conflicts of laws principles.

Section 12.16 *Fiduciary Matters.*

The parties acknowledge that actions required to be taken pursuant to the Agreement may be subject to fiduciary duties or standards of conduct under ERISA or other applicable law. Neither party shall be deemed to be in violation of the Agreement if it fails to comply with any provision of the Agreement based upon its good faith determination that to do so would violate such a fiduciary duty or standard. Each party shall be responsible for taking such actions as are deemed necessary and appropriate to comply with its own fiduciary responsibilities and shall fully release and indemnify the other party for any Liabilities caused by the failure to satisfy any such responsibility.

Section 12.17 *Consent to Jurisdiction and Service of Process.*

Each of the parties to this Agreement hereby irrevocably and unconditionally (i) agrees to be subject to, and hereby consents and submits to, the jurisdiction of the courts of the State of Delaware and of the federal courts sitting in the State of Delaware, (ii) to the extent such party is not otherwise subject to service of process in the State of Delaware, hereby appoints the Corporation Trust Company as such party’s agent in the State of Delaware for acceptance of legal process and (iii) agrees that service made on any such agent set forth in (ii) above shall have the same legal force and effect as if served upon such party personally within the State of Delaware.



Section 12.18 *Waiver of Jury Trial.*

Each of the parties hereto irrevocably and unconditionally waives all right to trial by jury in any litigation, claim, action, suit, arbitration, inquiry, proceeding, investigation or counterclaim (whether based in contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the parties hereto in the negotiation, administration, performance and enforcement thereof.

Section 12.19 *Force Majeure.*

No party (or any Person acting on its behalf) shall have any Liability or responsibility for failure to fulfill any obligation (other than a payment obligation) under this Agreement so long as and to the extent to which the fulfillment of such obligation is prevented, frustrated, hindered or delayed as a consequence of circumstances of Force Majeure. A party claiming the benefit of this provision shall, as soon as reasonably practicable after the occurrence of any such event: (a) notify the other party of the nature and extent of any such Force Majeure condition and (b) use due diligence to remove any such causes and resume performance under this Agreement as soon as reasonably practicable.

Section 12.20 *Authorization.*

Each of the parties hereby represents and warrants that it has the power and authority to execute, deliver and perform this Agreement, that this Agreement has been duly authorized by all necessary corporate action on the part of such party, that this Agreement constitutes a legal, valid and binding obligation of each such party and that the execution, delivery and performance of this Agreement by such party does not contravene or conflict with any provision of law or of its charter or bylaws or any material agreement, instrument or order binding on such party.

Section 12.21 *Specific Performance.*

The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or in equity.

Section 12.22 *Assignment.*

Except as otherwise provided for in this Agreement, this Agreement shall not be assignable, in whole or in part, directly or indirectly, by any party without the prior written consent of the other party, and any attempt to assign any rights or obligations arising under this Agreement without such consent shall be void; *provided, that*, a party may assign this Agreement in connection with a merger transaction in which such party is not the surviving entity or the sale by such party of all or substantially all of its assets; and *provided, further*, that the surviving entity of such merger or the transferee of such assets shall agree in writing, reasonably satisfactory to the other parties, to be bound by the terms of this Agreement as if named as a "Party" hereto.

Section 12.23 *Successors and Assigns/No Third Party Beneficiary.*

This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns, but neither this Agreement nor any of the rights, interests and obligations hereunder shall be assigned by any party hereto without the prior written consent of the other party. This Agreement is solely for the benefit of Quanex and Spinco and their respective subsidiaries, Affiliates, successors and assigns, and is not intended to confer upon any other Persons any rights or remedies hereunder.

Section 12.24 *No Amendment of Plans.*

Unless explicitly designated otherwise, no provision of this Agreement is intended to be an amendment of any Quanex Plan or Spinco Plan. If a person not entitled to enforce this Agreement brings a lawsuit or other action to enforce any provision in this Agreement as an amendment to a Plan or another agreement, plan, program or document, and that provision is construed to be such an amendment despite not being explicitly designated as one in this Agreement, that provision shall lapse retroactively, thereby precluding it from having any amendatory effect.

Section 12.25 *Amendment.*

This Agreement may be amended, modified or supplemented only by a written agreement signed by all of the parties hereto.

Section 12.26 *Entire Agreement.*

This Agreement, the Distribution Agreement, and each other ancillary agreement, including any annexes, schedules and exhibits hereto and thereto, as well as any other agreements and documents referred to herein and therein, shall constitute the entire agreement between the parties with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with respect to such subject matter. If there is any inconsistency between this Agreement and any Schedule hereto, the Schedule shall prevail.

Section 12.27 *Severability.*

If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party.

Section 12.28 *Exhibits and Schedules.*

The Exhibits and Schedules shall be construed with and as an integral part of this Agreement to the same extent as if the same had been set forth verbatim herein.

Section 12.29 *Waivers*.

The failure of any party to require strict performance by any other party of any provision in this Agreement will not waive or diminish that party's right to demand strict performance thereafter of that or any other provision hereof.

Section 12.30 *Termination*.

Notwithstanding any provision hereof, following termination of the Distribution Agreement, this Agreement may be terminated and the Distribution abandoned at any time prior to the Distribution Time by and in the sole discretion of the Board of Directors of Quanex. In the event of such termination, no party hereto or to any other Transaction Agreement shall have any Liability to any Person by reason of this Agreement or any other Transaction Agreement.

Section 12.31 *Counterparts*.

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 12.32 *Construction*.

The parties have participated jointly in the negotiation and drafting of this Agreement. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting or causing any instrument to be drafted.

IN WITNESS WHEREOF, the parties have caused this Employee Matters Agreement to be executed as of the day and year first above written.

Quanex Corporation

By: /s/ Thomas M. Walker

Name: Thomas M. Walker

Title: Senior Vice President-Finance and Chief  
Financial Officer

Quanex Building Products LLC

By: /s/ Kevin P. Delaney

Name: Kevin P. Delaney

Title: Senior Vice President-General Counsel and  
Secretary

Quanex Building Products Corporation

By: /s/ Kevin P. Delaney

Name: Kevin P. Delaney

Title: Senior Vice President-General Counsel and  
Secretary

Signature Page—Employee Matters Agreement