



NYSE: NX  
2010 Annual Report



At Quanex Building Products Corporation, we have a clear vision of the future for our business. Project Nexus, our organic growth strategy set in motion in early 2010, resulted in structural changes and we are now operating under a more collaborative business structure. Our teams work together to develop new products, go-to-market and service an expanding range of customers. We have the right leadership, sales and marketing teams in place. We are making significant investments across the entire organization to increase our efficiency, train our people and enhance our technological capabilities. We know what success looks like and we are taking the steps to ensure it.

# Investing In Our Future

## Company Initiatives

We continue to make major investments in our people, operations and innovation. We manage the business to secure our future as the industry leader while delivering long-term shareholder value.



Return on invested capital, stock repurchases and prudent dividend plan, working capital and inventory management

Project Nexus for organic growth and growth through acquisition

Project Nexus and company branding

EnergyCore™, Impericlad™, Envirosealed™ Windows and others

Lean Six Sigma, Enterprise Resource Planning and Safety and Wellness

# Investing In Our Strengths

## Our Business Summary & Financial Highlights

### Engineered Products



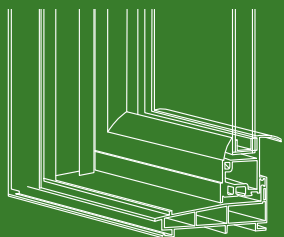
#### Homeshield – Fabricated Window & Door Components

[www.home-shield.com](http://www.home-shield.com)

**Description:** Seven production facilities that manufacture wood flooring, architectural wood moldings, screens, grilles, thresholds, astragals and roll-formed products for window and door OEMs

**Key Products:** Window and door screens, divided light grilles, door thresholds and astragals, architectural moldings, cladding, window muntin and flooring

**Manufacturing Capabilities:** Roll forming, slitting, laser welding, stamping, coating, Rolltrusion™, component assembly and wood flooring and moldings



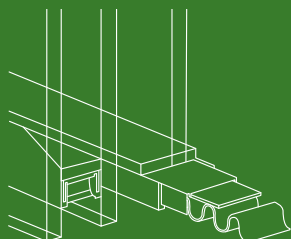
#### Mikron – Vinyl & Composite Window & Door Products

[www.mikronvinyl.com](http://www.mikronvinyl.com)

**Description:** Three production facilities that comprise one of the largest manufacturers of extruded PVC products and accessories for window and door OEMs in North America

**Key Products:** Customer-specific vinyl and composite profiles, impact resistant window and door components

**Manufacturing Capabilities:** In-house design and testing, precision tooling design and manufacturing, in-house compound development and blending, and 163 highly automated extrusion lines



#### Truseal – Insulating Glass Sealant Systems

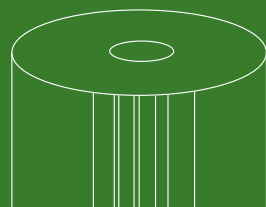
[www.truseal.com](http://www.truseal.com)

**Description:** One facility manufactures composite spacer products and sealants for fabricating windows, doors and solar panels. Another facility distributes the insulating glass assembly equipment

**Key Products:** Flexible Insulating Glass spacer systems, insulating glass window and door accessories, solar panel adhesives, and fully automatic and manual insulating glass fabrication equipment

**Manufacturing Capabilities:** 21 extrusion lines, one continuous process mixing system, 10 conventional bulk mixers and state-of-the-art pilot plant facility

### Aluminum Sheet Products



#### Nichols Aluminum – Aluminum Sheet Products

[www.nicholsal.com](http://www.nicholsal.com)

**Description:** One scrap-based mini-mill casting facility and three finishing facilities that manufacture coated and mill-finished aluminum sheet

**Key Products:** Mill-finished aluminum sheet, coated aluminum sheet

**Manufacturing Capabilities:** 360 mm lbs/yr finished capacity, cold rolling to gauge, annealing to temper, leveling, custom coating and slitting

## Financial Highlights

	Fiscal Years Ended October 31st				
(In thousands, except for per share data and employees)	2010 <sup>(1)(2)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>
<b>Selected Operating Results Data</b>					
Net sales	\$ 798,314	\$ 585,010	\$ 868,933	\$ 963,974	\$ 1,043,773
Operating income (loss) <sup>(3)</sup>	37,297	(179,098)	21,100	88,169	104,764
Income (loss) from continuing operations	24,201	(136,079)	15,993	57,131	64,956
Percent of net sales	3.0%	(23.3)%	1.8%	5.9%	6.2%
Income (loss) from discontinued operations, net of tax <sup>(3)</sup>	(1,103)	(1,012)	5,586	77,491	95,227
Net income (loss) <sup>(3)</sup>	\$ 23,098	\$ (137,091)	\$ 21,579	\$ 134,622	\$ 160,183
<b>Diluted Earnings Per Share Data</b>					
Income (loss) from continuing operations	\$ 0.64	\$ (3.64)	\$ 0.42	\$ 1.45	\$ 1.64
Net income (loss)	\$ 0.61	\$ (3.67)	\$ 0.56	\$ 3.41	\$ 4.08
Cash dividends declared <sup>(4)</sup>	\$ 0.1400	\$ 0.1200	\$ 0.3400	\$ 0.5600	\$ 0.4833
<b>Financial Position – Year End</b>					
Total assets, including discontinued operations <sup>(5)</sup>	\$ 591,250	\$ 543,600	\$ 680,847	\$ 1,334,822	\$ 1,202,152
Asset turnover (continuing)	1.4	1.0	1.4	1.6	1.7
Conversion capital	61,221	59,676	85,547	65,484	65,264
Working capital (continuing)	223,401	178,320	130,882	38,438	37,457
Current ratio (continuing)	2.9 to 1	2.8 to 1	2.1 to 1	1.4 to 1	1.3 to 1
Total debt	\$ 1,943	\$ 2,266	\$ 2,551	\$ 4,015	\$ 6,736
Stockholders' equity	441,432	422,526	547,828	883,149	758,515
Total capitalization	\$ 443,375	\$ 424,792	\$ 550,379	\$ 887,164	\$ 765,251
Depreciation and amortization	28,214	32,453	35,068	37,991	36,999
Capital expenditures, net	14,720	15,696	15,020	15,904	27,072
<b>Other Data</b>					
Continuing return on investment – percent	5.6%	(27.8)%	2.3%	7.0%	9.2%
Continuing return on common stockholders' equity – percent	5.6%	(28.0)%	2.2%	7.0%	9.2%
Average number of employees	1,947	1,961	2,373	2,744	3,084
Net sales per average employee	\$ 410	\$ 298	\$ 366	\$ 351	\$ 338

(1) In January 2010, management committed to a plan to close its start-up facility in China due to the contraction of demand and the Company's ability to serve the overseas thin film solar panel market from its North American operations. During the second quarter of 2008, the Company spun off Quanex Corporation's Building Products business immediately followed by the merger of Quanex Corporation (consisting primarily of the Vehicular Products business and all non-Building Products-related corporate accounts) with a wholly-owned subsidiary of Gerdau (the "Separation"). Accordingly, the assets and liabilities of the start-up facility in China, the Vehicular Products business and all non-Building Products related corporate accounts are reported as discontinued operations in the Consolidated Balance Sheets for all periods presented, and their operating results are reported as discontinued operations in the Consolidated Statements of Income for all periods presented.

(2) In February 2010, the Company completed a small acquisition which was effected through an asset purchase through a receivership proceeding and no liabilities were assumed. Accordingly, the estimated fair value of assets acquired in the acquisition and the results of operations are included in the Company's Consolidated Financial Statements as of the effective date of the acquisition.

(3) Includes effects in fiscal 2009 of the Company's \$182.6 million (pretax) and \$141.4 million (after-tax) asset impairment charge in accordance with ASC Topic 350 and ASC Topic 360.

(4) The quarterly common stock cash dividends prior to April 23, 2008 reflect dividends of Quanex Corporation prior to the Separation, while dividends after April 23, 2008 reflect dividends of Quanex Building Products, the accounting successor to Quanex Corporation.

(5) Total assets include assets of discontinued operations of \$0.5 million, \$1.8 million, \$1.4 million, \$742.3 million and \$582.1 million at October 31, 2010, 2009, 2008, 2007 and 2006, respectively.

# Investing In Growth

## To Our Shareholders

Quanex Building Products continued to outperform its end markets. Economically, it has been challenging over the last few years, but the past 18 months has shown that our team can take a heavy economic punch, shake it off and prosper. The work we did during 2010 also revealed expansion opportunities that exist within our businesses. In the worst economic crisis to face the building industry, Quanex grew impressively across its businesses and improved profitability. And we have what it will take to be successful in the years ahead – both internally and externally. Our dedicated teams continue to drive toward improvements in safety and health, deliver world class quality through Lean Six Sigma, listen to the voice of the customer and benchmark performance with the best in this industry. We are focused on leading the fenestration industry in energy efficiency with world class products, innovation and service. Opportunities that will shape our success will come from our own strategic choices and our commitment to continuous improvement in everything we do.

Quanex Building Products' end markets remained depressed in 2010. Residential repair & remodeling and housing starts, which we consider the main drivers of our industry, continue to be historically weak. In order to prosper in this environment, we knew market share gains were critical to our success and we delivered. Quanex revenues grew 36% year-over-year. The Aluminum Sheet Products segment was the strongest with 64% growth over last year, followed by Engineered Products with an increase of 12%. There are few companies in the residential building products space that come close to our growth performance.

During the year, we improved our profitability. Our Engineered Products businesses improved profit margins to 2007 levels when demand was significantly higher. Aluminum Sheet Products volumes in 2010 were about equal to 2006. We ended our fiscal year with \$187 million in cash, less than \$2 million in debt and an acquisition pipeline that has never been stronger. Our cash generation was again outstanding.

During the year, we ramped up our commitment to Lean Six Sigma. Our goal is to have every employee trained in Lean Six Sigma over the next 24 months. We also continued our investments in building the safest and healthiest work force in our industry through on site health risk assessments and required safety training for all employees. Our employees took advantage of health risk assessments and our health care cost increase projections for 2011 are below national averages. Quanex's safety performance leveled off after two years of significant reductions in incidents. Even though our safety performance is below industry averages, I rate it a disappointment. We are re-doubling our efforts for improved safety in the coming year.

Quanex Building Products is focused on growth. In January 2010, we launched Project Nexus to combine the sales and marketing teams of the three businesses under our Engineered Products (EPG) segment – Mikron, Truseal and Homeshield. We drove major change throughout the year to better position our sales and marketing resources and unlock additional opportunities with existing customers as well as an under-

## Our Mission

Become the leading manufacturer of fenestration systems and components, recognized for innovation, product and process technology, best-in-class customer service and excellent returns.

## Our Creed

**C**ontinuous Improvement & Innovation  
**R**espect with Open & Honest Communication  
**E**xcellent Customer Service  
**E**xemplify Safe & Healthy Living  
**D**o the Right Thing

## Our Teams

"Our teams are committed to world class safety and health and operational excellence. We continue to harness our capabilities to deliver outstanding fenestration products and services resulting in superior shareholder returns."

**Dave Petrakis**

served base of regional customers. Today we have 31 sales people representing the three combined businesses, calling on customers in the North American fenestration market and selling our entire portfolio of window and door components, products and systems. We have successfully transformed to a more collaborative structure under Project Nexus. It is now the way we do business at Quanex and we are seeing the potential of opening up our product portfolio to new customers, expanding it for existing customers, and the benefits from a more efficient and productive use of our total sales and marketing resources. And the companies in our marketplace are now starting to understand our full story. At the 2010 GlassBuild show held in September, we showcased the EPG businesses under new Quanex branding for the first time. Our combined presence helped our customers and the fenestration industry grasp the full capabilities of our Mikron, Truseal and Homeshield businesses. The industry recognized us with the Crystal Award for innovation and the Green Award for energy efficiency and we are all very proud!

Quanex is well positioned for growth. Throughout its history, Quanex has had a heritage of growth through acquisition. With significant cash reserves and an untapped credit facility, we have the means and are ready to purchase assets if they meet our criteria to support our strategy as a leader in the fenestration components markets, build on our portfolio of process and product technologies, and have revenue and cost synergies. The global fenestration industry is currently a \$135 billion market; we can grow organically in addition to

having the strength to grow through merger and acquisition if it makes operational and financial sense and will enhance our return to long-term shareholders.

The economic outlook in 2011 and beyond is uncertain. Indeed, the US economy may have a long way to full recovery. The end markets that drive our business, residential repair and remodeling and housing starts, are expected to remain tepid in the near term. In the “new normal,” we must aggressively drive organic growth, innovation, price realization, productivity improvements and deliver world class quality and customer satisfaction. This must be done with the highest level of safety and health for each of our employees.

At Quanex Building Products we will continue to work hard, stay safe and offer the products and services that have allowed us to outperform in any market. Many thanks to our employees for their hard work and dedication, to our board of directors for their leadership and to our shareholders for their confidence and commitment to Quanex Building Products.

My very best,



**Dave Petratis**

Chairman, President and Chief Executive Officer



## Project Nexus

Expect to hear less and less about Project Nexus as we have now accomplished the combined go-to-market growth strategy and business structure we proposed. Over the past year, we have put the teams in place to collaboratively innovate new products, market them to the industry and represent our entire arsenal of new and aftermarket fenestration components to each customer.

We are now building on our existing technological infrastructure to support these teams and their customers with cutting-edge capabilities. And our work continues as we partner with associates to establish Quanex as the energy efficiency expert within the window and door markets.

# Management & Board of Directors



## Corporate Officers

### **David D. Petratis**

President & Chief Executive Officer

### **Brent L. Korb**

Senior Vice President – Finance  
Chief Financial Officer

### **Kevin P. Delaney**

Senior Vice President – General Counsel & Secretary

### **Jairaj Chetnani**

Vice President – Treasurer

### **Deborah M. Gadin**

Vice President – Controller

## Board of Directors

### **David D. Petratis<sup>1\*</sup>**

Chairman, President & Chief Executive Officer  
Quanex Building Products Corporation

### **Donald G. Barger, Jr.<sup>1, 2\*</sup>**

Retired, Former Senior Vice President  
& Chief Financial Officer  
YRC Worldwide, Inc.

### **Susan F. Davis<sup>3\*, 4</sup>**

Executive Vice President, Human Resources  
Johnson Controls, Inc.

### **William C. Griffiths<sup>3, 4\*</sup>**

Retired, Former Chairman, President  
& Chief Executive Officer  
Champion Enterprises, Inc.

### **LeRoy D. Nosbaum<sup>3</sup>**

Retired, Former Chief Executive Officer  
Itron, Inc.

### **Joseph D. Rupp<sup>1, 2, 4, 5</sup>**

Chairman, President & Chief Executive Officer  
Olin Corporation

### **Curtis M. Stevens<sup>2</sup>**

Executive Vice President, Administration  
& Chief Financial Officer  
Louisiana-Pacific Corporation

## Board Committees

<sup>1</sup> Executive Committee

<sup>2</sup> Audit Committee

<sup>3</sup> Compensation & Management Development Committee

<sup>4</sup> Nominating & Corporate Governance Committee

<sup>5</sup> Lead Director

\* Denotes Committee Chair



10-K

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

(Mark One)



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

**For the fiscal year ended October 31, 2010**

**or**



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

Commission file number 1-33913

**QUANEX BUILDING PRODUCTS CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**26-1561397**

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

**1900 West Loop South, Suite 1500, Houston, Texas**

*(Address of principal executive offices)*

**77027**

*(Zip code)*

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

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class**

Common Stock, \$0.01 par value

**Name of each exchange on which registered**

New York Stock Exchange, Inc.

**Securities registered pursuant to Section 12(g) of the Act: NONE**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐  
No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐  
No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of April 30, 2010, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was \$709,315,602. Such calculation assumes only the registrant's current officers and directors were affiliates of the registrant.

At December 14, 2010, there were outstanding 37,862,441 shares of the registrant's Common Stock, \$0.01 par value.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement for its 2011 Annual Meeting of Stockholders to be filed with the Commission within 120 days of October 31, 2010 are incorporated herein by reference in Part III of this Annual Report.

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## **PART I**

### **Item 1. Business**

#### **General**

Quanex was organized in 1927 as a Michigan corporation under the name Michigan Seamless Tube Company. It reincorporated in Delaware in 1968 under the same name and then changed its name to Quanex Corporation in 1977. On December 12, 2007, Quanex Building Products Corporation was incorporated in the state of Delaware as a subsidiary of Quanex Corporation to facilitate the separation of Quanex Corporation's vehicular products and building products businesses. The separation occurred on April 23, 2008, through the spin-off of Quanex Corporation's building products business to its shareholders, immediately followed by the merger of Quanex Corporation (consisting principally of the Vehicular Products business and all non-building products related corporate accounts) with a wholly-owned subsidiary of Gerdau S.A. (Gerdau). This transaction is hereafter referred to as the "Separation". The Company's executive offices are located at 1900 West Loop South, Suite 1500, Houston, Texas 77027. For purposes of describing the events related to the Separation as well as other events, transactions and financial results of Quanex Building Products Corporation and its subsidiaries related to periods prior to April 23, 2008, the term "Quanex" or the "Company" also refer to Quanex Building Products Corporation's accounting predecessor, Quanex Corporation.

The Company's businesses are managed on a decentralized basis and operate in two reportable business segments: Engineered Products and Aluminum Sheet Products. Each business has administrative, operating and marketing functions. The Company measures each business' earnings, cash flow and return on investment and seeks to reward superior performance with incentive compensation, which is a significant portion of total compensation for salaried employees. Intercompany sales are conducted on an arms-length basis. Operational activities and policies are managed by corporate officers and key division executives. Also, a small corporate staff provides corporate accounting, financial and treasury management, tax, legal, internal audit, information technology and human resource services to the operating divisions.

Quanex is a technological leader in the production of aluminum flat-rolled sheet, extruded vinyl profiles, flexible insulating glass (IG) spacer systems, solar panel sealants, and metal and wood products that primarily serve the North American residential building products markets. The Company uses low-cost production processes, and engineering and metallurgical expertise, to provide customers with specialized products for their specific window and door applications. Quanex believes these capabilities also provide the Company with unique competitive advantages. The Company's growth strategy is focused on developing its Engineered Products businesses, introducing innovative products and components, and pursuing expansion through organic growth and the acquisition of companies that produce similar products and serve similar building products markets.

#### **Merger and Separation**

On November 19, 2007, the Company announced that its Board of Directors unanimously approved a merger of Quanex Corporation, consisting principally of the Vehicular Products business and all non-Building Products related corporate accounts, with a wholly-owned subsidiary of Gerdau in exchange for \$39.20 per share in cash. Quanex Corporation entered into a definitive agreement with Gerdau with respect to the merger on November 18, 2007 (the Gerdau Merger Agreement). The Separation occurred on April 23, 2008, through the spin-off of Quanex Corporation's building products business to its shareholders, immediately followed by the merger of Quanex Corporation (consisting principally of the Vehicular Products business and all non-Building Products related corporate accounts) with a wholly-owned subsidiary of Gerdau. All Quanex Corporation shareholders of record received one share of Quanex Building Products Corporation's stock for each share of Quanex Corporation stock.

Notwithstanding the legal form of the Separation, because Gerdau merged with and into Quanex Corporation immediately following the spin-off and because the senior management of Quanex Corporation continued as the senior management of Quanex Building Products Corporation following the spin-off, the Company considers Quanex Building Products Corporation as divesting the Quanex Corporation vehicular products segment and non-building products related corporate items and have treated it as the “accounting successor” to Quanex Corporation for financial reporting purposes in accordance with the Financial Accounting Standards Board’s Accounting Standards Codification (ASC) Topic 505-60 “*Spinoffs and Reverse Spinoffs*” (ASC 505-60).

In accordance with the provisions of ASC Topic 205-20 “*Presentation of Financial Statements – Discontinued Operations*” (ASC 205-20) effective with the Separation on April 23, 2008, the results of operations, financial position and cash flows related to the vehicular products business and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations as of October 31, 2010 or 2009 and no results of operations in 2010 or 2009 related to the Separation. Unless otherwise noted, all disclosures in the notes accompanying the Consolidated Financial Statements reflect only continuing operations.

### **Business Developments**

The Company has grown primarily through the strategic acquisition of residential-related building products businesses that complement its overall product base. The following business developments occurred in the past five years.

In February 2010, the Company bought a facility in Shawano, Wisconsin for manufacturing engineered wood flooring. In January 2010, management committed to a plan to close its start-up facility in China due to the contraction of demand and the Company’s ability to serve the overseas thin film solar panel market from its North American operations. Accordingly, the China assets and liabilities, results of operations and cash flows are reported as discontinued operations for all periods presented.

Quanex Building Products LLC was formed in Delaware on December 12, 2007, by Quanex Corporation to hold substantially all of the building products business of Quanex Corporation and to facilitate the separation of its vehicular products and building products businesses through the spin-off and the Quanex/Gerdau merger.

### **Manufacturing Processes, Markets, and Product Sales by Business Segment**

The Company has 17 manufacturing facilities, including one non-operating facility, in 10 states in the United States. These facilities feature efficient plant design and flexible manufacturing processes, enabling the Company to produce a wide variety of custom engineered products and components for the residential building products markets. The Company is able to maintain minimal levels of finished goods inventories at most locations because it typically manufactures products upon order to customer specifications. Payments for purchases and collections from customers are generally consistent with industry practices which are based on average 30 day terms for Engineered Products and 45 days for Aluminum Sheet Products. The Company believes it maintains lower than industry average working capital levels historically funded through cash flow from operations. The majority of the Company’s products are sold into the building products markets. Residential remodeling activity and housing starts are its primary market drivers.

For financial information regarding each of the Company’s reportable business segments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” herein and Note 12 to the Consolidated Financial Statements. For net sales of the Company by major product lines see Note 12 to the Consolidated Financial Statements. For the year ended October 31, 2010, no one customer represented 10% or more of the consolidated net sales of the Company. For the year ended October 31, 2009, one customer, Andersen Corporation, represented \$62.7 million or 11% of the consolidated net sales of the Company. For the

year ended October 31, 2008, one customer, Associated Materials, Inc., represented \$105.8 million or 12% of the consolidated net sales of the Company. Both of the Company's segments make sales to both Andersen Corporation and Associated Materials, Inc.

Quanex operates in two reportable business segments: Engineered Products and Aluminum Sheet Products.

### ***Engineered Products***

The Engineered Products segment is comprised of five fabricated metal components operations, two facilities producing wood fenestration (door and window) components, one facility producing engineered wood flooring, three polyvinyl chloride (vinyl) extrusion facilities, and a flexible IG spacer operation. The segment's operations produce window and door components for Original Equipment Manufacturers (OEMs) that primarily serve the residential construction and remodeling markets. Products include insulating glass spacer systems, window and patio door screens, aluminum cladding and other roll formed metal window components, door components such as thresholds and astragals, moldings, residential exterior products, vinyl and composite patio door, window profiles and custom window grilles, trim and architectural moldings in a variety of woods, thin film solar panel sealants, and engineered wood flooring.

Engineered Products' extrusion operations use highly automated production facilities to manufacture vinyl and composite profiles, the framing material used by fenestration OEMs in the assembly of vinyl windows and patio doors. Value-added capabilities include compound blending, window system design, tooling design and fabrication, in-line weatherstrip installation and miter cutting, and co-extrusion of integrated weather-resistant coatings. Metal fabrication operations include roll forming, stamping, and end-product assembly to produce a variety of fenestration products. The IG sealant business uses compound-extrusion and laminating technology to produce highly engineered, butyl-based window spacer products used to separate two or three panes of glass in a window sash to improve its thermal performance. Engineered Products customers' end-use applications include windows and window components, entry and patio door systems, custom hardwood architectural moldings, and solar panels. Engineered Products key success factors range from design and development expertise to flexible, world class quality manufacturing capability, unique patented products and just-in-time delivery.

### ***Aluminum Sheet Products***

The Aluminum Sheet Products segment is comprised of an aluminum mini-mill operation and three stand-alone aluminum sheet cold finishing operations. Aluminum sheet finishing capabilities include reducing reroll (hot-rolled aluminum sheet) coil to specific gauge, annealing, slitting and custom coating. Customer end-use applications of the finished sheet include residential window screens, exterior home trim, fascias, roof edgings, soffits, downspouts and gutters. A secondary market includes transportation (truck trailer, RV and mobile home panels).

The segment's aluminum mini-mill can produce approximately 360 million annualized finished pounds using an in-line casting process. The mini-mill converts aluminum scrap to reroll through melting, continuous casting, and in-line hot rolling processes. It also has scrap shredding and blending capabilities, as well as two rotary barrel melting furnaces, a delacquering furnace and a dross recovery system that broaden the mini-mill's use of raw materials, allowing it to utilize a broader range of scrap, while improving raw material yields. Scrap is blended using computerized processes to most economically achieve the desired molten aluminum alloy composition. Management believes its production capabilities result in a significant conversion cost advantage and savings from reduced raw material costs, optimized scrap utilization, reduced unit energy cost and lower labor costs.

For financial information related to each segment, see Note 12 of the Financial Statements contained in this Annual Report on Form 10-K.

## **Strategy**

Management's vision is to become the leading manufacturer of fenestration systems and components, recognized for innovation, product and process technology, best in class customer service, and excellent returns. Execution of the following strategies will be essential for attainment of this vision:

- Achieve robust organic growth, both within our current customer base and through new market opportunities with national and regional customers, fueled by unmatched customer service, new product introduction, a systems approach and development of superior product attributes, particularly thermal efficiency, enhanced functionality, weatherability, appearance and best-in-class quality for Engineered Products;
- Realize improved Aluminum Sheet profitability by furthering our best-in-class processes, including the specialized ability to process low grades of scrap aluminum, while increasing capacity through internal advancements and expanding sales of value added products;
- Lead the Company's industry in safety, the reduction of accidents and education of the Company's work force in safety practices;
- Offer logistic solutions that provide our customers with just-in-time service that reduces their processing costs;
- Enhance our profitability through continued efforts to adopt, promulgate and formalize Lean Manufacturing practices within our current businesses and future acquisitions, including eliminating waste, minimizing scrap, optimizing work flow and improving productivity;
- Attract and retain outstanding leadership and facilitate broad-based employee development through open communication, active feedback, meaningful goal setting and well-designed incentives; and
- Pursue an active acquisition program to grow the existing fenestration footprint through expansion of components and systems the Company offers and markets it serves.

## **Raw Materials and Supplies**

The Engineered Products businesses purchase a diverse range of raw materials, which include coated and uncoated aluminum sheet, wood (both hardwood and softwood), polyvinyl chloride, epoxy resin and butyl. In most cases, the raw materials are available from several suppliers at market prices. Aluminum sheet is generally purchased from the Aluminum Sheet Products business at prices based upon arms-length transactions. Sole sourcing arrangements are entered into from time to time if beneficial savings can be realized and only when it is determined that a vendor can reliably supply all of the business's raw material requirements.

The Aluminum Sheet Products business' most significant raw material is aluminum scrap purchased on the open market, where availability and delivery can be adversely affected by, among other things, extreme weather conditions. Firm fixed price forward purchases matched to firm fixed price forward sales are used on a limited basis to hedge against fluctuations in the price of aluminum scrap required to manufacture products for fixed-price sales contracts. To a lesser extent, aluminum ingot futures contracts are bought and sold on the London Metal Exchange to hedge aluminum scrap requirements.

Although the Company has material sole sourcing arrangements, its agreements have clauses that allow for termination. In addition, there are several other qualified suppliers from which the Company could purchase raw materials and supplies.

## **Competition**

The Company's products are sold under highly competitive conditions. The Company competes with a

number of companies, some of which have greater financial resources than Quanex. Competitive factors include product quality, price, delivery, and the ability to manufacture to customer specifications. The volume of aluminum mill sheet products, engineered products and extruded building products the Company manufactures represent a small percentage of annual domestic production.

Engineered Products competes against a range of small and midsize metal, vinyl and wood products suppliers and wood molding companies. The Company also competes against IG sealant firms and insulating glass panel wholesalers. IG systems are used in numerous end markets including residential housing, refrigeration appliances and transportation vehicles, but the Company primarily serves the residential housing market. Competition is primarily based on regional presence, custom engineering, product development, quality, service and price. The business also competes with in-house operations of vertically integrated fenestration OEMs. Some of the primary competitors of the Engineered Products business include Royal Group, Veka, Deceuninck, Edgetech, Cardinal Glass Industries, GED Integrated Solutions, Allmetal, and Ritescreen.

The Aluminum Sheet Products business competes with small to large aluminum sheet manufacturers such as Aleris, Jupiter, Alcoa, and JW Aluminum, some of which are divisions or subsidiaries of major corporations with substantially greater resources than the Company. The Company competes in common alloy coil-coated and mill finished products, primarily on the basis of the breadth of product lines, the quality and responsiveness of its services, and price.

### **Sales, Marketing, and Distribution**

The Company has sales representatives whose territories essentially cover all of the United States, much of Canada, and to a lesser extent, South America, Europe and Asia. Engineered Products segment sales are primarily to window and door OEMs through a direct sales force, along with the limited use of distributors. In 2010, the segment's three standalone sales and marketing groups (one group for each of its three divisions) were combined into one unified group, which is tasked with selling and marketing the segment's complete range of components, products and systems to national and regional OEMs. Aluminum Sheet Products segment sales are to OEM and distribution customers through both direct and indirect sales representatives.

### **Seasonal Nature of Business**

Sales of Engineered Products and Aluminum Sheet Products businesses are seasonal. Winter weather typically reduces homebuilding and home improvement activity. The Company typically experiences its lowest sales during the first half of its fiscal year. Profits tend to be lower in quarters with lower sales because a high percentage of manufacturing overhead and operating expense is due to labor and other costs that are generally semi-variable throughout the year.

### **Service Marks, Trademarks, Trade Names, and Patents**

The Company's federally registered trademarks or service marks include QUANEX, QUANEX and design, TRUSEAL TECHNOLOGIES, DURASEAL, DURALITE, SOLARGAIN EDGE TAPE, ENVIROSEALED WINDOWS, EDGETHERM, COLONIAL CRAFT, MIKRON, MIKRONWOOD, MIKRONBLEND, MIKRON BLEND and design, ENERGYCORE, FUSION INSULATED SYSTEM, AIRCELL, SUPERCOAT, SUPERCAP, STYLELOCK, STYLELOCK and design, K2 MIKRON and design, HOMESHIELD, HOMESHIELD and design, and STORM SEAL. The trade name Nichols Aluminum is used in connection with the sale of our aluminum mill sheet products. The HOMESHIELD, COLONIAL CRAFT, TRUSEAL TECHNOLOGIES, MIKRON and QUANEX word and design marks and associated trade names are considered valuable in the conduct of business. The Company's business generally does not depend upon patent protection, but patents obtained at its vinyl extrusion, fabricated metal component operations and window sealant business units remain critical in providing a competitive advantage over other building products manufacturers. The Company's vinyl extrusion business unit



obtains patent protection for various dies and other tooling created in connection with its production of customer-specific designs and extrusions. The Company's fabricated metal components business obtains patent protection for its thresholds, which gives it an advantage in the threshold markets. The Company's window sealant business unit relies on patents to protect the design of several of its window spacer products. Although the Company holds numerous patents, the proprietary process technology that has been developed is also the source of considerable competitive advantage.

## **Research and Development**

Expenditures for research and development of new products or services during the last three years were not significant. Although not technically defined as research and development, a significant amount of time, effort and expense is devoted to (a) custom engineering which qualifies products for specific customer applications, (b) developing superior, proprietary process technology and (c) partnering with customers to develop new products.

## **Environmental and Employee Safety Matters**

The Company is subject to extensive laws and regulations concerning the discharge of materials into the environment, the remediation of chemical contamination and worker safety. To satisfy such requirements, the Company must make capital and other expenditures on an ongoing basis. The cost of environmental matters and worker safety has not had a material adverse effect on the Company's operations or financial condition in the past, and management is not currently aware of any existing conditions that it believes are likely to have a material adverse effect on its operations, financial condition, or cash flows.

### *Worker Safety*

The Company for many years has maintained effective compliance policies that have helped to minimize liabilities and other financial impacts related to worker safety and environmental issues. These policies include extensive employee training and education, as well as internal policies embodied in the Company's Code of Conduct and elsewhere. The Company plans to continue these policies in the future, and believes that they are a vital component of the Company's continued high performance. Based on experience to date, the Company does not believe that there will be any material adverse effect on its operations, financial condition, or cash flows as a result of maintaining these policies in the future.

### *Remediation*

Under applicable state and federal laws, the Company may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations it has owned or operated at any time. The Company currently is engaged in environmental remediation activities at one of its plant sites.

From time to time, the Company also has been alleged to be liable for all or part of the costs incurred to clean up third-party sites where it is alleged to have arranged for disposal of hazardous substances. At present, the Company is not involved in any such matters.

The total associated environmental reserve and corresponding recovery as of October 31, 2010 and October 31, 2009 were as follows:

	October 31,	
	2010	2009
	(In thousands)	
Current <sup>(1)</sup> .....	\$ 1,564	\$ 1,485
Non-current.....	12,027	1,767
Total environmental reserves .....	<u>\$ 13,591</u>	<u>\$ 3,252</u>
Receivable for recovery of remediation costs <sup>(2)</sup> ..	<u>\$ 12,747</u>	<u>\$ 3,437</u>

Approximately \$1.4 million of the October 31, 2010 reserve represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. The reserve has not been discounted. As discussed below, an associated \$12.7 million and \$3.4 million undiscounted recovery from indemnitors of remediation costs at one plant site is recorded as of October 31, 2010 and October 31, 2009, respectively. The increase in the environmental reserve during the year ended October 31, 2010 is primarily due to revisions in remediation plans.

The Company's Nichols Aluminum-Alabama, LLC (NAA) subsidiary operates a plant in Decatur, Alabama that is subject to an Alabama Hazardous Wastes Management and Minimization Act Post-Closure Permit. Among other things, the permit requires NAA to remediate, as directed by the state, historical environmental releases of wastes and waste constituents. Consistent with the permit, NAA has undertaken various studies of site conditions, and during the first quarter of 2006, started a phased program to treat in-place free product petroleum that had been released underneath the plant. During the second quarter 2010, NAA submitted to the state the first component of its proposed workplan for implementing a site-wide remedy; the full workplan was submitted to the state during the third quarter 2010. Based on its current plans, which remain subject to revision and to state approval, the Company's remediation reserve at NAA's Decatur plant is \$13.6 million. NAA was acquired through a stock purchase in which the sellers agreed to indemnify Quanex and NAA for identified environmental matters related to the business and based on conditions initially created or events initially occurring prior to the acquisition. Environmental conditions are presumed to relate to the period prior to the acquisition unless proved to relate to releases occurring entirely after closing. The limit on indemnification is \$21.5 million excluding legal fees. While the Company's current estimates indicate it will not reach the limit, changing circumstances could result in additional costs or expense that are not foreseen at this time. In accordance with the indemnification, the indemnitors paid the first \$1.5 million of response costs and have been paying 90% of ongoing costs. Based on its experience to date, its estimated cleanup costs going forward, and costs incurred to date as of October 31, 2010, the Company expects to recover from the sellers' shareholders an additional \$12.7 million. Of that, \$12.2 million is recorded in Other assets on the Consolidated Balance Sheets, and the balance is reflected in Accounts receivable on the Consolidated Balance Sheets.

The Company's final remediation costs and the timing of those expenditures will depend upon such factors as the nature and extent of contamination, the cleanup technologies employed, the effectiveness of the cleanup measures that are employed, and regulatory concurrences. While actual remediation costs, therefore, may be more or less than amounts accrued, the Company believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals because of uncertainties as to the extent of environmental impact, cleanup technologies, and concurrence of governmental authorities. The Company currently expects to pay

<sup>(1)</sup> Reported in Accrued liabilities on the Consolidated Balance Sheets

<sup>(2)</sup> Reported in Accounts receivable and Other assets on the Consolidated Balance Sheets

the accrued remediation reserve through at least fiscal 2034, although some of the same factors discussed earlier could accelerate or extend the timing.

### **Compliance**

Quanex incurred expenses of approximately \$1.4 million during fiscal 2010 in order to comply with existing environmental regulations. This compares to \$1.1 million of expense incurred during fiscal 2009. For fiscal 2011, the Company estimates expenses at its facilities will be approximately \$1.2 million for continuing environmental compliance. There were no material capital expenditures for environmental matters during fiscal 2010 or 2009 and no material environmental capital expenditure is planned for fiscal 2011. Future expenditures relating to environmental matters will depend upon the application to the Company and its facilities of future regulations and government decisions. The Company will continue to have expenditures beyond fiscal 2011 in connection with environmental matters, including control of air emissions, control of water discharges and plant decommissioning costs. It is not possible at this time to reasonably estimate the amount of those expenditures, except as discussed above, due to uncertainties about emission levels, control technologies, the positions of governmental authorities and the application of requirements to the Company. Based upon its experience to date, the Company does not believe that its compliance with environmental requirements will have a material adverse effect on its operations, financial condition, or cash flows.

### **Employees**

The Company had 2,109 employees at October 31, 2010. Of the total employed, approximately 28% are covered by collective bargaining agreements. Following is a table of collective bargaining agreements currently in place:

<b>Facility</b>	<b>Expires</b>	<b>Union</b>	<b>Covered Employees at 10/31/10</b>
Nichols Aluminum—Alabama	May 2011	United Steelworkers of America	85
Nichols Aluminum—Davenport/Casting	Nov. 2011	International Brotherhood of Teamsters	254
Truseal Technologies	Dec. 2012	United Steelworkers of America	169
Nichols Aluminum—Lincolnshire	Jan. 2013	International Association of Machinists and Aerospace Workers	90

### **Financial Information about Geographic Areas**

For financial information on the Company's foreign and domestic operations, see Note 12 of the Financial Statements contained in this Annual Report on Form 10-K.

### **Communication with the Company**

The Company's website is [www.quanex.com](http://www.quanex.com). Inquiries to the Company and its Board of Directors are invited. Interested persons may contact the appropriate individual or department by choosing one of the options below.

## ***General***

### ***Investor Information:***

For Investor Relations' matters or to obtain a printed copy of the Company Code of Business Conduct and Ethics, Corporate Governance Guidelines or charters for the Audit, Compensation and Management Development, and Nominating and Corporate Governance Committees of the Board of Directors, send a request to the Company's principal address below or [inquiry@quanex.com](mailto:inquiry@quanex.com). This material may also be obtained from the Company website at [www.quanex.com](http://www.quanex.com) by following the "Corporate Governance" link.

The Company's required regulatory filings such as annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge through the Company's website, as soon as reasonably practicable after they have been filed with or furnished to the Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (the 1934 Act). Forms 3, 4 and 5 filed with respect to equity securities under Section 16(a) of the 1934 Act are also available on the Company's website. All of these materials are located at the "Investor Relations" link under SEC filings. They can also be obtained free of charge upon request to [inquiry@quanex.com](mailto:inquiry@quanex.com) or to the Company's principal address below.

### ***Communications with the Company's Board of Directors:***

Persons wishing to communicate to the Company's Board of Directors or specified individual directors may do so by sending them in care of The Chairman of the Board of Directors at the Company's principal address below or [hotline@quanex.com](mailto:hotline@quanex.com).

## ***Hotline***

### ***Accounting Issues:***

Persons who have questions or concerns regarding potential questionable accounting, internal accounting controls or auditing matters may submit them to the Senior Vice President – Finance & Chief Financial Officer at the Company's principal address or [hotline@quanex.com](mailto:hotline@quanex.com). The Audit Committee will be informed of the call and the Company's response.

Such communications will be kept confidential to the fullest extent possible. If the individual is not satisfied with the response, they may contact the Audit Committee or the Nominating and Corporate Governance Committee of the Board of Directors of the Company. If concerns or complaints require confidentiality, then this confidentiality will be protected, subject to applicable laws.

### ***Reporting Potential Illegal or Unethical Behavior:***

Employees, officers and directors who suspect or know of violations of the Company Code of Business Conduct and Ethics, or illegal or unethical business or workplace conduct by employees, officers or directors, have an obligation to report it. If the individuals to whom such information is conveyed are not responsive, or if there is reason to believe that reporting to such individuals is inappropriate in particular cases, then the employee, officer or director may contact the Chief Compliance Officer, Chief Financial Officer, Director of Internal Audit, or any corporate officer in person, by telephone, letter to the Company's principal address or e-mail below. Quanex Building Products also encourages persons who are not affiliated with the Company to report any suspected illegal or unethical behavior. The Audit and Nominating & Corporate Governance Committees will be informed.

- 1) **In Person or By Letter**  
Quanex Building Products Corporation  
1900 West Loop South, Suite 1500  
Houston, Texas 77027

- 2) **By Telephone**  
Direct Telephone (713) 877-5349  
Toll Free Telephone (800) 231-8176  
Toll Free HOTLINE (888) 704-8222
- 3) **By E-Mail**  
[hotline@quanex.com](mailto:hotline@quanex.com)

Such communications will be kept confidential to the fullest extent possible. If the individual is not satisfied with the response, they may contact the Nominating and Corporate Governance Committee of the Board of Directors of the Company at the Company's principal address above. If concerns or complaints require confidentiality, then this confidentiality will be protected, subject to applicable laws.

#### **Item 1A. Risk Factors**

In addition to the factors discussed elsewhere in this report and in Management's Discussion and Analysis of Financial Condition and Results of Operations, the following are some of the potential risk factors that could cause the Company's actual results to differ materially from those projected in any forward-looking statements. These factors, as well as the other information contained in this document, should be carefully considered when evaluating an investment in the Company's securities. Any of the following risks could have material adverse effects on the Company's financial condition, operating results and cash flow. The below list of important factors is not all-inclusive or necessarily in order of importance.

##### **Worldwide economic conditions and credit tightening could have a material adverse affect on the Company.**

Uncertainty about current global economic conditions poses a risk as consumers may postpone spending in response to tighter credit, negative financial news and/or declines in income or asset values, which could have a material negative effect on the demand for the Company's products and services and on the Company's financial condition and operating results.

Additionally, many of the effects and consequences of the global financial crisis and a broader global economic downturn are currently unknown; any one or all of them could potentially have a material adverse effect on the Company's liquidity and capital resources. There could be a number of follow-on effects on the Company's business, including insolvency of key suppliers resulting in product delays, inability of customers to obtain credit to finance purchases of the Company's products, an inability of customers to pay accounts receivable owed to the Company, or delays in the payment of such receivables. Additionally, if these economic conditions persist, the Company's assets may become further impaired.

##### **The price of our common stock has been volatile and could continue to fluctuate in the future.**

The market price of the Company's common stock has fluctuated significantly and is likely to continue to fluctuate in the future. Announcements by the Company or others regarding the receipt of customer orders, quarterly variations in operating results, acquisitions or divestitures, additional equity or debt financings, litigation, product developments, patent or proprietary rights, government regulation and general market conditions may have a significant impact on the market price of the Company's common stock.

##### **If the Company's raw materials or energy were to become unavailable or to significantly increase in price, the Company might not be able to timely produce products for its customers or maintain its profit levels.**

Quanex requires significant amounts of raw materials, substantially all of which are purchased from outside sources. The Company does not have long-term contracts for the supply of most of its raw materials. The

availability and prices of raw materials may be subject to curtailment or change due to new laws or regulations, suppliers' allocations to other purchasers, or interruptions in production by suppliers. In addition, the operation of the Company's facilities requires substantial amounts of electric power and natural gas. Any change in the supply of, or price for, these raw materials could affect its ability to timely produce products for its customers.

**The Company depends on supplier relationships, insurance providers, and other vendors, and any disruption in these relationships may cause damage to its customer relationships or delays to its business.**

There can be no assurance that the Company's suppliers will be able to meet the Company's future requirements for products and components in a timely fashion. In addition, the availability of many of these components is dependent in part on the Company's ability to provide its suppliers with accurate forecasts of the Company's future requirements. Delays or lost sales could be caused by other factors beyond the Company's control, including late deliveries by vendors. If the Company were required to identify alternative suppliers for any of its required components, qualification and pre-production periods could be lengthy and may cause an increase in component costs and delays in providing products to customers. Any extended interruption in the supply of any of the key components currently obtained from limited sources could disrupt the Company's operations and have a material adverse effect on customer relationships and profitability.

**The Company's business is generally cyclical in nature. Fewer housing starts, reduced remodeling expenditures or weaknesses in the economy could significantly reduce revenue, net earnings and cash flow.**

Demand for the Company's products is cyclical in nature and sensitive to general economic conditions. The Company's business supports cyclical industries, the building and construction industries.

The primary drivers of the Company's business are housing starts and remodeling activities. The building and construction industry is cyclical and seasonal, and product demand is based on numerous factors such as interest rates, general economic conditions, consumer confidence and other factors beyond the Company's control. Declines in housing starts and remodeling activities due to such factors could have a material adverse effect on the Company's business, results of operations and financial condition. The downturn in the housing market has had an adverse effect on the operating results of the Company's building products business. Further deterioration or prolonged depressed states in industry conditions or in the broader economic conditions of the markets where the Company operates could further decrease demand and pricing for its products and have additional adverse effects on its operations and financial results.

**The Company is subject to various environmental requirements, and compliance with, or liabilities under, existing or future environmental laws and regulations could significantly increase the Company's costs of doing business.**

The Company is subject to extensive federal, state and local laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, the Company must make capital and other expenditures on an ongoing basis. For example, environmental agencies continue to develop regulations implementing the Federal Clean Air Act. Depending on the nature of the regulations adopted, the Company may be required to incur additional capital and other expenditures in the next several years for air pollution control equipment, to maintain or obtain operating permits and approvals, and to address other air emission-related issues. Future expenditures relating to environmental matters will necessarily depend upon the application to the Company and its facilities of future regulations and government decisions. It is likely that the Company will be subject to increasingly stringent environmental standards and the additional expenditures related to compliance with such standards. Furthermore, if the Company fails to comply with applicable environmental regulations, the Company could be subject to substantial fines or penalties and to civil and criminal liability.

**The Company may not be able to successfully identify, manage or integrate future acquisitions, and if it is unable to do so, the Company's rate of growth and profitability could be adversely affected.**

The Company cannot provide any assurance that it will be able to identify appropriate acquisition candidates or, if it does, that it will be able to successfully negotiate the terms of an acquisition, finance the acquisition, or integrate the acquired business effectively and profitably into its existing operations. Integration of future acquired businesses could disrupt the Company's business by diverting management's attention away from day-to-day operations. Further, failure to successfully integrate any acquisition may cause significant operating inefficiencies and could adversely affect the Company's profitability. Consummating an acquisition could require the Company to raise additional funds through additional equity or debt financing. Additional equity financing could depress the market price of the Company's common stock.

**If the Company's information technology systems fail, or if the Company experiences an interruption in their operation, then the Company's business, financial condition and results of operations could be materially adversely affected.**

The efficient operation of the Company's business is dependent on its information technology systems. The Company relies on those systems generally to manage the day-to-day operation of its business, manage relationships with its customers, fulfill customer orders, and maintain its financial and accounting records. In fiscal 2011, the Company is launching a multi-year, company-wide program to transform certain business processes, including the transition to a single enterprise resource planning (ERP) software system to perform various functions. The new system is expected to improve access to and consistency of information, enable standardization of business activities, help deliver business process improvements and support business growth. The implementation of an ERP system entails certain risks, including difficulties with changes in business processes that could disrupt the Company's operations, such as its ability to process orders and timely ship products, project inventory requirements, provide services and customer support, send invoices and track payments, fulfill contractual obligations, and aggregate financial and operational data. The ERP implementation project will likely consume, significant business resources, including personnel and financial resources. The failure of the Company's information technology systems, its inability to successfully maintain, enhance and/or replace our information technology systems, or any compromise of the integrity or security of the data that is generated from information technology systems, could adversely affect the Company's results of operations, disrupt business and make the Company unable, or severely limit the Company's ability, to respond to customer demands. In addition, the Company's information technology systems are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- employee or other theft;
- attacks by computer viruses or hackers;
- power outages; and
- computer systems, internet, telecommunications or data network failure.

Any interruption of the Company's information technology systems could result in decreased revenue, increased expenses, increased capital expenditures, customer dissatisfaction and potential lawsuits, any of which could have a material adverse effect on the Company's results of operations or financial condition.

**The Company operates in competitive markets, and its business will suffer if it is unable to adequately address potential downward pricing pressures and other factors that may reduce operating margins.**

The principal markets that the Company serves are highly competitive. Competition is based primarily on the precision and range of achievable tolerances, quality, price and the ability to meet delivery schedules dictated by customers. The Company's competition in the markets in which it participates comes from companies of various sizes, some of which have greater financial and other resources than the Company does and some of which have more established brand names in the markets the Company serves. Any of these competitors may foresee the course of market development more accurately than the Company does, develop products that are superior to the Company's products, have the ability to produce similar products at a lower cost than the Company can, or adapt more quickly than the Company to new technologies or evolving customer requirements. Increased competition could force the Company to lower its prices or to offer additional services at a higher cost to the Company, which could reduce its gross profit and net income.

**Original Equipment Manufacturers (OEMs) have significant pricing leverage over suppliers and may be able to achieve price reductions over time, which will reduce the Company's profits.**

The Company's products are sold primarily to OEMs, and to a much lesser extent, sold through distributors. There is substantial and continuing pressure from OEMs in all industries to reduce the prices they pay to suppliers. The Company attempts to manage such downward pricing pressure, while trying to preserve its business relationships with its OEM customers, by seeking to reduce its production costs through various measures, including purchasing raw materials and components at lower prices and implementing cost-effective process improvements. However, the Company's suppliers may resist pressure to lower their prices and may seek to impose price increases. If the Company is unable to offset OEM price reductions through these measures, its gross margins and profitability could be adversely affected. In addition, OEMs have substantial leverage in setting purchasing and payment terms, including the terms of accelerated payment programs under which payments are made prior to the account due date in return for an early payment discount.

**The Company could lose customers and the related revenues due to the transfer of manufacturing capacity by its customers out of the United States to lower cost regions of the world.**

Manufacturing activity in the United States has been on the decline. One of the reasons for this decline is the migration by U.S. manufacturers to other regions of the world that offer lower cost labor forces. The combined effect is that U.S. manufacturers can reduce product costs by manufacturing and assembling in other regions of the world and then importing those products to the United States. Some of the Company's customers have shifted production to other regions of the world and there can be no assurance that this trend will not continue. The Company may lose customers and revenues if its customers locate in areas that the Company chooses not to serve or cannot economically serve.

**If the Company's relationship with its employees were to deteriorate, the Company could be faced with labor shortages, disruptions or stoppages, which could shut down certain of its operations, reducing revenue, net earnings, and cash flows.**

The Company's operations rely heavily on its employees, and any labor shortage, disruption or stoppage caused by poor relations with its employees and/or renegotiation of labor contracts could shut down certain of its operations. Approximately 28% of the Company's employees are covered by collective bargaining agreements which expire between 2011 and 2013. It is possible that the Company could become subject to additional work rules imposed by agreements with labor unions, or that work stoppages or other labor disturbances could occur in the



future, any of which could impact financial results. Similarly, any failure to negotiate a new labor agreement when required might result in a work stoppage that could reduce the Company's operating margins and income.

**Changes in regulatory requirements or new technologies may render the Company's products obsolete or less competitive.**

Changes in legislative, regulatory or industry requirements or in competitive technologies may render certain of the Company's products obsolete or less competitive, preventing the Company from selling them at profitable prices, or at all. The Company's ability to anticipate changes in technology and regulatory standards and to successfully develop and introduce new and enhanced products on a timely and cost-efficient basis will be a significant factor in its ability to remain competitive. The Company's business may, therefore, require significant ongoing and recurring additional capital expenditures and investments in research and development. The Company may not be able to achieve the technological advances necessary for it to remain competitive or certain of its products may become obsolete. The Company is also subject to the risks generally associated with new product introductions and applications, including lack of market acceptance, delays in product development and failure of products to operate properly.

**Equipment failures, delays in deliveries or catastrophic loss at any of the Company's manufacturing facilities could lead to production curtailments or shutdowns that prevent the Company from producing its products.**

An interruption in production capabilities at any of the Company's facilities as a result of equipment failure or other reasons could result in the Company's inability to produce its products, which would reduce its sales and earnings for the affected period. In addition, the Company generally manufactures its products only after receiving the order from the customer and thus does not hold large inventories. If there is a stoppage in production at any of the Company's manufacturing facilities, even if only temporarily, or if the Company experiences delays as a result of events that are beyond its control, delivery times could be severely affected. Any significant delay in deliveries to the Company's customers could lead to increased returns or cancellations and cause the Company to lose future sales. The Company's manufacturing facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. The Company has in the past and may in the future experience plant shutdowns or periods of reduced production as a result of equipment failure, delays in deliveries or catastrophic loss, which could have a material adverse effect on the Company's results of operations or financial condition. The Company may not have adequate insurance to compensate it for all losses that result from any of these events.

**The Company's business involves complex manufacturing processes that may result in costly accidents or other disruptions of its operations.**

The Company's business involves complex manufacturing processes. Some of these processes involve high pressures, temperatures, hot metal and other hazards that present certain safety risks to workers employed at the Company's manufacturing facilities. The potential exists for accidents involving death or serious injury. The potential liability resulting from any such accident, to the extent not covered by insurance, could cause the Company to incur unexpected cash expenditures, thereby reducing the cash available to operate its business. Such an accident could disrupt operations at any of the Company's facilities, which could adversely affect its ability to deliver product to its customers on a timely basis and to retain its current business.

**Flaws in the design or manufacture of the Company's products could cause future product liability or warranty claims for which it does not have adequate insurance or affect its reputation among customers.**

The Company's products are essential components in buildings and other applications where problems in the design or manufacture of its products could result in property damage, personal injury or death. While the

Company believes that its liability insurance is adequate to protect it from future product liability and warranty liabilities, its insurance may not cover all liabilities or be available in the future at a cost acceptable to the Company. In addition, if any of the Company's products prove to be defective, it may be required in the future to participate in a recall involving such products. A successful claim brought against the Company in excess of available insurance coverage, if any, or a requirement to participate in any product recall, could significantly reduce the Company's profits or negatively affect its reputation with customers.

**The Company's credit facility contains restrictions on the Company's ability to implement its acquisition program.**

The Company's credit facility contains certain restrictions on the Company's ability to enter into acquisitions, including:

- the Company must comply with all terms and conditions of the credit facility on a pro forma basis based on the combined operating results of the acquisition target and the Company;
- if the Company's leverage ratio is greater than 2.50x, acquisitions are limited to 15% of the Company's net worth per transaction; and
- the Company is restricted from incurring certain additional indebtedness.

The above restrictions may impede the Company's ability to carry out an active acquisition program, which is an important component of the Company's future growth strategy. The Company's failure to comply with the terms and covenants in its credit facility could lead to a default under the terms of those documents, which would entitle the lenders to accelerate the indebtedness and declare all amounts owed due and payable.

**The Company's credit facility contains certain financial covenants that limit the aggregate availability of funds.**

The availability of funds under the credit facility is a function of both the facility amount utilized and meeting covenant requirements. The aggregate availability under the Credit Facility is limited by the Consolidated Leverage Ratio which is based on EBITDA. These restrictions on fund availability could:

- limit the Company's ability to plan for or react to market conditions or meet capital needs
- restrict activities or business plans
- adversely affect the Company's ability to fund operations, or engage in other business activities that would be in the Company's interest.

**Failure to obtain alternative financing created by a potential breach of the lender's funding commitment could negatively impact the Company's growth strategy.**

The turmoil affecting the banking system and financial markets during the prior years has resulted in a tightening in the credit markets, a low level of liquidity in many financial markets, and extreme volatility in fixed income, credit, currency and equity markets. There is no assurance that the Company's lenders will provide any future funding under the credit facility. If the Company's lenders were unable or unwilling to fulfill their lending commitment, the Company would be required to seek alternative funding sources in order to conduct operations. Alternative funding could result in higher interest rates. However, there can be no assurance that alternative financial resources will be available promptly, on favorable terms or at all. Failure to obtain necessary funding could adversely affect the Company's short-term liquidity and ability to make investment in research and development to fund new product initiatives, continue to upgrade process technology and manufacturing capabilities, and actively seek out potential acquisition candidates and could adversely affect our business, financial condition and operating results.

**The Company's corporate governance documents as well as Delaware law may delay or prevent an acquisition that stockholders may consider favorable, which could decrease the value of the Company's shares.**

The Company's certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire the Company without the consent of its board of directors. These provisions include restrictions on the ability of the Company's stockholders to remove directors and supermajority voting requirements for stockholders to amend the Company's organizational documents, a classified board of directors and limitations on action by the Company's stockholders by written consent. In addition, the Company's board of directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. Delaware law also imposes some restrictions on mergers and other business combinations between any holder of 15% or more of the Company's outstanding common stock and the Company. Although the Company believes these provisions protect its stockholders from coercive or otherwise unfair takeover tactics and thereby provide for an opportunity to receive a higher bid by requiring potential acquirers to negotiate with its board of directors, these provisions apply even if the offer may be considered beneficial by some stockholders.

**The Company's expansion plans outside the United States may not succeed.**

Any expansion to markets outside the United States will present different and successive risks, expenses and difficulties with regard to applying or modifying our business model to different countries and regions of the world. There can be no assurance that any of the Company's efforts to expand outside the United States will prove successful, that it will not incur operating losses in the future as a result of these efforts or that such efforts will not have a material adverse impact.

**The Company may not have the right infrastructure (people, systems, and processes) in place to achieve its growth initiatives.**

If the Company does not effectively develop and implement its organic growth strategies, or if there are delays or difficulties in enhancing business processes, it may not realize anticipated productivity improvements or cost efficiencies, and may experience operational difficulties, increased costs, manufacturing interruptions or delays, quality issues, increased product time-to-market, and/or inefficient allocation of human resources, any or all of which could materially and adversely affect the Company's business, financial condition and results of operations.

**The Company's success depends upon its ability to develop new products and services, integrate acquired products and services and enhance its existing products and services through product development initiatives and technological advances.**

The Company has continuing programs designed to develop new products and to enhance and improve its products. The Company is expending resources for the development of new products in all aspects of its business. Some of these new products must be developed due to changes in legislative, regulatory or industry requirements or in competitive technologies that render certain of the Company's products obsolete or less competitive. The successful development of the Company's products and product enhancements are subject to numerous risks, both known and unknown, including unanticipated delays, access to significant capital, budget overruns, technical problems and other difficulties that could result in the abandonment or substantial change in the design, development and commercialization of these new products.

Given the uncertainties inherent with product development and introduction, including lack of market acceptance, the Company cannot provide assurance that any of its product development efforts will be successful on

a timely basis or within budget, if at all. Failure to develop new products and product enhancements on a timely basis or within budget could harm the Company's business and prospects. In addition, the Company may not be able to achieve the technological advances necessary for it to remain competitive.

**The Company's goodwill and indefinite-lived intangible assets may become impaired and result in a charge to income.**

The Company's management must use judgment in making estimates of future operating results and appropriate residual values to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. Future operating results and residual values could reasonably differ from the estimates and could require a provision for impairment in a future period which would result in a charge to income from operations in the year of the impairment with a resulting decrease in the Company's recorded net worth.

**The Company may not be able to protect its intellectual property.**

A significant amount of time, effort and expense is devoted to custom engineering which qualifies the Company's products for specific customer applications and developing superior, proprietary process technology. The Company relies on a combination of copyright, patent, trade secrets, confidentiality procedures and contractual commitments to protect its proprietary information. Despite the Company's efforts, these measures can only provide limited protection. Unauthorized third parties may try to copy or reverse engineer portions of the Company's products or otherwise obtain and use its intellectual property. Any patents the Company owns may be invalidated, circumvented or challenged. Any of the Company's pending or future patent applications, whether or not being currently challenged, may not be issued with the scope of the claims it seeks, if at all. If the Company cannot protect its proprietary information against unauthorized use, it may not remain competitive, which would have a material adverse effect on the Company's results of operations.

**The Company has the ability to issue additional equity securities, which would lead to dilution of its issued and outstanding common stock.**

The issuance of additional equity securities or securities convertible into equity securities would result in dilution of existing stockholders' equity interests in the Company. The Company is authorized to issue, without stockholder approval, 1,000,000 shares of preferred stock, no par value, in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of the Company's common stock. The Company's board of directors has no present intention of issuing any such preferred shares, but reserves the right to do so in the future. In addition, the Company is authorized, by prior stockholder approval, to issue up to 125,000,000 shares of common stock, \$0.01 par value per share. The Company is authorized to issue, without stockholder approval, securities convertible into either common stock or preferred stock.

**The Company's insurance providers may be unable to perform under their obligations.**

Although the Company believes their insurance providers are creditworthy and that it will collect all amounts owed to them, the failure of these institutions to perform under their obligations could have a material adverse effect on the Company's financial condition, results of operations, and cash flows.

**Item 1B. *Unresolved Staff Comments***

None.

## Item 2. *Properties*

The following table lists the Company's principal properties together with their locations, general character and the industry segment which uses the facility. Listed facilities are owned by the Company, unless indicated otherwise. See Item 1, "Business," for discussion of the capacity of various facilities.

Location	Principal Products
<b>Engineered Products Segment</b>	
Rice Lake, Wisconsin.....	Fenestration products
Chatsworth, Illinois.....	Fenestration products
The Dalles, Oregon.....	Fenestration products <sup>(1)</sup>
<i>Leased (expires 2017)</i>	
Richmond, Indiana.....	Fenestration products
Solon, Ohio.....	Flexible spacer and adhesive research & sales
<i>Leased (expires 2017)</i>	
Barbourville, Kentucky.....	Flexible spacer/solar adhesives
Luck, Wisconsin.....	Fenestration products
Richmond, Kentucky.....	Vinyl and composite extrusions
Winnebago, Illinois.....	Vinyl extrusions
Mounds View, Minnesota.....	Fenestration products
<i>Leased (expires 2016)</i>	
Kent, Washington.....	Vinyl and composite extrusions
<i>Leased (leases expiring 2011 and 2015)</i>	
Dubuque, Iowa.....	Fenestration products
<i>Leased (expires 2012)</i>	
Shawano, Wisconsin.....	Fenestration products
<i>Leased (expires 2015)</i>	
<b>Aluminum Sheet Products Segment</b>	
Lincolnshire, Illinois.....	Aluminum sheet finishing
Davenport, Iowa.....	Aluminum sheet and finishing (two plants)
Decatur, Alabama.....	Aluminum sheet finishing
<i>Owned and leased (expires 2018)</i>	
<b>Executive Offices</b>	
Houston, Texas.....	Corporate Office
<i>Leased (expires 2015)</i>	

The Company believes that its properties are generally in good condition, are well maintained, and are generally suitable and adequate to carry on the Company's business. In fiscal 2010, the Company's facilities operated at approximately 60% of capacity.

## Item 3. *Legal Proceedings*

The Company believes there are no material legal proceedings to which Quanex, its subsidiaries, or their property is subject. For discussion of environmental issues, see Item 1 of this Form 10-K, Note 16 to the Consolidated Financial Statements, located in Item 8 of this Form 10-K.

<sup>(1)</sup> During first quarter of fiscal 2011, management committed to a plan to close The Dalles facility.

## PART II

### Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Quanex Building Products' common stock, \$0.01 par value, is traded on the New York Stock Exchange, under the ticker symbol NX. The following tables present the quarterly common stock cash dividends and the high and low closing prices for the Company's common stock during each fiscal quarter within the two most recent fiscal years.

#### Quarterly Common Stock Cash Dividends

<u>Paid for the Quarter Ended</u>	<u>2010</u>	<u>2009</u>
January .....	\$0.03	\$0.03
April .....	0.03	0.03
July.....	0.04	0.03
October.....	0.04	0.03
Total .....	<u>\$0.14</u>	<u>\$0.12</u>

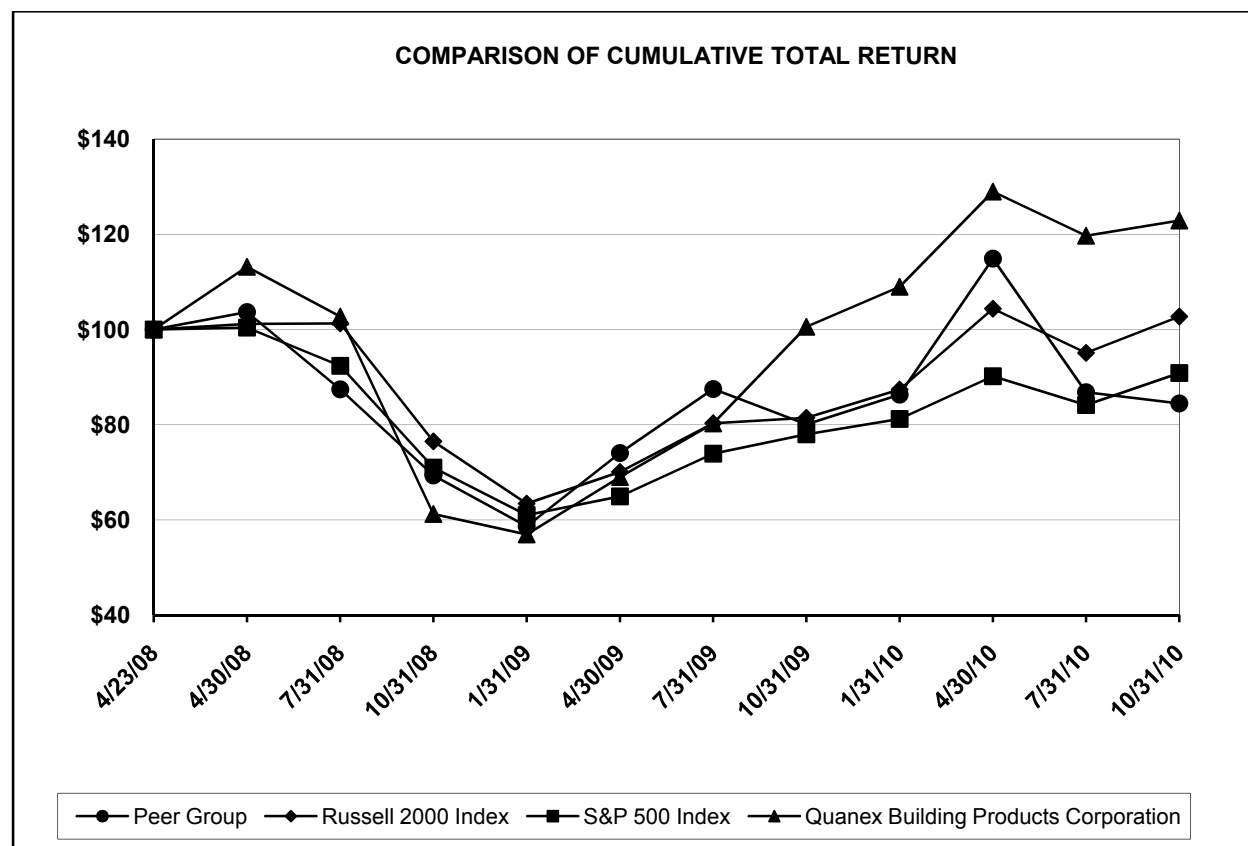
#### Quarterly Common Stock Sales Price (High & Low Sales Price)

<u>Quarter Ended</u>	<u>2010</u>	<u>2009</u>
January .....	\$18.36	\$10.42
	14.22	6.40
April .....	19.82	11.00
	14.61	5.13
July .....	21.19	12.65
	16.13	8.92
October.....	18.65	16.73
	14.50	11.60

The terms of Quanex's revolving credit agreement do not specifically limit the total amount of dividends or other distributions to its shareholders. Dividends and other distributions are permitted so long as after giving effect to such dividend or stock repurchase, there is no event of default.

There were approximately 4,199 holders of Quanex Building Product's common stock (excluding individual participants in securities positions listings) on record as of December 14, 2010.

The following graph compares the performance of the Company's common stock to the performance of the Standard & Poor's 500 Index (S&P 500), the Russell 2000 Index, and the Company's peer group.



**INDEXED RETURNS**  
**Quarters Ending**

Company / Index	Base Period											
	4/23/08	4/30/08	7/31/08	10/31/08	1/31/09	4/30/09	7/31/09	10/31/09	1/31/10	4/30/10	7/31/10	10/31/10
<b>Quanex</b>	<b>100</b>	113.18	102.74	61.23	56.93	69.01	80.26	100.59	108.96	128.98	119.69	122.90
<b>S&amp;P 500 Index</b>	<b>100</b>	100.41	92.35	71.01	61.00	64.95	73.92	77.97	81.21	90.18	84.15	90.85
<b>Russell 2000 Index</b>	<b>100</b>	101.17	101.28	76.49	63.42	70.07	80.29	81.43	87.41	104.37	95.09	102.73
<b>Peer Group</b>	<b>100</b>	103.65	87.45	69.35	58.66	74.07	87.49	80.06	86.32	114.88	86.83	84.49

Quanex Building Products Corporation was initially listed and began trading on the New York Stock Exchange on April 24, 2008. The graph assumes \$100 invested on April 23, 2008 in Quanex Building Products Corporation common stock, in the S&P 500, Russell 2000 Index and in the Industry Peer Group. The companies included in the Industry Peer Group are: American Woodmark Corp, Apogee Enterprises Inc, Builders Firstsource, Drew Industries Inc, Eagle Materials Inc, Gibraltar Industries Inc, Griffon Corp, Louisiana-Pacific Corp, Simpson Manufacturing Inc, Trex Co Inc, and Universal Forest Prods Inc.

## Equity Compensation Plan Information

The following table summarizes as of October 31, 2010 certain information regarding equity compensation to the Company's employees, officers, directors and other persons under equity compensation plans.

Equity Compensation Plan Information			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders.....	1,724,301	\$13.24	741,776

## Issuer Purchases of Equity Securities

On May 27, 2010, the Board of Directors approved a stock repurchase program that authorized the repurchase of 1.0 million shares of the Company's common stock. Set forth below is a table summarizing the program and the repurchase of shares during the quarter ended October 31, 2010.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
August 1, 2010 thru August 31, 2010	125,000	\$16.84	125,000	750,000
September 1, 2010 thru September 30, 2010	—	—	—	750,000
October 1, 2010 thru October 31, 2010	—	—	—	750,000
Total	125,000	\$16.84	125,000	750,000

(1) On May 27, 2010, the Board of Directors approved a stock repurchase program of 1.0 million shares. The program does not have a dollar limit or an expiration date.

## Item 6. Selected Financial Data

The following selected consolidated financial data for the years ended October 31, 2006 through October 31, 2010 is derived from the Company's audited Consolidated Financial Statements. All periods have been adjusted on a retroactive basis to give effect for the Separation as well as the Company's March 2006 three-for-two stock split in the form of a stock dividend. Unless otherwise noted, all information in the table below reflects only



continuing operations. The data set forth should be read in conjunction with the Company's Consolidated Financial Statements and accompanying notes to the Consolidated Financial Statements included in Item 8 of this Form 10-K. The historical information is not necessarily indicative of the results to be expected in the future.

## **Glossary of Terms**

The exact definitions of commonly used financial terms and ratios vary somewhat among different companies and investment analysts. The following list gives the definition of certain financial terms that are used in this report:

*Asset turnover (continuing):* Net sales divided by the average of beginning of year and end of year total assets excluding discontinued operations' assets.

*Conversion capital:* Accounts receivable plus inventory less accounts payable.

*Working capital (continuing):* Current assets less current liabilities (both excluding discontinued operations).

*Current ratio (continuing):* Current assets divided by current liabilities (both excluding discontinued operations).

*Continuing return on common stockholders' equity:* Income from continuing operations attributable to common stockholders divided by the average of beginning of year and end of year common stockholders' equity.

*Continuing return on investment:* The sum of income from continuing operations and the after-tax effect of interest expense less capitalized interest divided by the sum of the beginning of year and end of year averages for short and long-term debt and stockholders' equity.

## Selected Financial Data 2006 – 2010

	Fiscal years ended October 31,				
	2010 <sup>(1)(2)</sup>	2009 <sup>(1)</sup>	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>
(In thousands, except per share data and employees)					
<b>Selected Operating Results Data:</b>					
Net sales .....	\$ 798,314	\$ 585,010	\$ 868,933	\$ 963,974	\$1,043,773
Operating income (loss) <sup>(3)</sup> .....	37,297	(179,098)	21,100	88,169	104,764
Income (loss) from continuing operations .....	24,201	(136,079)	15,993	57,131	64,956
Percent of net sales .....	3.0%	(23.3)%	1.8%	5.9%	6.2%
Income (loss) from discontinued operations, net of tax <sup>(3)</sup> .....	(1,103)	(1,012)	5,586	77,491	95,227
Net income (loss) <sup>(3)</sup> .....	\$ 23,098	\$ (137,091)	\$ 21,579	\$ 134,622	\$ 160,183
<b>Diluted Earnings Per Share Data:</b>					
Income (loss) from continuing operations .....	\$ 0.64	\$ (3.64)	\$ 0.42	\$ 1.45	\$ 1.64
Net income (loss) .....	\$ 0.61	\$ (3.67)	\$ 0.56	\$ 3.41	\$ 4.08
Cash dividends declared <sup>(4)</sup> .....	\$ 0.1400	\$ 0.1200	\$ 0.3400	\$ 0.5600	\$ 0.4833
<b>Financial Position—Year End:</b>					
Total assets, including discontinued operations <sup>(5)</sup> .....	\$ 591,250	\$ 543,600	\$ 680,847	\$ 1,334,822	\$ 1,202,152
Asset turnover (continuing) .....	1.4	1.0	1.4	1.6	1.7
Conversion capital .....	61,221	59,676	85,547	65,484	65,264
Working capital (continuing) .....	223,401	178,320	130,882	38,438	37,457
Current ratio (continuing) .....	2.9 to 1	2.8 to 1	2.1 to 1	1.4 to 1	1.3 to 1
Total debt .....	\$ 1,943	\$ 2,266	\$ 2,551	\$ 4,015	\$ 6,736
Stockholders' equity .....	441,432	422,526	547,828	883,149	758,515
Total capitalization .....	\$ 443,375	\$ 424,792	\$ 550,379	\$ 887,164	\$ 765,251
Depreciation and amortization .....	28,214	32,453	35,068	37,991	36,999
Capital expenditures, net .....	14,720	15,696	15,020	15,904	27,072
<b>Other Data:</b>					
Continuing return on investment—percent .....	5.6%	(27.8)%	2.3%	7.0%	9.2%
Continuing return on common stockholders' equity—percent .....	5.6%	(28.0)%	2.2%	7.0%	9.2%
Average number of employees .....	1,947	1,961	2,373	2,744	3,084
Net sales per average employee .....	\$ 410	\$ 298	\$ 366	\$ 351	\$ 338

(1) In January 2010, management committed to a plan to close its start-up facility in China due to the contraction of demand and the Company's ability to serve the overseas thin film solar panel market from its North American operations. During the second quarter of 2008, the Company spun off Quanex Corporation's Building Products business immediately followed by the merger of Quanex Corporation (consisting primarily of the Vehicular Products business and all non-Building Products related corporate accounts) with a wholly-owned subsidiary of Gerdau. Accordingly, the assets and liabilities of the start-up facility in China, the Vehicular Products business and all non-Building Products related corporate accounts are reported as discontinued operations in the Consolidated Balance Sheets for all periods presented, and their operating results are reported as discontinued operations in the Consolidated Statements of Income for all periods presented (see Note 3 in Item 8).

(2) In February 2010, the Company completed a small acquisition which was effected through an asset purchase through a receivership proceeding and no liabilities were assumed. Accordingly, the estimated fair value of assets acquired in the acquisition and the results of operations are included in the Company's Consolidated Financial Statements as of the effective date of the acquisition.

(3) Includes effects in fiscal 2009 of the Company's \$182.6 million (pretax) and \$141.4 million (after-tax) asset impairment charge in accordance with ASC Topic 350 and ASC Topic 360.

- (4) The quarterly common stock cash dividends prior to April 23, 2008 reflect dividends of Quanex Corporation prior to the Separation, while dividends after April 23, 2008 reflect dividends of Quanex Building Products, the accounting successor to Quanex Corporation.
- (5) Total assets include assets of discontinued operations of \$0.5 million, \$1.8 million, \$1.4 million, \$742.3 million, and \$582.1 million at October 31, 2010, 2009, 2008, 2007, and 2006, respectively.

## **Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

### **General**

The discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements of the Company and the accompanying notes.

### **Private Securities Litigation Reform Act**

Certain of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" are "forward-looking" statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words "expect," "believe," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. All statements which address future operating performance, events or developments that the Company expects or anticipates will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and statements expressing a general outlook about future operating results, are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from the Company's historical experience and the present projections or expectations. As and when made, management believes that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors exist that could cause the Company's actual results to differ materially from the expected results described in or underlying the Company's forward-looking statements. Such factors include domestic and international economic activity, prevailing prices of aluminum scrap and other raw material costs, the rate of change in prices for aluminum scrap, energy costs, interest rates, construction delays, market conditions, particularly in the home building and remodeling markets, any material changes in purchases by the Company's principal customers, labor supply and relations, environmental regulations, changes in estimates of costs for known environmental remediation projects and situations, world-wide political stability and economic growth, the Company's successful implementation of its internal operating plans, acquisition strategies and integration, performance issues with key customers, suppliers and subcontractors, and regulatory changes and legal proceedings. Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved. All written and verbal forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors. For more information, please see Item 1A, "Risk Factors".

### **About Third-Party Information**

In this report, the Company relies on and refers to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources and other third

parties. Although the Company believes the information is reliable, it cannot guarantee the accuracy or completeness of the information and have not independently verified it.

### **Separation / Merger and Discontinued Operations**

The Company operates two businesses: Engineered Products and Aluminum Sheet Products. The Engineered Products business produces window and door components for OEMs that primarily serve the North American residential construction and remodeling markets. The Aluminum Sheet Products business produces mill finished and coated aluminum sheet serving the broader building and construction markets, as well as other transportation and capital goods markets.

Prior to April 23, 2008, the Company also operated a Vehicular Products business which produced engineered steel bars for the light vehicle, heavy duty truck, agricultural, defense, capital goods, recreational and energy markets.

As more fully described in Notes 1 and 3 of the Consolidated Financial Statements in Item 8, on April 23, 2008, Quanex Corporation spun off its building products businesses in a taxable spin and merged its vehicular products business with a wholly-owned subsidiary of Gerdau S.A. (Gerdau). Notwithstanding the legal form of the transactions, because of the substance of the transactions, Quanex Building Products Corporation was the divesting entity and treated as the “accounting successor,” and Quanex Corporation was the “accounting spinnee” for financial reporting purposes in accordance with the Financial Accounting Standards Board’s Accounting Standards Codification (ASC) Topic 505-60 “*Spinoffs and Reverse Spinoffs*” (ASC 505-60).

The spin-off and subsequent merger is hereafter referred to as the “Separation”. For purposes of describing the events related to the Separation, as well as other events, transactions and financial results of Quanex Corporation and its subsidiaries related to periods prior to April 23, 2008, the term “the Company” refers to Quanex Building Products Corporation’s accounting predecessor, or Quanex Corporation.

In accordance with the provisions of ASC Topic 205-20 “*Presentation of Financial Statements – Discontinued Operations*” (ASC 205-20), effective with the closing of the Separation on April 23, 2008, the results of operations and cash flows related to the Company’s vehicular products and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations as of October 31, 2010 or 2009 related to the Separation. In January 2010, management committed to a plan to close its start-up facility in China due to the contraction of demand and the Company’s ability to serve the overseas thin film solar panel market from its North American operations. Unless otherwise noted, all disclosures in the notes accompanying the Consolidated Financial Statements as well as all discussion in Management’s Discussion and Analysis of Financial Condition and Results of Operations reflect only continuing operations.

### **Transaction Expenditures**

In connection with the Separation, the Company recognized \$0.1 million and \$16.8 million of transaction expenses during the twelve months ended October 31, 2009 and October 31, 2008, respectively, that were expensed as incurred. All of the year ended October 31, 2009 expenses are recognized in Selling, general and administrative expenses. Of the transaction expenses recognized for the year ended October 31, 2008, \$2.9 million is included in Selling, general and administrative expenses and \$13.9 million is included in discontinued operations. In accordance with the Separation related agreements, transaction costs related to the merger were to be paid entirely by Gerdau, whereas the transaction costs related to the spin-off of Quanex Building Products were to be split 50/50 between Gerdau and Quanex Building Products Corporation. As such, Quanex Building Products’ portion of the spin-off transaction costs is presented in Selling, general and administrative expenses and all merger related transaction costs and the remaining spin-off costs are presented in discontinued operations. Further details of the spin-off and merger

transaction costs are presented in the Corporate & Other Results of Operations section below and in Notes 1 and 3 of Item 8.

## Results of Operations

### Summary Information as % of Sales

	Years Ended October 31, <sup>(1)</sup>					
	2010		2009		2008	
	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales
	(Dollars in millions)					
Net sales .....	\$ 798.3	100%	\$ 585.0	100%	\$ 868.9	100%
Cost of sales <sup>(2)</sup> .....	660.8	83	489.2	84	717.3	83
Selling, general and administrative. ....	72.0	9	59.8	10	95.4	11
Impairment of goodwill and intangibles	—	—	182.6	31	—	—
Depreciation and amortization .....	28.2	4	32.5	6	35.1	4
Operating income (loss) .....	37.3	4	(179.1)	(31)	21.1	2
Interest expense .....	(0.4)	—	(0.5)	—	(0.5)	—
Other, net .....	2.6	—	0.4	—	5.2	1
Income tax (expense) benefit .....	(15.3)	(2)	43.1	8	(9.8)	(1)
Income from continuing operations .....	\$ 24.2	2%	\$ (136.1)	(23)%	\$ 16.0	2%

(1) All periods presented exclude the operations of Truseal China, the vehicular products business and all non-building products related corporate accounts which are included in discontinued operations.

(2) Exclusive of items shown separately below.

## Overview

The company's 2010 sales and operating income were substantially better than corresponding 2009 results despite the weak economy and essentially flat end markets. In fiscal 2009, the Company continued to experience downward trends in its primary end markets, residential remodeling activity and housing starts, resulting in a decline in sales and overall operating income compared to 2008. Housing starts have declined significantly in recent years from record highs in fiscal 2005 of over 2.0 million to 1.9 million in 2006, 1.4 million in 2007, 1.0 million in 2008 and 0.6 million in fiscal 2009 and fiscal 2010. These market drivers were down approximately 17%<sup>3</sup> in fiscal 2009 compared to 2008 and were essentially flat at an estimated 0.7%<sup>3</sup> increase on a combined basis in fiscal 2010 compared to 2009. While the condition of the Company's primary end markets remain historically weak, the Company continues to demonstrate an ability to outperform the market by developing new products, securing price realization, and from the benefits of longstanding relationships with leading customers who the Company believes continued to grow share. Additionally, the Aluminum Sheet Products business benefited in 2010 from inventory rebuilding, industry capacity reductions and market share gains in 2010 following a weak 2009. All of these factors, coupled with a continuous focus on controllable internal factors and the financial position of the Company, resulted in the Company not only performing relatively well in difficult times, but positioning it to gain additional market share even as end market conditions remain difficult.

End market conditions in the first half of fiscal year 2009 were extremely difficult, driven by the collapse of

<sup>3</sup> Calculated using data from external sources: National Association of Home Builders (NAHB) for new home starts and Harvard University's Joint Center for Housing Studies for repair and remodeling expenditures.

the housing market along with a collapse of aluminum prices to an inflation adjusted record low. With markets still depressed, the Company saw a sales improvement in the second half of 2009 due to a better than expected seasonal pickup in the building season. Despite the difficult economic challenges in 2009 and its resulting pressure on sales volume, Quanex produced respectable cash generation in 2009, the result of significant improvements in working capital, a focus on cost controls, lean initiatives and price realization. In 2010, each quarter's sales were higher than the comparative 2009 quarter. The Company's net sales increased by \$213 million or 37% in fiscal 2010 compared to fiscal 2009. Quanex continued to not only keep, but win new business on the strength of its value proposition and solid execution. Additionally, the Company's focus on price realization and vigilant focus on flexing the operations to demand are evident in its financial results and margins. The strong performance at the Aluminum Sheet Products segment contributed \$176 million to the net sales increase for the year as the segment experienced exceptionally strong shipments complimented by an increase in average selling prices.

The Company believes that consumer demand for more energy efficient products and its ability to provide innovative window and door systems, in addition to stand-alone components, along with its new sales and marketing efforts will help fuel its organic growth. The Company works closely with customers in all phases of product development, which is critical to increasing revenue and a significant factor for its success in this otherwise difficult period. Efforts are also ongoing to increase business in the repair and remodel segment of the residential market. Demographics for long-term housing demand in the United States remain favorable when factoring the projected population increase and continuing immigration. Quanex began cross-selling initiatives in 2009 that combine the best design, engineering and marketing talent within Engineered Products and announced Project Nexus in 2010. The Company believes that taking a more disciplined approach to the way it seeks new business opportunities will make it a more successful company and a stronger competitor by offering a broader range of customers a more robust slate of systems, products and services. The Company is elevating its programs to develop more energy efficient products and introduced a product (EnergyCore) that it believes is the most energy efficient window system on the market. These programs and initiatives coupled with an eventual return to a more normal housing market will benefit the segment over the long-term.

In addition to the negative market impact on the Company's net sales and operating income, the Company incurred impairments of its goodwill, and to a lesser extent, its other intangible assets in fiscal 2009 of \$182.6 million. For additional information on the impairment charges see Note 4, "Goodwill and Acquired Intangible Assets," in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K. In fiscal 2008, transaction and other non-cash Separation expenses negatively impacted the Company's Selling, general and administrative expense and the resulting overall operating income by \$26.5 million. Partially offsetting this in fiscal 2008 was the recognition of \$4.0 million in Other, net for the receipt of merger proceeds by the Company's Rabbi trust.

### ***Business Segments***

Business segments are reported in accordance with ASC Topic 280 "*Segment Reporting*" (ASC 280). ASC 280 requires that the Company disclose certain information about its operating segments, where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Quanex has two reportable segments: Engineered Products and Aluminum Sheet Products. The Engineered Products segment produces systems, finished products, and components serving the OEM residential window and door industry, while the Aluminum Sheet Products segment produces mill finished and coated aluminum sheet serving the broader residential building products markets and secondary markets such as recreational vehicles. The primary market drivers of both segments are residential remodeling activity and housing starts.

For financial reporting purposes, three of the Company's four operating segments, Homeshield, Truseal and Mikron, have been aggregated into the Engineered Products reportable segment. The remaining operating segment, Nichols Aluminum (Aluminum Sheet Products), is reported as a separate reportable segment. Corporate & Other is comprised of corporate office expenses and certain inter-division eliminations. The sale of products between segments is recognized at market prices. The financial performance of the operations is based upon operating income. The segments follow the accounting principles described in the Summary of Significant Accounting Principles, see Item 8, Note 1. The two reportable segments value inventory on a FIFO or weighted-average basis while the LIFO reserve relating to those operations accounted for under the LIFO method of inventory valuation is computed on a consolidated basis in a single pool and treated as a corporate item.

*Engineered Products – Three Years Ended October 31, 2010*

The following table sets forth selected operating data for the Engineered Products segment:

	Years Ended October 31,			% Change	
	(Dollars in millions)				
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Net sales .....	\$ 361.1	\$ 323.3	\$ 407.9	11.7%	(20.7)%
Cost of sales <sup>(1)</sup> .....	267.7	244.6	312.8	9.4	(21.8)
Selling, general and administrative .....	39.3	33.6	39.0	17.0	(13.8)
Impairment of goodwill and intangibles .....	—	162.2	—	(100.0)	100.0
Depreciation and amortization .....	19.8	23.4	26.1	(15.4)	(10.3)
Operating income (loss) .....	\$ 34.3	\$ (140.5)	\$ 30.0	**	**
Operating income (loss) margin .....	9.5%	(43.5)%	7.4%		

The primary market drivers for the Engineered Products segment are North America residential remodeling activity (approx. 60% of sales) and housing starts (approx. 40% of sales). The Company's Engineered Products business outperformed the blended market in fiscal 2010 with net sales up 12% in 2010. Comparatively, the Company's blended market drivers were essentially flat at an estimated 0.7%<sup>(2)</sup> increase on a combined basis in fiscal 2010 compared to 2009. The Engineered Products business experienced healthy growth, especially from remodeling activity, market share gains by customers and new products. The growth this year further illustrates the logic of the segment's continued emphasis to gain share in the more active residential remodeling market. The Company continues to keep and win new business on the strength of the value proposition of its highly engineered window and door products. The Company believes that programs like the expired \$8,000 first time homebuyers' tax credit, the \$1,500 tax credit for energy efficient windows, which expires at the end of December 2010, and customer restocking in the first half of the year benefited results in 2010. As anticipated by the Company, its demand slowed mid-way through 2010, which reflected the residential building and construction market peaking earlier in 2010 than is typical.

The 21% decline in net sales at the Engineered Products segment in fiscal 2009 compared to 2008 is due to reduced volumes attributable to the fall off of housing starts and lower remodeling and repair expenditures. Partially offsetting the impact of the market fall off was targeted price increases that took effect across the segment in late 2008 and 2009 and the continued growth of new products and programs. Additionally, the Company believes that the steady demand it saw during the fiscal fourth quarter of 2009 indicated that its customers continued to find

<sup>(1)</sup> Exclusive of items shown separately below.

\*\* Percentage change not meaningful due to impairment of goodwill and intangible assets.

<sup>(2)</sup> Calculated using data from external sources: National Association of Home Builders (NAHB) for new home starts and Harvard University's Joint Center for Housing Studies for repair and remodeling expenditures.

success gaining share in the residential remodeling and replacement market, driven in part by the \$1,500 tax credit for purchasing energy efficient replacement windows that began in 2009.

Net sales less cost of sales for fiscal 2010 compared to fiscal 2009 increased by \$14.7 million or 18.6% due to increased volume and higher average selling prices. Net sales in fiscal 2009 compared to 2008 declined by \$16.4 million or 17.2% primarily the result of reduced volumes from the depressed building products market between the periods. The Company took the necessary actions to right-size its business by reducing variable and fixed costs and continuously sizes its operations to match demand. Net sales less cost of sales as a percent of net sales increased from fiscal 2008 to fiscal 2010 as a direct result of the Company's right-sizing efforts and price realization. Primarily as a result of the Company's ability to right-size to demand, along with price realization and growth in higher margin products, the margins for fiscal 2010 are the highest in the past five years even though housing starts in fiscal 2010 were less than a third of those in 2006. Also, in the first fiscal quarter of 2010, the Company had hourly labor savings associated with the strike at the segment's Barbourville, Kentucky facility in mid December 2009 as the then effective labor contract expired without the parties having reached a new agreement. In January 2010, the strike ended upon ratification of a new three-year collective bargaining agreement. The Barbourville facility was able to continue production with the Company's non-union salaried workforce and continued to deliver its products during the strike to meet customer demands. Since January 2010, the Barbourville plant has experienced some labor inefficiencies as they recover from the strike. Benefiting the comparative 2010 and 2009 results is an expense of \$1.0 million recorded in the fiscal 2009 related to a Truseal warranty reserve increase driven by an increase in a legacy product's claims experience. Reducing margins in fiscal 2010 were costs associated with vacating a couple of buildings at the Company's Mikron facility in Kent, Washington and higher material costs at Truseal. This building consolidation will reduce operating costs beginning in fiscal 2011. At Truseal, the business uses an oil based butyl compound in its insulating glass sealant systems, and with the rise in oil prices, margins were squeezed. In response, Truseal announced a price increase effective November 15, 2010.

The \$5.7 million or 17% increase in Selling, general and administrative costs in fiscal 2010 compared to fiscal 2009 was partially attributable to \$1.0 million of costs associated with the aforementioned strike in mid December 2009 (partially offset by the direct labor savings in Cost of sales). Also, variable pay incentives increased in 2010 corresponding to an increased level of earnings. Furthermore, the Company is beginning to incur additional sales and marketing expenses associated with the roll out of new products and programs in 2010. This increase was partially offset by cost control efforts put in place in 2009 and the absence of matching contributions to the Quanex Building Products Salaried and Non-Union Employee 401(k) Plan in the first quarter 2010 as that program was suspended as of April 1, 2009. The matching contributions on this 401(k) Plan were reinstated effective February 1, 2010. The segment reduced its Selling, general and administrative costs in fiscal 2009 compared to fiscal 2008 by \$5.4 million or 13.8%. This was achieved through various means including reduced headcount, less outside contract services, a continued emphasis on cost control for various programs and reduction in variable pay incentives corresponding to lower levels of earnings.

The Company formally announced Project Nexus in February 2010. Project Nexus is the Company's long-term organic growth program that is focused on connecting the sales, marketing, and product development efforts of its Engineered Products operating divisions: Mikron, Truseal and Homeshield. The Company believes that its organic growth program will drive profitable growth at Engineered Products by furthering the goal of becoming the leading energy efficient expert in the market by offering customers state-of-the-art engineering, design and marketing support. The Company's organic growth program is comprised of related initiatives to execute this strategy: The sales, marketing and engineering efforts of these three divisions operated independently in the past. Today, the Engineered Products' sales and marketing employees have been organized into a single team to better utilize their combined capabilities to expand sales opportunities to the existing customer base. Additionally, the new sales and marketing structure is focused on developing and capturing more regional OEM opportunities. Regional OEMs, a customer class the Company has historically underserved, are believed to comprise about 60% of the market. The engineering resources across Engineered Products are also working together to develop products and systems that provide customers with the latest innovations in technology and energy efficiency. The Company is in



the early stages of this long-term organic growth initiative but believes that it could have a valuable impact on the long-term growth and profitability of Engineered Products. The Company will be investing in additional resources in fiscal 2011 to support this organic growth effort. Annual incremental operating expenses and capital expenditures necessary associated with this initiative will be approximately \$4.0 million and \$3.0 million, respectively in fiscal 2011.

The \$162.2 million non-cash impairment charge reflected in 2009 represents \$11.9 million of impairment on acquired intangible assets and \$150.3 million of impairment charge on goodwill. For additional information on the impairment charges see Note 4, "Goodwill and Acquired Intangible Assets," in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K. Depreciation and amortization declined from 2008 to 2010 due to the aforementioned intangible asset impairment (other than goodwill) in the first fiscal quarter of 2009. Additionally, depreciation declined in 2010 compared to 2009 due to the completion of depreciation on assets acquired in an acquisition in a previous year.

#### *Aluminum Sheet Products – Three Years Ended October 31, 2010*

The following table sets forth selected operating data for the Aluminum Sheet Products segment:

	Years Ended October 31, (Dollars in millions)			% Change	
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Net sales .....	\$ 449.5	\$ 273.7	\$ 479.9	64.2%	(43.0)%
Cost of sales <sup>(1)</sup> .....	401.1	264.1	422.7	51.9	(37.5)
Selling, general and administrative.....	9.9	6.6	8.1	50.0	(18.5)
Impairment of goodwill and intangibles .....	—	20.4	—	(100.0)	100.0
Depreciation and amortization.....	8.3	9.0	8.8	(7.8)	2.3
Operating income (loss) .....	\$ 30.2	\$ (26.4)	\$ 40.3	**	**
Operating income (loss) margin .....	6.7%	(9.6)%	8.4%		
Shipped pounds .....	322.6	223.0	285.2	44.6%	(21.8)%

The primary market drivers for the Aluminum Sheet Products segment are North American residential remodeling activity and housing starts (together approximately 70% of the segment's sales) and transportation (approximately 20% of the segment's sales) markets.

The \$175.8 million or 64.2% increase in net sales at the Aluminum Sheet Products segment in fiscal 2010 compared to fiscal 2009 was primarily the result of a 44.6% increase in shipped pounds during the period compared to the same period of 2009 and to a lesser extent an increase in average selling price per pound of 13.5%. The Aluminum Association reported U.S. demand for the type of aluminum sheet the Company sells was up 24% in 2010 while the segment's 2010 shipments were up 44.6%. Additionally, shipped pounds in fiscal 2010 were the best since 2006. The business was effectively sold out in the second half of fiscal 2010. The segment's ability to outperform the market was due to a reduction in overall industry capacity coupled with solid execution at the business that included its continued success in keeping market share gains over the last twelve months. Average selling price increased primarily due to higher London Metal Exchange (LME) aluminum prices, partially offset by product mix. The 43.0% decrease in net sales in fiscal 2009 compared to fiscal 2008 was the result of reduced volume due to very soft primary and secondary end market demand; pounds shipped declined by 22% in fiscal 2009 compared to fiscal 2008. The Company believes that its aluminum shipments were in line with industry demand

<sup>(1)</sup> Exclusive of items shown separately below.

\*\* Percentage change not meaningful due to impairment of goodwill.

during the first half of fiscal 2009, but were better than industry demand during the second half of the fiscal year as the Company was able to capitalize on short lead time sales opportunities and solid execution by the Aluminum Sheet Products team, while the Aluminum Association reported U.S. demand for the type of aluminum sheet the Company sells down 32% in fiscal 2009 compared to 2008. Additionally, 2009 net sales were down as the average selling price during 2009 was approximately 27% below the same 2008 period primarily due to lower aluminum prices. The LME aluminum price fell dramatically during the first quarter of 2009, down approximately 32% to an inflation adjusted record low price of \$0.63 per pound. LME aluminum prices continued to fall in the second quarter of 2009 to a new inflation-adjusted low of \$0.57 per pound before climbing back to approximately \$0.80 per pound by the end of the third quarter and remaining relatively flat through the end of fiscal 2009. LME aluminum prices are the most commonly used index for correlating aluminum sheet prices.

Selling, general and administrative costs increased by \$3.3 million in fiscal 2010 compared to fiscal 2009. The increase was primarily due to a \$1.1 million increase in an existing environmental reserve (net of the increase in the related environmental receivable), a \$1.0 million expense associated with the discontinuation of development of a new Microsoft Dynamics AX enterprise resource planning system for the segment and to a lesser extent an increase in variable pay incentives associated with higher level of earnings. For additional information on the environmental reserve see Note 16, "Contingencies" in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K. The segment reduced its Selling, general and administrative costs by \$1.5 million in fiscal 2009 compared to 2008 levels. These reductions were achieved through various means including reduced staffing and reduction in variable pay incentives corresponding to lower levels of earnings.

The \$20.4 million non-cash impairment charge reflected in the 2009 results represents the write-off of all of the segment's goodwill. For additional information on the goodwill impairment charge see Note 4, "Goodwill and Acquired Intangible Assets," in the Notes to Consolidated Financial Statements in Item 8 of this Form 10-K. Depreciation and amortization declined in fiscal 2010 compared to 2009 as 2009 included accelerated depreciation from a premature equipment failure during the 2009 first fiscal quarter.

Operating income increased at the Aluminum Sheet Products segment in fiscal 2010 compared to 2009 due in part to the absence of an impairment charge in 2010. Additionally, operating income increased as a result of substantially higher shipments as well as an increase in spreads (sales price less material costs divided by pounds) of 12.1%. The Aluminum Sheet Products' operating income and margins are impacted by changes in LME aluminum prices as its material spread is correlated with aluminum prices over time. Declines in aluminum prices generally result in spread compression; however, as aluminum prices rebound, spread and profits generally expand. The increase in average LME aluminum prices in fiscal 2010 compared to fiscal 2009 of 29% is the primary driver to the Company's 12.1% increase in spread. However, spreads remained constrained in 2010 due to ongoing tightness in the aluminum scrap market, particularly in the availability of industrial grade scrap due to reduced industrial production. Nichols is essentially 100% scrap driven, and it uses both clean industrial scrap as well as post consumer scrap in its mix, which while cheaper to purchase on a per pound basis, requires more processing before it's ready to melt. The Company does not expect a meaningful improvement in this situation in fiscal 2011.

Operating income decreased at the Aluminum Sheet Products segment for 2009 compared to 2008 primarily due to the impairment charge and as a result of reduced spreads and lower shipments. Fiscal 2009 spreads per pound were down 27% over spreads per pound in fiscal 2008. Spreads and operating income were negatively impacted by about \$13 million in the first half of 2009 due to high scrap inventories combined with the dramatic fall in LME aluminum prices. These historically low aluminum prices, combined with relatively high cost aluminum scrap inventory, negatively impacted the segment's spread through the first half of the year. Spread and operating income in the second half of 2009 improved over the first half driven primarily by higher LME aluminum prices and improved shipments.

*Corporate and Other – Three Years Ended October 31, 2010*

	Years Ended October 31, (Dollars in millions)			\$ Change	
	2010	2009	2008	2010 vs. 2009	2009 vs. 2008
Net sales.....	\$ (12.3)	\$ (12.0)	\$ (18.9)	\$ (0.3)	\$ 6.9
Cost of sales <sup>(1)</sup> .....	(8.0)	(19.5)	(18.2)	11.5	(1.3)
Selling, general and administrative.....	22.8	19.6	48.3	3.2	(28.7)
Depreciation and amortization.....	0.1	0.1	0.2	—	(0.1)
Operating income (loss).....	<u>\$ (27.2)</u>	<u>\$ (12.2)</u>	<u>\$ (49.2)</u>	<u>\$(15.0)</u>	<u>\$ 37.0</u>

Corporate and other operating expenses, which are not in the segments mentioned above, include inter-segment eliminations, the consolidated LIFO inventory adjustments (calculated on a combined pool basis) corporate office expenses and Quanex Building Products Corporation's portion of transaction-related costs. Net sales amounts represent inter-segment eliminations between the Engineered Products segment and the Aluminum Sheet Products segment with an equal and offsetting elimination in Cost of sales. LIFO adjustments are reported in Corporate Cost of sales. The Company incurred LIFO expense of \$3.8 million in fiscal 2010, compared to LIFO income of \$7.8 million during fiscal year 2009 and LIFO expense of \$0.4 million in fiscal 2008. LIFO expense was incurred in fiscal 2010 primarily due to an increase in aluminum based inventory held by the Company at year-end while the 2009 income was primarily due to a reduction in aluminum scrap values held by the Company. Fluctuations associated with the LIFO inventory adjustment comprise a majority of the change from year to year in the Corporate and Other Net Sales less Cost of sales.

Selling, general and administrative costs in fiscal 2010 increased by \$3.2 million over fiscal 2009 primarily due to \$3.3 million higher variable pay incentive costs corresponding to the Company's higher operating earnings and return on invested capital and to a lesser extent higher stock-based compensation expense. Stock-based compensation expense has increased \$1.0 million as the Company is adding layers of vesting awards with each annual grant since the Company's Separation; as the Company's stock option and restricted stock awards typically have three-year vesting periods, the Company would expect stock-based compensation expense to continue to increase through the Company's third anniversary of the Separation in April 2011. Partially offsetting these increases was a \$0.8 million year over year decline in the mark-to-market expense associated with the deferred compensation plan. During fiscal 2010, the market value of the investments held by the deferred compensation plan on average increased less during the 2010 period compared to the increase in market value during the same 2009 period. Approximately 65% of the deferred compensation plan balance is indexed to the Company's stock price, and the Quanex stock price increased by \$3.15 per share during fiscal 2010 compared to an increase of \$5.71 per share during fiscal 2009. The Company anticipates corporate expenses to increase in fiscal 2011, primarily due to \$2.5 million of expected expenses associated with the launch of its Enterprise Resource Program, which when completed in 2014, will greatly enhance and streamline our back office processes, improve data collection and provide a foundation to support future growth opportunities.

Selling, general, and administrative costs for fiscal 2009, declined by \$28.7 million compared to 2008 due to \$26.5 million of Separation transaction costs in 2008 and lower 2009 variable pay incentive costs corresponding to the Company's lower earnings and lower professional fees. Partially offsetting these declines was an increase in mark-to-market expense associated with the deferred compensation plan reflecting the increase in the Company's stock price as well as the market value of other investments held by the deferred compensation plan during the 2009 period.

<sup>(1)</sup> Exclusive of items shown separately below.

Selling, general and administrative costs were unusually high in fiscal 2008 as a direct result of \$26.5 million of transaction related expenses from the Separation in 2008. Following is the breakdown of transaction-related expenses (in millions):

	2010	2009	2008
Quanex Building Product's share of spin-off transaction costs ...	\$ —	\$ 0.1	\$ 2.9
Stock-based compensation expense – modification impact .....	—	—	22.8
Acceleration of executive incentives and other benefits .....	—	—	0.8
Total transaction related expenses.....	<u>\$ —</u>	<u>\$ 0.1</u>	<u>\$ 26.5</u>

Quanex Building Products Corporation's portion of spin-off transaction costs include investment banking fees paid upon consummation of the spin-off, legal fees and accounting related fees, amounting to \$2.9 million in 2008. The Company effectively treated the Separation as though it constituted a change in control for purposes of the Company's stock option plans, restricted stock plans, long-term incentive plans and non-employee director retirement plan. As a result, all unvested stock options, restricted shares and long-term incentives vested as set forth in the Separation related agreements prior to completion of the Separation on April 23, 2008. Additionally, all outstanding stock options were to be cash settled by Gerdau following the Separation. The amounts presented above are only the incremental amount of expense that was recognized as a result of the accelerated vesting of the various awards and ultimate cash settlement of the stock options. Also, the amounts presented above represent only the expense associated with active Quanex Building Products Corporation employees and directors as of the time of the Separation. The same such expense related to Vehicular Products and former vehicular and corporate employees and directors is included in discontinued operations.

#### *Other Items – Three Years Ended October 31, 2010*

Interest expense for fiscal 2010 was \$0.4 million compared to \$0.5 million in fiscal 2009 and \$0.5 million in fiscal 2008. No amounts were borrowed against the revolving credit facility during fiscal 2010, 2009, or 2008.

Other, net typically includes interest income earned on the Company's cash and equivalents and changes associated with the cash surrender value of life insurance. Other, net for fiscal 2010 was income of \$2.6 million compared to \$0.4 million in fiscal 2009 and \$5.2 million in fiscal 2008. Other, net for fiscal 2010 includes the recognition of a \$0.9 million gain on involuntary conversion of a non-monetary asset related to the May 2009 tornado that struck and damaged the Company's Mikron facility in Richmond, Kentucky. Additionally, fiscal 2010 includes a \$1.3 million bargain purchase gain related to an acquisition during the second fiscal quarter of 2010. In February 2010, the Company completed a small acquisition for approximately \$1.6 million in consideration. This operation has been integrated into one of its existing Engineered Products businesses. The acquisition was effected through an asset purchase through a receivership proceeding and no liabilities were assumed. ASC 805 "Business Combinations" requires that a gain be recorded when the fair value of the net assets acquired is greater than the fair value of the consideration transferred. Though uncommon, bargain purchases can occur because of underpayments for the business acquired due to a forced liquidation or distress sale. As such, the Company obtained the assets at a bargain and recognized a gain of approximately \$1.3 million in Other, net.

Other, net for fiscal 2008 reflects the positive impact of the Separation on the Company's Rabbi trust. Prior to the Separation, the Rabbi trust held Quanex Corporation common stock which was recorded as contra-equity at historical cost. Upon completion of the Separation the Rabbi trust was separated between Quanex Building Products Corporation and Gerdau. For each share held in the Quanex Building Products Rabbi trust, it received the merger proceeds of \$39.20 per share and one share of Quanex Building Products common stock. The shares of Quanex Building Products common stock are recorded at the same historical cost as before as a contra-equity, whereas any cash held by the Rabbi trust is consolidated in Other current assets. The merger proceeds equated to \$4.0 million to the Rabbi trust, which was recorded as income in Other, net in the second fiscal quarter of 2008.

The Company's annual effective tax rate for fiscal 2010 was 38.7% compared to 24.0% in fiscal 2009 and 38.0% in fiscal 2008. The effective tax rate benefit for 2009 was unusually low primarily due to the nondeductible portion of the goodwill impairment charge in the fiscal year. For further discussion of the goodwill impairment charge see Note 4, "Goodwill and Acquired Intangible Assets," in Notes to Consolidated Financial Statements in Item 8 of this Form 10-K.

Loss from discontinued operations, net of tax was \$1.1 million and \$1.0 million for fiscal 2010 and 2009, respectively, and represents the results of the Truseal China business. Income from discontinued operations, net of taxes was \$5.6 million for fiscal 2008 and consists almost entirely of the results of the Vehicular Products business and all non-Building Products related corporate accounts which were spun off as a result of the Separation. Fiscal 2008's results represent only six months of ownership prior to the Separation. Additionally, 2008 is burdened with Gerdau's share of transaction costs, stock-based compensation modification impact for vehicular products and former corporate employees and loss on extinguishment of convertible debentures. See Note 3 of Item 8 for further information regarding the composition of discontinued operations.

### ***Outlook-Fiscal 2011***

As the Company looks to 2011, it does not expect another round of government sponsored incentives, so the industry is on its own. Programs like the expired \$8,000 first time homebuyers' tax credit, the \$1,500 tax credit for energy efficient windows, which expires at the end of December 2010, and customer restocking in the first half of the year helped results in 2010. With no catalyst to provide a surge in market activity, together with a large inventory of homes available for sale, the Company expects a challenging environment in 2011, with sales flat to slightly down from 2010, along with tough quarter to quarter comparisons, particularly in the first half of the year.

While the Company expects to outperform its end markets in 2011, its operating plan is built on market assumptions that new construction window shipments will be flat to 2010, while repair and replacement (R&R) window shipments will be down 2.5%. The Company's R&R window estimate is significantly lower than the more commonly cited forecast that represents the broader R&R market, as the Company believes R&R window activity has not recovered as quickly as the broader market, coupled with some demand pull-forward effect of the \$1,500 window tax credit that expires December 31, 2010.

Given the Company's outlook, it expects Engineered Products in 2011 to earn about \$35 million of operating income, essentially flat to 2010. The Company expects to see slightly higher sales for the segment in 2011 compared to 2010 because of ongoing R&R share gains by its large window and door customers, and to a lesser extent, gains it will make with national and regional customers through its organic growth initiatives. However, along with slightly better expected sales, the Company will see higher operating expenses as it invests to expand its organic growth initiatives. Assuming a reasonable recovery in the housing market, the potential of these initiatives is expected to be about \$150 million of annualized sales in 5 years, and while they will likely be back end loaded, would represent about 40% growth above today's sales. Annual incremental operating expenses and capital expenditures necessary to achieve this growth will be approximately \$4 million and \$3 million, respectively in 2011.

At Aluminum Sheet Products, the Company expects to earn about \$25 million of operating income in 2011, compared to the \$30 million it earned in 2010. The \$25 million is based primarily on lower sales as the Company does not expect to see the level of restocking activity that was present in the first half of 2010 repeated in the first half of 2011. The guidance is based on ongoing capacity constraints in the aluminum sheet market, a tight aluminum scrap market, and no material change in its value-added product mix.

Guidance excludes estimated 2011 corporate expenses of \$26 million and any impact from LIFO. 2011 estimates for capital expenditures and depreciation and amortization are \$30 million and \$29 million, respectively. Corporate expenses and capital expenditures reflect costs (about \$2.5 million and \$9 million, respectively, in 2011)

associated with the launch of the Company's Enterprise Resource Program, which when completed in 2014, will greatly enhance and streamline its back office processes, improve data collection and provide a foundation to support future growth opportunities.

## **Liquidity and Capital Resources**

### ***Sources of Funds***

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its \$270.0 million Senior Unsecured Revolving Credit Facility (the Credit Facility). As of October 31, 2010, the Company has a solid liquidity position, comprised of cash and equivalents and adequate availability under the Company's Credit Facility. The Company has \$187.2 million of cash and equivalents, \$209.4 million of current availability under the revolving credit facility and minimal debt of \$1.9 million as of October 31, 2010. The Company has grown its cash and equivalents balance steadily since its spin-off from Quanex Corporation in April 2008, throughout 2009 and 2010 from \$40.5 million as of April 30, 2008 to \$123.5 million at October 31, 2009 and to \$187.2 million at October 31, 2010. In a very weak year, Quanex was able to grow its cash balance in 2010 ending the year with \$187.2 million, a \$63.7 million increase over 2009. The Company's strategy for cash uses are to invest in organic growth opportunities, make strategic acquisitions that fit its fenestration vision, making ongoing purchases of Quanex stock and funding the cash dividend.

The Company's excess cash was invested in money market funds throughout most of fiscal year 2008 as well as some commercial paper and auction rate securities preceding the Separation. Beginning in September 2008, however, the Company's cash has been invested only in large, overnight money market funds due to the conditions of the financial market. The funds are diversified by security type across Treasuries, Government Agencies and Prime Corporate. These funds are all AAA-rated, approved by the NAIC and compliant with Rule 2A-7 of the Investment Company Act of 1940. The Company's current investments are diversified across multiple institutions that the Company believes to be financially sound. The Company intends to remain in highly rated money market funds and treasuries following a prudent investment philosophy. The Company had no material losses on its cash and marketable securities.

The Credit Facility was executed on April 23, 2008 and has a five-year term. Proceeds from the Credit Facility may be used to provide availability for acquisitions, working capital, capital expenditures, and general corporate purposes. Borrowings under the Credit Facility bear interest at a spread above LIBOR based on a combined leverage and ratings grid. There are certain limitations on additional indebtedness, asset or equity sales, and acquisitions. Dividends and other distributions are permitted so long as after giving effect to such dividend or stock repurchase, there is no event of default. Under the Credit Facility, the Company is obligated to comply with certain financial covenants requiring the Company to maintain a Consolidated Leverage Ratio of no more than 3.25 to 1 and a Consolidated Interest Coverage Ratio of no less than 3.00 to 1. As defined by the indenture, the Consolidated Leverage Ratio is the ratio of consolidated indebtedness as of such date to consolidated EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) for the previous four fiscal quarters, and the Interest Coverage Ratio is the ratio of consolidated EBITDA to consolidated interest expense, in each case for the previous four consecutive fiscal quarters. EBITDA is defined by the indenture to include proforma EBITDA of acquisitions and to exclude certain items like goodwill and intangible asset impairments and certain other non-cash charges. The availability under the Credit Facility is a function of both the facility amount utilized and meeting covenant requirements. Additionally, the availability of the Credit Facility is dependent upon the financial viability of the Company's lenders. The Credit Facility is funded by a syndicate of nine banks, with three banks comprising over 55% of the commitment. If any of the banks in the syndicate were unable to perform on their commitments to fund the facility, the availability under the Credit Facility could be reduced; however, the Company has no reason to believe that such liquidity will be unavailable or decreased.

As of October 31, 2010, the Company had no borrowings under the Credit Facility, and the Company was in compliance with all Credit Facility covenants as seen by the table below:

<b>At October 31, 2010</b>	<b>Required</b>	<b>Actual</b>
Consolidated Interest Coverage Ratio	No less than 3.00 to 1	152.46 to 1
Consolidated Leverage Coverage Ratio	No more than 3.25 to 1	0.13 to 1

Although there were no borrowings on the Credit Facility and there was only \$5.7 million of outstanding letters of credit under the Credit Facility, the aggregate availability under the Credit Facility was limited by the Consolidated Leverage Ratio resulting in an availability of \$209.4 million at October 31, 2010. Because the Consolidated Leverage Ratio is based on a rolling twelve months of EBITDA, a change in future earnings will impact the amount available under the Credit Facility in future quarters, absent any pro-forma EBITDA benefit from any potential acquisitions. To have access to the full availability of the \$270.0 million Credit Facility, the Company must have a minimum rolling EBITDA of \$84 million for the previous four fiscal quarters. Actual rolling EBITDA for the previous four fiscal quarters was \$67.1 million as of October 31, 2010. Increased earnings for any future periods could increase availability under the Credit Facility; conversely, reduced earnings for any future periods could adversely impact the amount available under the Credit Facility in future quarters, absent any pro-forma EBITDA benefit from any potential acquisitions.

The Company believes that it has sufficient funds and adequate financial resources available to meet its anticipated liquidity needs. The Company also believes that cash balances and cash flow from operations will be sufficient in the next twelve months and foreseeable future to finance anticipated working capital requirements, capital expenditures, debt service requirements, environmental expenditures, and dividends.

The Company's working capital was \$223.8 million on October 31, 2010 compared to \$178.5 million on October 31, 2009. The increase in working capital was driven by the accumulation of cash from the Company's conversion of operating profits during fiscal 2010. Overall October 31, 2010 conversion capital (accounts receivable plus inventory less accounts payable) of \$61.2 million approximates conversion capital as of October 31, 2009 of \$59.7 million. Following the Company's aggressive measures with its working capital management in 2009 and corresponding \$25.9 million decline in conversion capital in 2009, the Company continues its focus on maintaining and monitoring conversion capital. The Company's net sales have grown by 12% from the month of October 2009 to October 2010, yet conversion capital remained relatively flat at the end of the respective periods. The Company's ability to maintain this reduced level of working capital in a period of rising sales reflects the Company's ongoing discipline with regard to working capital, especially inventory management.

The following table summarizes the Company's cash flow results from continuing operations for fiscal years 2010, 2009 and 2008:

	<b>Years ended October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In millions)</b>		
Cash flows from operating activities.....	\$ 89.6	\$ 61.3	\$ 53.1
Cash flows from investing activities .....	(15.9)	(14.4)	(15.0)
Cash flows from financing activities.....	(10.0)	9.6	27.3

Highlights from the Company's cash flow results for the fiscal years ended 2010, 2009 and 2008 are as follows:

### ***Operating Activities – Continuing Operations***

The increase of \$28.3 million in cash provided by operating activities from continuing operations during fiscal 2010 compared to fiscal 2009 primarily related to the increase in year over year sales and gross margin from the Company's Engineered Products businesses as well as increased volumes and spreads at the Company's Aluminum Sheet business. Partially offsetting this was the substantial decrease in conversion capital during 2009 compared to relatively steady conversion capital levels during 2010; while the Company continued to focus on its working capital management in 2010, in 2009 its efforts resulted in such significant improvements in working capital that those improvements were not expected to be matched in 2010 as the business expanded. Despite the continued weak condition of the Company's primary end markets, it generated cash flow from operating activities of \$89.6 million during fiscal 2010. The Company received a federal income tax refund in February 2010 of \$11.4 million; this refund was partially offset in 2010 by estimated federal tax payments. During fiscal 2009, the Company did not make any estimated federal tax payments. Additionally, the Company contributed approximately \$5.3 million to its pension plan during fiscal 2010 in an effort to target a 100% funding threshold. This compares to pension contributions of approximately \$3.4 million during 2009.

Cash provided by operating activities from continuing operations increased by \$8.2 million in fiscal 2009 compared to fiscal 2008. Even though the Company experienced a decline in its businesses as a direct result of the demand decline in the Company's end markets, the Company generated good operating cash flow of \$61.3 million during 2009. This performance is the result of significant improvements in working capital, particularly better inventory control, and further improvements in receivables collection. During fiscal 2009, the Company contributed \$3.4 million to its pension plan compared to \$3.7 million during fiscal 2008, and did not make any estimated federal tax payments in fiscal 2009.

### ***Investing Activities – Continuing Operations***

Cash spending from investing activities from continuing operations increased by \$1.5 million during fiscal 2010 compared to fiscal 2009 and decreased by \$0.6 million in fiscal 2009 compared to fiscal 2008. The 2010 increase primarily related to \$1.6 million of cash used for a small acquisition made in February 2010. The acquisition was effected through a receivership proceeding and no liabilities were assumed. The Company continues to evaluate various building products companies as potential acquisitions; however, the Company only anticipates consummating those transactions that can be secured at reasonable valuations. Repairs are complete related to the tornado that struck and damaged the Company's Mikron facility in Richmond, Kentucky in May 2009. During the second half of fiscal 2009 and the first half of fiscal 2010, the Company received \$1.4 million and \$0.4 million of proceeds, respectively, from the property insurance claim related to this incident. In fiscal 2009 and in fiscal 2010, the Company spent approximately \$1.4 million and \$0.4 million, respectively on its repair efforts; this spending is reflected in capital expenditures on the statement of cash flows. The Company's net overall cash flows from this event was zero as the Company received offsetting insurance proceeds related to the Mikron capital repairs. Capital expenditures for fiscal years 2010, 2009 and 2008 were \$14.7 million, \$15.7 million and \$15.0 million, respectively. The slight elevation in fiscal 2009 is primarily related to the aforementioned repair of the Mikron facility in Kentucky.

The Company expects 2011 capital expenditures to approximate \$30 million. The increase in spending from prior year levels reflect approximately \$9.0 million associated with the launch of our Enterprise Resource Program, which when completed in 2014, will greatly enhance and streamline our back office processes, improve data collection and provide a foundation to support future growth opportunities. Additionally, the increase relates to organic growth initiatives including capital to support new product development as well as spending on previously deferred projects. At October 31, 2010, the Company had commitments of approximately \$9.5 million



for the purchase or construction of capital assets. The Company plans to fund these capital expenditures through cash flow from operations.

### ***Financing Activities – Continuing Operations***

Quanex spent \$10.0 million, received \$9.6 million and received \$27.3 million in cash from financing activities from continuing operations in fiscal years 2010, 2009 and 2008, respectively. The changes in cash from financing activities from continuing operations over the three years are primarily due to items related to the Separation.

The Company used \$10.0 million for financing activities from continuing operations during 2010 compared to receiving \$9.6 million 2009. In 2009, the Company received \$15.4 million from Gerdau representing the fourth and final true-up and relating to distribution taxes pursuant to the terms of the transaction related agreements. The Company does not anticipate any further cash from financing activities related to the Separation. The Board of Directors approved a stock repurchase program of 1.0 million shares in May 2010. During fiscal 2010, the Company purchased 250,000 shares of common stock at a cost of \$4.3 million. The Company anticipates continuing to buy shares in fiscal 2011. In fiscal 2010 and 2009, the Company paid quarterly dividends of \$0.14 per common share and \$0.12 per common share, respectively with shares remaining relatively flat. The Company increased its quarterly cash dividend in May 2010 by 33% to \$0.04 per share from \$0.03 per share.

The Company received \$17.7 million less from financing activities from continuing operations during fiscal 2009 compared to fiscal 2008. In fiscal 2008, the Company received \$32.7 million of funding from Quanex Corporation (the Company's predecessor) from the Separation pursuant to the terms of the transaction related agreements; this consisted of a \$20.9 million initial funding from Quanex Corporation, a net \$6.9 million in true-up payments from Gerdau for the settlement of stock options and change of control agreements and a true-up receipt of \$5.0 million from Gerdau related to Quanex Corporation's convertible debentures. In 2009, the Company received \$15.4 million from Gerdau representing the fourth and final true-up relating to distribution taxes pursuant to the terms of the transaction related agreements. Cash provided from financing activities also declined in 2009 from the Company's payment of dividends during 2009. In 2009, the Company paid quarterly dividends of \$0.03 per common share, which amounted to \$4.5 million compared to \$2.3 million in 2008. The 2008 dividend activity represents two quarterly dividend distributions during the second half of fiscal 2008; there were no similar quarterly dividend distributions in continuing operations during the first half of fiscal 2008 as the dividend payment during such period was made by the Company's legal predecessor, Quanex Corporation, and thus is reported in cash used for financing activities from discontinued operations.

### ***Discontinued Operations***

The Company has a centralized cash management function whereby cash flows generated by its businesses are swept to corporate. Discontinued operations' cash flows from operating activities were \$25.0 million for fiscal 2008, of which \$25.1 million relates to the Separation. In 2008, discontinued operations from the Company's former vehicular products business / legacy corporate generated \$25.1 million of cash which represents approximately six months of activity as the Separation occurred on April 23, 2008. There were no operating activity cash flows from discontinued operations related to the Separation for 2010 or 2009. Fiscal 2010, 2009 and 2008 cash flows from discontinued operations include cash flows related to the discontinued China operation; however, almost the entire activity for fiscal 2008 relates to the Separation and the Company's former vehicular products business / legacy corporate.

Discontinued operations' cash flows from investing activities were \$33.1 million for fiscal 2008, of which \$34.1 million relates to the Separation. In 2008, discontinued operations from the Company's former vehicular products business / legacy corporate received \$40.0 million from the liquidation of its remaining auction rate securities and spent \$6.2 million on capital expenditures for the vehicular products business. Discontinued

operations used \$44.7 million in cash from financing activities in fiscal 2008 of which \$46.2 million relates to the Separation. In 2008, discontinued operations from the Company's former vehicular products business / legacy corporate provided initial funding of \$20.9 million to Quanex Building Products (see corresponding receipt in continuing operations' financing activities), paid \$10.4 million in Quanex Corporation dividends for quarterly dividends prior to the Separation and paid \$18.8 million for the conversion of a portion of its convertible debentures; this use of cash in 2008 was partially offset by proceeds from stock option exercises.

### ***Debt Structure and Activity***

Refer to Item 8, Note 10 "Long-Term Debt and Financing Arrangements" for a discussion of the Company's debt structure.

### **Contractual Obligations and Commercial Commitments**

#### ***Contractual Obligations***

The following tables set forth certain information concerning the Company's unconditional obligations and commitments to make future payments under contracts with remaining terms in excess of one year, such as debt and lease agreements, and under contingent commitments.

#### **Payments Due by Period**

<b>Contractual Obligations</b>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>
			(In thousands)		
Long-term debt, including interest <sup>(1)</sup> .....	\$ 2,005	\$ 345	\$ 683	\$ 442	\$ 535
Operating leases <sup>(2)</sup> .....	21,290	4,456	8,410	6,621	1,803
Unconditional purchase obligations <sup>(3)</sup> .....	3,885	3,534	351	—	—
Total contractual cash obligations <sup>(4)</sup> .....	<u>\$ 27,180</u>	<u>\$ 8,335</u>	<u>\$ 9,444</u>	<u>\$ 7,063</u>	<u>\$ 2,338</u>

<sup>(1)</sup> The debt interest amounts are based on rates as of October 31, 2010.

<sup>(2)</sup> Operating leases cover a range of items from facilities and fork trucks to fax machines and other miscellaneous equipment.

<sup>(3)</sup> The unconditional purchase obligations are made up of \$3.0 million of scrap aluminum purchases and software maintenance commitments.

<sup>(4)</sup> The above table excludes reserves recorded in accordance with FIN 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109," which was primarily codified into ASC Topic 740 "Income Taxes," as the Company is unable to reasonably estimate the timing of future cash flows related to these reserves.

Prior to the Separation, the Company's pension plan included participants from the vehicular products business, the building products businesses and corporate. Upon the Separation, Gerdau assumed the pension benefit liabilities for the vehicular products and corporate retiree participants (reported in discontinued operations) while the Company retained the pension benefit liabilities for the building products and active corporate participants. Accordingly, the plan assets were allocated based on benefit priority categories of the respective participants between Gerdau and the Company. During fiscal 2011, the Company expects to contribute approximately \$1.9 million to the pension plan to continue to target a 100% funding threshold and meet minimum contribution requirements. Pension contributions beyond 2011 are not determinable since the amount of any contribution is heavily dependent on the future economic environment and investment returns on pension plan assets. Obligations to these plans are based on current and projected obligations of the plans, performance of the plan assets, if applicable, and any participant contributions. Refer to Note 11 of Item 8 to the Consolidated Financial Statements

for further information on these plans. Management believes the effect of the plans on liquidity is not significant to the Company's overall financial condition.

The timing of payments related to the Company's Supplemental Benefit Plan and Deferred Compensation Plan cannot be readily determined due to their uncertainty. The Supplemental Benefit Plan liability of \$1.1 million at October 31, 2010 was recorded as part of Other (non-current) liabilities. Based on the \$5.0 million market value of the Company's Deferred Compensation Plan, payments for fiscal 2011 are estimated to be approximately \$0.1 million and are recorded in Accrued liabilities on the Consolidated Balance Sheets. The remaining liability balance of \$4.9 million is recorded in Other liabilities on the Consolidated Balance Sheets.

### ***Other Commercial Commitments***

The following table reflects other commercial commitments or potential cash outflows that may result from a contingent event, such as a need to borrow short-term funds for liquidity purposes.

<b>Amount of Commitment Expiration per Period</b>					
<b>Other Commercial Commitments</b>	<b>Total Amounts Committed</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>
			(In thousands)		
Standby letters of credit.....	\$ 6,513	\$ 5,498	\$ —	\$ —	\$ 1,015

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements, as such term is defined in the rules promulgated by the Securities and Exchange Commission, that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### **Effects of Inflation**

Inflation has not had a significant effect on earnings and other financial statement items.

### **Critical Accounting Estimates**

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates.

The Company believes the following are the most critical accounting policies used in the preparation of the Company's Consolidated Financial Statements as well as the significant judgments and uncertainties affecting the application of these policies.

### ***Revenue Recognition and Allowance for Doubtful Accounts***

The Company recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Sales allowances and customer incentives are treated as reductions to sales and are provided for based on historical experience and current estimates. Inherent in the Company's revenue recognition policy is the determination of collectability. This requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level the Company considers appropriate based on historical and other factors that affect collectability. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

### ***Inventory***

The Company records inventory valued at the lower of cost or market value. Inventories are valued using the first-in first-out (FIFO) and last-in first-out (LIFO) methods. The Company uses the dollar-value link chain LIFO method, and the LIFO reserve is calculated on a consolidated basis in a single consolidated pool. Acquisitions are integrated into the Company's operations with some valuing inventories on a LIFO basis and others on a FIFO basis. Fixed costs related to excess manufacturing capacity have been expensed in the period, and therefore, are not capitalized into inventory. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

### ***Environmental Contingencies***

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. In accruing for environmental remediation liabilities, costs of future expenditures for environmental remediation are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of parties participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Unanticipated changes in circumstances and/or legal requirements could extend the length of time over which the Company pays its remediation costs or could increase actual cash expenditures for remediation in any period.

### ***Warranty Obligations***

The Company's estimated obligations for warranty are accrued concurrently with the revenue recognized. The Company makes provisions for its warranty obligations based upon historical costs incurred for such obligations adjusted, as necessary, for current conditions and factors. Due to the significant uncertainties and judgments involved in estimating the Company's warranty obligations, including changing product designs, the ultimate amount incurred for warranty costs could change in the near term from the current estimate.

## ***Impairment or Disposal of Long-Lived Assets***

### *Property, Plant and Equipment and Intangibles*

The Company makes judgments and estimates in conjunction with the carrying value of property, plant and equipment, other intangibles, and other assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, carrying values of these assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying value may not be recoverable. The Company determines that the carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment charge is recorded in the period in which such review is performed. The Company measures the impairment loss as the amount by which the carrying amount of the long-lived asset exceeds its fair value as determined by quoted market prices in active markets or by discounted cash flows. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Company's products and future market conditions. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.

The Company monitors relevant circumstances, including industry trends, general economic conditions, and the potential impact that such circumstances might have on the valuation of its identifiable intangibles. Events and changes in circumstances that may cause a triggering event and necessitate such a review include, but are not limited to: a decrease in sales for certain customers, improvements or changes in technology, and/or a decision to phase-out a trademark or trade name. Such events could negatively impact the carrying value of the Company's identifiable intangibles. It is possible that changes in such circumstances or in the numerous variables associated with the judgments, assumptions, and estimates made by the Company in assessing the appropriate valuation of its identifiable intangibles could require the Company to further write down a portion of its identifiable intangibles and record related non-cash impairment charges in the future.

### *Goodwill*

The purchase method of accounting for business combinations requires the Company to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. The Company performs a goodwill impairment test annually as of August 31. In addition, goodwill would be tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. The Company tests for impairment of its goodwill using a two-step approach as prescribed in ASC Topic 350 "*Intangibles – Goodwill and Other*" (ASC 350). The first step of the Company's goodwill impairment test compares the fair value of each reporting unit with its carrying value including assigned goodwill. The second step of the Company's goodwill impairment test is required only in situations where the carrying value of the reporting unit exceeds its fair value as determined in the first step. In such instances, the Company compares the implied fair value of goodwill to its carrying value. The implied fair value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is recorded to the extent that the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill. The Company uses the present value of future cash flows to determine fair value in combination with the market approach. Future cash flows are typically based upon appropriate future periods for the businesses and an estimated residual value. Management judgment is required in the estimation of future operating results and to determine the appropriate residual values. The residual values are determined by reference to an exchange transaction in an existing market for that asset. Future operating results and residual values could reasonably differ from the estimates and could require a provision for impairment in a future period.

## ***Income Taxes***

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's Consolidated Balance Sheets, as well as net operating losses and tax credit carry forwards. The carrying value of the net deferred tax assets reflects the Company's assumption that the Company will be able to generate sufficient future taxable income to realize its deferred tax assets. This assumption is based on estimating future taxable income using the same forecasts used to test goodwill and intangibles for impairment, scheduling out the future reversal of existing taxable temporary differences, reviewing the Company's most recent financial operations and analyzing federal and state NOL carry backs available to the Company. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the Consolidated Statements of Income.

## ***Stock-Based Compensation***

In accordance with ASC Topic 718 "*Compensation – Stock Compensation*" (ASC 718), the Company determines the fair value of share awards on the date of grant using the Black-Scholes valuation model. The Company recognizes the fair value as compensation expense on a straight-line basis over the requisite service period of the award based on awards ultimately expected to vest. Under ASC 718, the Company amortizes new option grants to retirement-eligible employees immediately upon grant, consistent with the retirement vesting acceleration provisions of these grants. For employees near retirement age, the Company amortizes such grants over the period from the grant date to the retirement date if such period is shorter than the standard vesting schedule. In accordance with ASC Topic 230-10-45-14 "*Statement of Cash Flows – Cash Flows From Financing Activities*" (ASC 230-10-45-14), the Consolidated Statements of Cash Flow report the excess tax benefits from the stock-based compensation as financing cash inflows. See Note 14 of Item 8 for additional information related to the Company's stock-based compensation.

The Company's fair value determination of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behavior. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options. Accordingly, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

## Retirement Plans

The Company sponsors a defined benefit pension plan and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases, and health care cost trend rates. The discount rate reflects the rate at which benefits could be effectively settled on the measurement date. The Company determines its discount rate based on a pension discount curve, and the rate represents the single rate that, if applied to every year of projected benefits payments, would result in the same discounted value as the array of rates that comprise the pension discount curve. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs. Refer to Note 11 of Item 8 to the Consolidated Financial Statements for further information on these plans.

The effects of the decrease in selected assumptions, assuming no changes in benefit levels and no amortization of gains or losses for the pension plans in fiscal 2010, is shown below:

Assumption	Effect on all Defined Benefit Pension Plans October 31, 2010		
	Percentage Point Change	Increase (Decrease) in Projected Benefit Obligation	Increase (Decrease) in 2010 Pension Expense
		(In thousands)	
Discount rate.....	-1.0 pts	\$1,962	\$442
Assumed return on plan assets.....	-1.0 pts	N/A	141

As of October 31, 2010, the Company's projected benefit obligation (PBO) and accumulated benefit obligation (ABO) exceed the fair value of the plan assets by \$2.7 million and \$1.9 million, respectively. As a comparison, the Company's PBO and ABO exceed the fair value of plan assets by \$5.7 million and \$4.8 million, respectively, as of October 31, 2009. This fair value of plan assets is approaching the obligation partly due to the Company modifying its funding strategy in 2010 to accelerate contributions to target a 100% funding threshold. During fiscal 2010, the Company contributed \$5.4 million to its defined benefit plan. During fiscal 2011, the Company expects to contribute approximately \$1.9 million to the pension plan to continue to target 100% funding threshold and meet minimum contribution requirements. Expected contributions are dependent on many variables, including the variability of the market value of the assets as compared to the obligation and other market or regulatory conditions. In addition, the Company takes into consideration its business investment opportunities and resulting cash requirements. Accordingly, actual funding may differ greatly from current estimates.

Accounting guidance applicable to pensions does not require immediate recognition of the effects of a deviation between actual and assumed experience and the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted and disclosed as an unrecognized gain or loss. Accumulated other comprehensive income as of October 31, 2010 includes pretax net actuarial losses and net prior service costs of \$2.7 million. A portion of the loss will be amortized in fiscal year 2011. The effect on fiscal years after 2011 will depend on the actual experience of the plans.

Mortality assumptions used to determine the obligations for the Company's pension plans are related to the experience of the plans and to our third-party actuary's best estimate of expected plan mortality.

## New Accounting Pronouncements:

In December 2007, the FASB issued SFAS No. 141R "Business Combinations", SFAS 141R, which was codified into ASC Topic 805 "Business Combinations" (ASC 805). This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets

acquired, the liabilities assumed, any non-controlling interest in the acquiree, the goodwill acquired, contractual contingencies and any estimate or contingent consideration measured at their fair value at the acquisition date. Among other items, this standard requires acquisition costs to be expensed as incurred and gains to be recognized in bargain purchase business combinations. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. In April 2009, the FASB issued FSP No. 141R-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (FSP SFAS 141R-1). FSP SFAS No. 141R-1 was also codified into ASC 805. This staff position amends SFAS 141R to address application issues around the recognition, measurement and disclosure of assets and liabilities arising from contingencies in a business combination. These pronouncements apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (for acquisitions closed on or after November 1, 2009 for the Company). Early application is not permitted. The adoption of these pronouncements did not have a material impact on the Company's Consolidated Financial Statements. The Company is required to expense costs related to all acquisitions closed on or after November 1, 2009 and recognize gains in bargain purchase business combinations which in some instances may be material.

#### **Item 7A. *Quantitative and Qualitative Disclosures about Market Risk***

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates, foreign currency rates and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward looking information. The Company does not use derivative financial instruments for speculative or trading purposes. For a description of the Company's significant accounting policies associated with these activities, see Note 1 to the Consolidated Financial Statements.

##### **Interest Rate Risk**

The Company and its subsidiaries have a Credit Facility and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates. At October 31, 2010 and 2009, the Company had fixed-rate debt totaling \$143 thousand and \$166 thousand, respectively. This debt is fixed-rate, and therefore, does not expose the Company to the risk of earnings loss due to changes in market interest rates.

The Company and certain of its subsidiaries' floating-rate obligations totaled \$1.8 million and \$2.1 million at October 31, 2010 and 2009, respectively. Based on the floating-rate obligations outstanding at October 31, 2010, a one percent increase or decrease in the average interest rate would result in a change to pre-tax interest expense of approximately \$18 thousand.

##### **Commodity Price Risk**

Within the Aluminum Sheet Products segment, the Company uses various grades of aluminum scrap as well as minimal amounts of prime aluminum ingot as raw materials for its manufacturing processes. The price of this raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, Nichols Aluminum enters into firm price raw material purchase commitments (which are designated as "normal purchases" under ASC Topic 815 "*Derivatives and Hedging*" (ASC 815)) as well as futures contracts on the LME. The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, to the extent not covered by fixed price purchase commitments.



Nichols Aluminum maintains a balanced metals book position which excludes a normal operational inventory level. This operating inventory level as a matter of practice is not hedged against material price (LME) movements. This practice reflects that over the commodity price cycle, no gain or loss is incurred on this inventory. Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect cost of sales from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect. During fiscal 2010, 2009 and 2008, the Company primarily relied upon firm price raw material purchase commitments to protect cost of sales tied to firm price sales commitments. At October 31, 2010 there were 22 open LME forward contracts associated with metal exchange derivatives covering notional volumes of 1.2 million pounds with a fair value mark-to-market net gain of approximately \$0.2 million. In addition, at October 31, 2010 there were 116 open LME short sale contracts associated with metal exchange derivatives covering notional volumes of 6.4 million pounds with a fair value mark-to-market net loss of approximately \$0.4 million. These contracts were not designated as hedging instruments, and any mark-to-market net gain or loss was recorded in Cost of sales with the offsetting amount reflected as a current asset or liability on the balance sheet. At October 31, 2009, there were 85 open LME forward contracts associated with metal exchange derivatives.

Within the Engineered Products segment, polyvinyl resin (PVC) is the significant raw material consumed during the manufacture of vinyl extrusions. The Company has a monthly resin adjuster in place with the majority of its customers and resin supplier that is adjusted based upon published industry resin prices. This adjuster effectively shares the base pass-through price changes of PVC with the Company's customers commensurate with the market at large. The Company's long-term exposure to changes in PVC prices is thus significantly reduced due to the contractual component of the resin adjuster program.

**Item 8.      *Financial Statements and Supplementary Data***

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Quanex Building Products Corporation  
Houston, Texas

We have audited the accompanying consolidated balance sheets of Quanex Building Products Corporation and subsidiaries (the "Company") as of October 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flow for each of the three years in the period ended October 31, 2010. Our audits also include the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries as of October 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1, on April 23, 2008 the Company separated its vehicular products and building products businesses.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of October 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 20, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas  
December 20, 2010

**QUANEX BUILDING PRODUCTS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	October 31,	
	2010	2009
	(In thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and equivalents .....	\$ 187,178	\$ 123,499
Accounts receivable, net of allowance of \$1,037 and \$1,696.....	87,007	80,171
Inventories .....	45,200	46,515
Deferred income taxes .....	10,547	20,611
Prepaid and other current assets.....	8,229	5,177
Current assets of discontinued operations.....	462	232
Total current assets .....	338,623	276,205
Property, plant and equipment, net .....	135,517	141,286
Deferred income taxes .....	30,563	42,923
Goodwill .....	25,189	25,189
Intangible assets, net .....	44,668	47,359
Other assets .....	16,690	9,114
Assets of discontinued operations.....	—	1,524
Total assets .....	<u>\$ 591,250</u>	<u>\$ 543,600</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable .....	\$ 70,986	\$ 67,010
Accrued liabilities .....	43,447	30,320
Current maturities of long-term debt .....	327	323
Current liabilities of discontinued operations .....	30	9
Total current liabilities.....	114,790	97,662
Long-term debt.....	1,616	1,943
Deferred pension and postretirement benefits.....	3,667	6,655
Non-current environmental reserves .....	12,027	1,767
Other liabilities.....	17,718	13,047
Total liabilities.....	149,818	121,074
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding—none.....	—	—
Common stock, \$0.01 par value, shares authorized 125,000,000; issued 37,862,441 and 37,752,437, respectively.....	379	378
Additional paid-in-capital .....	238,079	233,452
Retained earnings.....	210,366	192,546
Accumulated other comprehensive income (loss) .....	(1,757)	(2,480)
	447,067	423,896
Less treasury stock at cost, 351,626 and zero shares, respectively.....	(5,635)	—
Less common stock held by Rabbi Trust, zero and 102,125 shares .....	—	(1,370)
Total stockholders' equity .....	441,432	422,526
Total liabilities and stockholders' equity.....	<u>\$ 591,250</u>	<u>\$ 543,600</u>

See notes to consolidated financial statements.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years ended October 31,		
	2010	2009	2008
	(In thousands, except per share amounts)		
Net sales .....	\$ 798,314	\$ 585,010	\$ 868,933
Cost and expenses:			
Cost of sales (exclusive of items shown separately below) .....	660,849	489,328	717,372
Selling, general and administrative .....	71,954	59,765	95,393
Impairment of goodwill and intangibles .....	—	182,562	—
Depreciation and amortization .....	28,214	32,453	35,068
Operating income (loss) .....	37,297	(179,098)	21,100
Interest expense .....	(440)	(452)	(479)
Other, net .....	2,645	405	5,187
Income (loss) from continuing operations before income taxes....	39,502	(179,145)	25,808
Income tax benefit (expense).....	(15,301)	43,066	(9,815)
Income (loss) from continuing operations.....	24,201	(136,079)	15,993
Income from discontinued operations, net of taxes .....	(1,103)	(1,012)	5,586
Net income (loss).....	<u>\$ 23,098</u>	<u>\$ (137,091)</u>	<u>\$ 21,579</u>
Basic earnings per common share:			
Earnings (loss) from continuing operations .....	\$ 0.65	\$ (3.64)	\$ 0.43
Income from discontinued operations .....	(0.03)	(0.03)	0.15
Basic earnings (loss) per share .....	<u>\$ 0.62</u>	<u>\$ (3.67)</u>	<u>\$ 0.58</u>
Diluted earnings per common share:			
Earnings (loss) from continuing operations .....	\$ 0.64	\$ (3.64)	\$ 0.42
Income from discontinued operations .....	(0.03)	(0.03)	0.14
Diluted earnings (loss) per share .....	<u>\$ 0.61</u>	<u>\$ (3.67)</u>	<u>\$ 0.56</u>
Weighted average common shares outstanding:			
Basic .....	37,220	37,335	37,274
Diluted .....	37,671	37,335	38,528

See notes to consolidated financial statements.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Years Ended October 31, 2010, 2009 and 2008	Comprehensive Income	Accumulated Other Comprehensive Income						Total Stockholders' Equity
		Common Stock	Additional Paid-in Capital	Retained Earnings	Pension & Postretirement Benefit Related	Other	Treasury Stock & Other	
(In thousands, except share data)								
Balance at October 31, 2007 .....		\$19,151	\$214,239	\$690,328	\$(1,944)	\$410	\$(39,035)	\$883,149
Net income .....	\$21,579			21,579				21,579
Change in pension (net of taxes of \$762) .....	(1,282)				(1,282)			(1,282)
Foreign currency translation adjustment .....	(365)					(365)		(365)
Total comprehensive income .....	\$19,932							
Common dividends (\$0.34 per share) .....				(12,693)				(12,693)
Stock-based compensation activity (excluding transaction related):								
Stock-based compensation earned .....			3,649					3,649
Stock options exercised .....				(1,905)			5,883	3,978
Restricted stock awards .....		4	(4)					—
Stock-based compensation tax benefit .....			1,609					1,609
Cumulative effect of adopting FIN 48 <sup>(2)</sup> .....				1,948				1,948
Changes in connection with the Separation:								
Separation from Quanex Corporation .....				(349,169)	3,037		378	(345,754)
Retirement of treasury stock .....		(413)		(30,991)			31,404	—
Change in par value .....		(18,343)	18,343					—
Modification of stock-based compensation awards .....		(8)	(6,738)	(6)				(6,752)
Other .....		(13)	(782)	(443)				(1,238)
Balance at October 31, 2008 .....		\$378	\$230,316	\$318,648	\$(189)	\$45	\$(1,370)	\$547,828
Net income (loss) .....	\$(137,091)			(137,091)				(137,091)
Change in pension (net of taxes of \$1,530) .....	(2,447)				(2,447)			(2,447)
Foreign currency translation adjustment .....	111					111		111
Total comprehensive income (loss) .....	\$(139,427)							
Common dividends (\$0.12 per share) .....				(4,519)				(4,519)
Stock-based compensation activity:								
Stock-based compensation earned .....			3,183					3,183
Restricted stock awards .....		1	(1)					—
Stock-based compensation tax expense .....			(11)					(11)
Separation from Quanex Corporation .....				15,508				15,508
Other .....		(1)	(35)					(36)
Balance at October 31, 2009 .....		\$378	\$233,452	\$192,546	\$(2,636)	\$156	\$(1,370)	\$422,526
Net income (loss) .....	\$23,098			23,098				23,098
Change in pension (net of taxes of \$441) .....	701				701			701
Foreign currency translation adjustment .....	23					23		23
Total comprehensive income (loss) .....	\$23,822							
Common dividends (\$0.14 per share) .....				(5,275)				(5,275)
Treasury shares purchased, at cost .....							(4,274)	(4,274)
Stock-based compensation activity:								
Stock-based compensation earned .....			4,205					4,205
Stock options exercised .....			435	(2)			9	442
Restricted stock awards .....		1	(54)					(53)
Stock-based compensation tax expense .....			41					41
Other .....				(1)		(1)		(2)
Balance at October 31, 2010 .....		\$379	\$238,079	\$210,366	\$(1,935)	\$178	\$(5,635)	\$441,432

<sup>(2)</sup> FIN 48 was primarily codified into ASC Topic 740 "Income Taxes".

See notes to consolidated financial statements.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)**

	Years Ended October 31, 2010, 2009 and 2008				
	Preferred Shares Issued	Common Shares			
		Issued	Treasury	Rabbi Trust	Net Outstanding
Balance at October 31, 2007 .....	—	38,301,033	(981,117)	(130,329)	37,189,587
Stock options exercised .....	—	—	154,807	—	154,807
Modification to liability awards as a result of Separation .....	—	(826,310)	826,310	28,204	28,204
Restricted stock awards .....	—	377,985	—	—	377,985
Cancellation of restricted stock .....	—	(92,692)	—	—	(92,692)
Balance at October 31, 2008 .....	—	37,760,016	—	(102,125)	37,657,891
Restricted stock awards .....	—	124,890	—	—	124,890
Cancellation of restricted stock .....	—	(132,469)	—	—	(132,469)
Balance at October 31, 2009 .....	—	37,752,437	—	(102,125)	37,650,312
Treasury shares purchased, at cost .....	—	—	(250,000)	—	(250,000)
Transfer of Rabbi trust shares .....	—	—	(102,125)	102,125	—
Stock options exercised .....	—	38,142	499	—	38,641
Restricted stock awards .....	—	74,900	—	—	74,900
Cancellation of restricted stock .....	—	(3,038)	—	—	(3,038)
Balance at October 31, 2010 .....	—	37,862,441	(351,626)	—	37,510,815

See notes to consolidated financial statements.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**

	Years Ended October 31,		
	2010	2009	2008
	(In thousands)		
<b>Operating Activities:</b>			
Net income (loss) .....	\$ 23,098	\$ (137,091)	\$ 21,579
Loss (income) from discontinued operations .....	1,103	1,012	(5,586)
Adjustments to reconcile net income to cash provided by operating activities from continuing operations:			
Depreciation and amortization .....	28,283	32,523	35,106
Gain on bargain purchase .....	(1,272)	—	—
Impairment of goodwill and intangibles .....	—	182,562	—
Deferred income taxes .....	12,294	(43,609)	2,984
Stock-based compensation .....	4,456	3,429	26,378
Changes in assets and liabilities, net of effects from acquisitions and dispositions:			
Decrease (increase) in accounts and notes receivable .....	(6,365)	18,636	(21,495)
Decrease (increase) in inventory .....	3,142	16,503	(10,398)
Decrease (increase) in other current assets .....	(510)	(122)	(390)
Increase (decrease) in accounts payable .....	4,572	(12,306)	11,407
Increase (decrease) in accrued liabilities .....	9,509	(3,119)	(3,329)
Increase (decrease) in income taxes payable .....	9,599	(922)	1,118
Increase (decrease) in deferred pension and postretirement benefits .....	(1,846)	(407)	(2,515)
Other, net .....	3,499	4,213	(1,782)
Cash provided by (used for) operating activities from continuing operations .....	89,562	61,302	53,077
Cash provided by (used for) operating activities from discontinued operations .....	(430)	(811)	25,014
Cash provided by (used for) operating activities .....	89,132	60,491	78,091
<b>Investing Activities:</b>			
Capital expenditures, net of retirements .....	(14,720)	(15,696)	(15,020)
Acquisitions, net of cash acquired .....	(1,590)	—	—
Proceeds from property insurance claim .....	392	1,400	—
Other, net .....	43	(57)	(23)
Cash provided by (used for) investing activities from continuing operations .....	(15,875)	(14,353)	(15,043)
Cash provided by (used for) investing activities from discontinued operations .....	90	(457)	33,318
Cash provided by (used for) investing activities .....	(15,785)	(14,810)	18,275
<b>Financing Activities:</b>			
Repayments of long-term debt .....	(323)	(363)	(1,464)
Purchase of treasury stock .....	(4,274)	—	—
Common stock dividends paid .....	(5,275)	(4,519)	(2,258)
Issuance of common stock from stock option exercises, including related tax benefits .....	502	—	—
Funding from Separation .....	—	15,401	32,735
Other, net .....	(665)	(876)	(1,752)
Cash provided by (used for) financing activities from continuing operations .....	(10,035)	9,643	27,261
Cash provided by (used for) financing activities from discontinued operations .....	665	865	(44,733)
Cash provided by (used for) financing activities .....	(9,370)	10,508	(17,472)
Effect of exchange rate changes on cash and equivalents .....	27	36	(202)
Less: (Increase) decrease in cash and equivalents from discontinued operations .....	(325)	403	(13,599)
Increase (decrease) in cash and equivalents from continuing operations .....	63,679	56,628	65,093
Cash and equivalents at beginning of period .....	123,499	66,871	1,778
Cash and equivalents at end of period .....	\$ 187,178	\$ 123,499	\$ 66,871

See notes to consolidated financial statements.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Significant Accounting Policies**

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates.

Quanex Building Products Corporation and its subsidiaries (Quanex or the Company) are managed on a decentralized basis and operate in two business segments: Engineered Products and Aluminum Sheet Products. The Engineered Products segment produces engineered products and components primarily serving the window and door industry, while the Aluminum Sheet Products segment produces mill finished and coated aluminum sheet serving the broader building products markets and secondary markets such as capital goods and transportation. The primary market drivers are residential housing starts and remodeling expenditures. Quanex believes it is a technological leader in the production of aluminum flat-rolled products, flexible insulating glass spacer systems, extruded vinyl profiles, thin film solar panel sealants, and precision-formed metal and wood products which primarily serve the North American building products markets. The Company uses low-cost production processes, and engineering and metallurgical expertise to provide customers with specialized products for specific applications.

On December 12, 2007, Quanex Building Products Corporation was incorporated in the state of Delaware as a subsidiary of Quanex Corporation to facilitate the separation of Quanex Corporation's vehicular products and building products businesses. The separation occurred on April 23, 2008 through the spin-off of Quanex Corporation's building products business to its shareholders immediately followed by the merger of Quanex Corporation (consisting principally of the vehicular products business and all non-building products related corporate accounts) with a wholly-owned subsidiary of Gerdau S.A. (Gerdau). This is hereafter referred to as the "Separation" and is more fully described in Note 3.

Notwithstanding the legal form of the Separation, because Gerdau merged with and into Quanex Corporation immediately following the spin-off and because the senior management of Quanex Corporation continued as the senior management of Quanex Building Products Corporation following the spin-off, the Company considers Quanex Building Products Corporation as divesting the Quanex Corporation vehicular products segment and non-building products related corporate items and have treated it as the "accounting successor" to Quanex Corporation for financial reporting purposes in accordance with Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 505-60 "*Spinoffs and Reverse Spinoffs*" (ASC 505-60). For purposes of describing the events related to the Separation as well as other events, transactions and financial results of Quanex Building Products Corporation and its subsidiaries related to periods prior to April 23, 2008, the term "Quanex" or the "Company" also refer to Quanex Building Products Corporation's accounting predecessor, Quanex Corporation.

In accordance with the provisions of ASC Topic 205-20 "*Presentation of Financial Statements – Discontinued Operations*" (ASC 205-20) effective with the Separation on April 23, 2008, the results of operations and cash flows related to the vehicular products business and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations at October 31, 2010 or 2009 related to the Separation. In January 2010, management committed to a plan to close its start-up facility in China due to the contraction of demand and the Company's ability to serve the overseas thin film solar panel market from its North American operations. Unless otherwise noted, all disclosures in the notes accompanying the Consolidated Financial Statements reflect only continuing operations.



**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The following are significant accounting policies used in the preparation of the Company's Consolidated Financial Statements as well as the significant judgments and uncertainties affecting the application of these policies.

***Nature and Scope of Operations***

Quanex has two reportable segments covering two customer-focused markets: Engineered Products and Aluminum Sheet Products. The Company manufactures aluminum flat-rolled products, flexible insulating glass spacer systems, extruded vinyl profiles, thin film solar panel sealants, and precision-formed metal and wood products which primarily serve the North American building products market. The Company's manufacturing operations are conducted in the United States. See Note 12, Industry Segment Information.

***Revenue Recognition and Allowance for Doubtful Accounts***

The Company recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Sales allowances and customer incentives are treated as reductions to sales and are provided for based on historical experience and current estimates. Inherent in the Company's revenue recognition policy is the determination of collectability. This requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Company's allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level the Company considers appropriate based on historical and other factors that affect collectability. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

***Inventory***

The Company records inventory valued at the lower of cost or market value. Inventories are valued using the first-in first-out (FIFO) and last-in first-out (LIFO) methods. The Company uses the dollar-value link chain LIFO method, and the LIFO reserve is calculated on a consolidated basis in a single consolidated pool. Acquisitions are integrated into the Company's operations with some valuing inventories on a LIFO basis and others on a FIFO basis. Fixed costs related to excess manufacturing capacity have been expensed in the period, and therefore, are not capitalized into inventory. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Company's forecast of future demand and market conditions. Significant unanticipated changes to the Company's forecasts could require a change in the provision for excess or obsolete inventory.

***Environmental Contingencies***

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. In accruing for environmental remediation liabilities, costs of future expenditures for environmental remediation are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. When environmental laws might be deemed to impose joint and several liability for the costs of responding to

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

contamination, the Company accrues its allocable share of liability taking into account the number of parties participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Unanticipated changes in circumstances and/or legal requirements could extend the length of time over which the Company pays its remediation costs or could increase actual cash expenditures for remediation in any period.

***Asset Retirement Obligations***

Asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets that result from the normal operation of the long-lived asset. The costs associated with such legal obligations are accounted for under the provisions of ASC Topic 410 "*Asset Retirement and Environmental Obligations*" (ASC 410). The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred and capitalized as part of the carrying amount of the long-lived asset. The fair value of such obligations is based upon the present value of the future cash flows expected to be incurred to satisfy the obligation. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company will recognize a gain or loss for any difference between the settlement amount and the liability recorded. When certain legal obligations are identified with indeterminate settlement dates, the fair value of these obligations cannot be reasonably estimated and accordingly a liability is not recognized. When a date or range of dates can reasonably be estimated for the retirement of that asset, the Company will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

***Warranty Obligations***

The Company's estimated obligations for warranty are accrued concurrently with the revenue recognized. The Company makes provisions for its warranty obligations based upon historical costs incurred for such obligations adjusted, as necessary, for current conditions and factors. Due to the significant uncertainties and judgments involved in estimating the Company's warranty obligations, including changing product designs, the ultimate amount incurred for warranty costs could change in the near term from the current estimate.

***Long-Lived Assets***

***Property, Plant and Equipment and Intangibles***

The Company makes judgments and estimates in conjunction with the carrying value of property, plant and equipment, other intangibles, and other assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, carrying values of these assets are reviewed for impairment whenever events or changes in circumstances indicate that carrying value may not be recoverable. The Company determines that the carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment charge is recorded in the period in which such review is performed. The Company measures the impairment loss as the amount by which the carrying amount of the long-lived asset exceeds its fair value as determined by quoted market prices in active markets or by discounted cash flows. This requires the Company to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Company's products and future market conditions. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Company monitors relevant circumstances, including industry trends, general economic conditions, and the potential impact that such circumstances might have on the valuation of its identifiable intangibles. Events and changes in circumstances that may cause a triggering event and necessitate such a review include, but are not limited to: a decrease in sales for certain customers, improvements or changes in technology, and/or a decision to phase-out a trademark or trade name. Such events could negatively impact the carrying value of the Company's identifiable intangibles. It is possible that changes in such circumstances or in the numerous variables associated with the judgments, assumptions, and estimates made by the Company in assessing the appropriate valuation of its identifiable intangibles could require the Company to further write down a portion of its identifiable intangibles and record related non-cash impairment charges in the future.

Property, plant and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of certain categories are as follows:

	<u>Years</u>
Land improvements .....	10 to 20
Buildings .....	25 to 40
Building improvements.....	10
Leasehold improvements .....	Over lease term <sup>(1)</sup>
Machinery and equipment.....	3 to 12

*Goodwill*

The purchase method of accounting for business combinations requires the Company to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. The Company performs a goodwill impairment test annually as of August 31. In addition, goodwill would be tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. The Company tests for impairment of its goodwill using a two-step approach as prescribed in ASC Topic 350 "*Intangibles – Goodwill and Other*" (ASC 350). The first step of the Company's goodwill impairment test compares the fair value of each reporting unit with its carrying value including assigned goodwill. The second step of the Company's goodwill impairment test is required only in situations where the carrying value of the reporting unit exceeds its fair value as determined in the first step. In such instances, the Company compares the implied fair value of goodwill to its carrying value. The implied fair value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is recorded to the extent that the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill. The Company uses the present value of future cash flows to determine fair value in combination with the market approach. Future cash flows are typically based upon appropriate future periods for the businesses and an estimated residual value. Management judgment is required in the estimation of future operating results and to determine the appropriate residual values. The residual values are determined by reference to an exchange transaction in an existing market for that asset. Future operating results and residual values could reasonably differ from the estimates and could require a provision for impairment in a future period.

***Income Taxes***

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's Consolidated Balance Sheets, as well as

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<sup>(1)</sup> Leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of the lease.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

net operating losses and tax credit carry forwards. The carrying value of the net deferred tax assets reflects the Company's assumption that the Company will be able to generate sufficient future taxable income to realize its deferred tax assets. This assumption is based on estimating future taxable income using the same forecasts used to test goodwill and intangibles for impairment, scheduling out the future reversal of existing taxable temporary differences, reviewing the Company's most recent financial operations and analyzing federal and state NOL carry backs available to the Company. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the Consolidated Statements of Income.

***Insurance***

The Company manages its costs of group medical, property, casualty and other liability exposures through a combination of retentions and insurance coverage with third party carriers. Liabilities associated with the Company's portion of these exposures are estimated in part by considering historical claims experience, severity factors and other assumptions. Projections of future loss expenses are inherently uncertain because of the random nature of insurance claims occurrences and could be significantly affected if future occurrences and claims differ from these assumptions and historical trends. Insurance recoveries are not recognized until any contingencies relating to the claim have been resolved.

***Stock-Based Compensation***

In accordance with ASC Topic 718 "*Compensation – Stock Compensation*" (ASC 718), the Company determines the fair value of share awards on the date of grant using the Black-Scholes valuation model. The Company recognizes the fair value as compensation expense on a straight-line basis over the requisite service period of the award based on awards ultimately expected to vest. Under ASC 718, the Company amortizes new option grants to retirement-eligible employees immediately upon grant, consistent with the retirement vesting acceleration provisions of these grants. For employees near retirement age, the Company amortizes such grants over the period from the grant date to the retirement date if such period is shorter than the standard vesting schedule. In accordance with ASC Topic 230-10-45-14 "*Statement of Cash Flows – Cash Flows From Financing Activities*" (ASC 230-10-45-14), the Consolidated Statements of Cash Flow report the excess tax benefits from the stock-based compensation as financing cash inflows. See Note 14 of Item 8 for additional information related to the Company's stock-based compensation.

The Company's fair value determination of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the Company's expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behavior. Option-pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

***Retirement Plans***

The Company sponsors a defined benefit pension plan and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases, and health care cost trend rates. The discount rate reflects the rate at which benefits could be effectively settled on the measurement date. The Company determines its discount rate based on a pension discount curve, and the rate represents the single rate that, if applied to every year of projected benefits payments, would result in the same discounted value as the array of rates that comprise the pension discount curve. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

***Treasury Stock***

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The Company uses a moving average method on the subsequent reissuance of shares, and any resulting proceeds in excess of cost are credited to additional paid in capital while any deficiency is charged to retained earnings.

***Discontinued Operations***

In accordance with ASC 360, components of the Company that were spun-off were not reported as discontinued operations until the date of the separation. Also in accordance with ASC Topic 205-20 "*Presentation of Financial Statements - Discontinued Operations*" (ASC 205-20), the Company presents the results of operations, financial position and cash flows of operations that have either been sold or that meet the criteria for "held for sale accounting" as discontinued operations. At the time an operation qualifies for held for sale accounting, the operation is evaluated to determine whether or not the carrying value exceeds its fair value less cost to sell. Any loss as a result of carrying value in excess of fair value less cost to sell is recorded in the period the operation meets held for sale accounting. Management judgment is required to (1) assess the criteria required to meet held for sale accounting, and (2) estimate fair value. Changes to the operation could cause it to no longer qualify for held for sale accounting and changes to fair value could result in an increase or decrease to previously recognized losses.

***Principles of Consolidation***

The Consolidated Financial Statements include the accounts of Quanex and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation.

***Reclassifications***

Certain reclassifications in prior year financial statements, none of which affected net income, have been made to conform to the 2010 presentation.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

***Earnings per Share Data***

Basic earnings per share excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

***Statements of Cash Flows***

The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments.

Supplemental cash flow information is as follows:

	<b>Years Ended October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>		
Cash paid for interest.....	\$ 373	\$ 396	\$ 408
Cash paid for income taxes.....	5,635	2,693	14,089
Cash received for income tax refunds .....	12,280	1,120	—
Supplemental disclosure of noncash investing and financing activities:			
Capitalized purchases of equipment financed through accrued liabilities.....	\$ 3,621	—	—

**2. New Accounting Pronouncements**

In June 2008, the FASB ratified FSP No. EITF 03-6-1, “*Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*” (FSP EITF 03-6-1), which was codified into ASC Topic 260 “*Earnings per Share*” (ASC 260). This pronouncement addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, must be included in the earnings allocation in calculating earnings per share under the two-class method described in ASC 260. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend-equivalents should be treated as participating securities in calculating earnings per share. This pronouncement is effective for financial statements issued for fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company), and interim periods within those fiscal years, and shall be applied retrospectively to all prior periods. The adoption of this pronouncement did not have a material impact on the Company’s Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. SFAS 142-3, “*Determination of the Useful Life of Intangible Assets*” (FSP SFAS 142-3), which was codified into ASC Topic 350 “*Intangibles – Goodwill and Other*”, (ASC 350), and ASC Topic 275 “*Risks and Uncertainties*”, (ASC 275). The pronouncement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent is to improve the consistency between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of the asset under ASC Topic 805 “*Business Combinations*”, (ASC 805), and other applicable accounting literature. The pronouncement is effective for financial statements issued for the fiscal years beginning after December 15,

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

2008 (November 1, 2009 for the Company) and must be applied prospectively to intangible assets acquired after the effective date. The Company's adoption of the pronouncement did not have a material impact on the Company's Consolidated Financial Statements; however, any future acquisitions of intangibles could have a material impact on its results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 141R "*Business Combinations*", SFAS 141R, which was codified into ASC Topic 805 "*Business Combinations*" (ASC 805). This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, the goodwill acquired, contractual contingencies and any estimate or contingent consideration measured at their fair value at the acquisition date. Among other items, this standard requires acquisition costs to be expensed as incurred and gains to be recognized in bargain purchase business combinations. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. In April 2009, the FASB issued FSP No. 141R-1, "*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*" (FSP SFAS 141R-1). FSP SFAS No. 141R-1 was also codified into ASC 805. This staff position amends SFAS 141R to address application issues around the recognition, measurement and disclosure of assets and liabilities arising from contingencies in a business combination. These pronouncements apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (for acquisitions closed on or after November 1, 2009 for the Company). Early application is not permitted. The adoption of these pronouncements did not have a material impact on the Company's Consolidated Financial Statements. The Company is required to expense costs related to all acquisitions closed on or after November 1, 2009 and recognize gains in bargain purchase business combinations which in some instances may be material.

In December 2007, the FASB issued SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51*" (SFAS 160) which was codified into ASC Topic 810 "*Consolidation*", (ASC 810). This standard addresses the accounting and reporting framework for noncontrolling minority interests by a parent company and is effective for fiscal years beginning on or after December 15, 2008 (as of November 1, 2009 for the Company). The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements; however, the Company is required to account for noncontrolling minority interest acquisitions closed on or after November 1, 2009 under ASC 810.

### **3. Discontinued Operations**

As discussed in Note 1, the Company's vehicular products business and non-building products related corporate accounts were separated from its building products business on April 23, 2008. Although the legal form of the Separation shows Quanex Building Products Corporation as being spun-off in a taxable spin from Quanex Corporation, because of the substance of the transactions, Quanex Building Products Corporation is considered the divesting entity and treated as the "accounting successor," and Quanex Corporation is the "accounting spinnee" and "accounting predecessor" for financial reporting purposes.

In accordance with ASC Topic 205-20 "*Presentation of Financial Statements – Discontinued Operations*" (ASC 205-20), effective with the closing of the Separation on April 23, 2008, the results of operations and cash flows related to the vehicular products business and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations as of October 31, 2010 or 2009 and no results of operations in 2010 or 2009 related to the Separation.

In connection with the Separation, Quanex Building Products Corporation received initial funding from Quanex Corporation of \$20.9 million as of November 1, 2007. Although the transaction closed on April 23, 2008, economic interests between Quanex Corporation's building products operations and its vehicular

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

products business/legacy corporate accounts were segregated as of November 1, 2007 whereby cash flows generated by the Company's building products businesses were retained by Quanex Building Products Corporation upon the Separation.

Because the Separation was a spin-off among shareholders, for financial statement presentation, there is no gain or loss on the separation of the disposed net assets and liabilities. Rather, the carrying amounts of the net assets and liabilities of the Company's former vehicular products business and non-building products related corporate accounts are removed at their historical cost with an offsetting reduction to stockholders' equity. As of October 31, 2008, the Company incurred a \$345.8 million reduction in stockholders' equity from the Separation. During January 2009, this reduction was partially offset by \$15.5 million primarily related to the finalization of transaction tax liabilities resulting in a cumulative reduction to stockholders' equity of \$330.3 million related to the Separation. The Separation transaction agreements contained four primary true-up items: stock option true-up, change of control agreement true-up, convertible debenture true-up and tax true-up. Three of the true-up items were finalized and cash settled prior to October 31, 2008, and accordingly, are reflected in the \$345.8 million; the Company received a net \$6.9 million from Gerdau for the Quanex Corporation stock option true-up and the change of control agreement true-up and a true-up receipt of \$5.0 million related to Quanex Corporation's convertible debentures. The Company received \$15.4 million in cash from Gerdau in January 2009 for the settlement of transaction taxes (as the Separation was a taxable spin) representing the fourth and final true-up. As these true-ups were settled pursuant to the transaction agreements, the Company recorded an adjustment to its cash balance with an offsetting amount to stockholders' equity.

In January 2010, management committed to a plan to close its start-up facility in China due to the contraction of demand and the Company's ability to serve the overseas thin film solar panel market from its North American operations. Accordingly, the China assets and liabilities, results of operations and cash flows are reported as discontinued operations for all periods presented.

There were no assets or liabilities of discontinued operations as of October 31, 2010 or 2009 related to the Separation. The components of the assets and liabilities of discontinued operations as of October 31, 2010 and 2009 were as follows (in thousands):

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
Current assets:		
Cash and equivalents .....	\$ 460	\$ 135
Inventories, net .....	—	10
Prepaid and other current assets .....	2	87
Total current assets .....	462	232
Property, plant and equipment, net .....	—	1,524
Total assets .....	<u>\$ 462</u>	<u>\$ 1,756</u>
Current liabilities:		
Accrued liabilities .....	\$ 30	\$ 9
Total current liabilities .....	30	9
Total liabilities .....	<u>\$ 30</u>	<u>\$ 9</u>



**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The results of discontinued operations for the years ended October 31, 2010, 2009 and 2008 were as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
		(In thousands)	
Net sales .....	\$ —	\$ —	\$ 571,578
Transaction expenses and other related Separation costs, before tax .....	\$ —	\$ —	\$ (19,205)
Income from discontinued operations before tax....	\$ (1,102)	\$ (981)	\$ 18,626
Income tax expense.....	(1)	(31)	(13,040)
Income from discontinued operations, net of tax....	<u>\$ (1,103)</u>	<u>\$ (1,012)</u>	<u>\$ 5,586</u>

Net sales and income from discontinued operations for the years ended October 31, 2010 and 2009 represent activity of the Company's start-up facility in China. Net sales and income from discontinued operations represent activity of the Company's former vehicular products segment for the year ended October 31, 2008. The years ended October 31, 2010 and 2009 has no comparable activity of the Company's former vehicular segment as the Separation occurred in April 2008.

Income from discontinued operations before tax for fiscal 2008 includes six months of activity for the year ended October 31, 2008 related to the Company's former vehicular products segment. In addition, the fiscal 2008 period income includes transaction related costs, LIFO charge related to the vehicular products LIFO inventories and the loss on early extinguishment of debentures. The following describes certain items incurred prior to the Separation date and are reflected in the 2008 discontinued results in the table above:

- Transaction expenses and other related Separation costs for the year ended October 31, 2008 include \$13.9 million of transaction costs (primarily investment banking fees, legal fees and accounting fees for the merger and discontinued operations' portion of spin costs) and \$4.9 million of expense related to the modification of Quanex Corporation's stock based-compensation awards.
- With respect to inventories valued using the LIFO method, the vehicular products business (i.e. discontinued operations) recognized \$15.3 million of LIFO expense during the year ended October 31, 2008.
- During the first fiscal quarter of 2008, certain holders elected to convert \$9.4 million principal of Debentures. Quanex Corporation paid \$18.8 million to settle these conversions, including the premium which Quanex Corporation opted to settle in cash. Quanex Corporation recognized a \$9.7 million loss on early extinguishment which represents the conversion premium and the non-cash write-off of unamortized debt issuance costs. This loss is reported in discontinued operations before tax above.
- Discontinued operations' effective tax rate for the year ended 2008 increased to 69.7% as a result of the predominately nondeductible pretax loss on early extinguishment of the Debentures coupled with transaction costs which are largely nondeductible for tax purposes.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**4. Goodwill and Acquired Intangible Assets**

*Goodwill*

The changes in the carrying amount of goodwill for the years ended October 31, 2010 and 2009 are as follows (in thousands):

	<b>Engineered Products</b>	<b>Aluminum Sheet Products</b>	<b>Consolidated</b>
Balance at October 31, 2008			
Goodwill .....	\$ 175,949	\$ 20,389	\$ 196,338
Accumulated impairment losses ....	—	—	—
	<u>175,949</u>	<u>20,389</u>	<u>196,338</u>
Impairment losses .....	(150,266)	(20,389)	(170,655)
Other .....	(494)	—	(494)
	<u>—</u>	<u>—</u>	<u>—</u>
Balance at October 31, 2009			
Goodwill .....	175,455	20,389	195,844
Accumulated impairment losses ....	(150,266)	(20,389)	(170,655)
	<u>25,189</u>	<u>—</u>	<u>25,189</u>
Impairment losses .....	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Balance at October 31, 2010			
Goodwill .....	175,455	20,389	195,844
Accumulated impairment losses ....	(150,266)	(20,389)	(170,655)
	<u>\$ 25,189</u>	<u>—</u>	<u>\$ 25,189</u>

Under ASC 350, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. The Company elected to make August 31 the annual impairment assessment date for goodwill.

The August 31, 2008 review of goodwill indicated that goodwill was not impaired. As a result of the first step of this annual goodwill impairment analysis, the fair value of each reporting unit exceeded its carrying value. Therefore, the second step was not necessary.

Beginning in October 2008 and continuing into the first quarter of fiscal 2009, the Company's market capitalization declined below book value. During the first fiscal quarter of 2009, based on a combination of factors, including additional declines in housing start projections, falling aluminum ingot prices, further deterioration of the overall market conditions in the building products industry, downward revision to earnings guidance, and the continued gap between the Company's market value of equity and book value of equity, the Company concluded that there were sufficient indicators to require Quanex to perform an interim goodwill impairment analysis during first fiscal quarter of 2009. Accordingly, the Company performed an interim impairment analysis and recorded a non-cash goodwill impairment charge of \$170.7 million during fiscal year 2009 leaving \$25.2 million of goodwill remaining on the Company's balance sheet post-impairment. Since this goodwill impairment charge was non-cash, it did not affect liquidity or the Consolidated Leverage Ratio and Consolidated Interest Coverage Ratio contained in the Company's Credit Facility financial covenants (see Note 10 for further information regarding financial covenants and definitions of ratios). Following this interim goodwill impairment charge, the August 31, 2009 annual review of goodwill indicated that goodwill was not further impaired.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

In accordance with ASC Topic 350, "Goodwill and Other Intangible Assets," a detailed determination of the fair value of the reporting unit may be carried forward from one year to the next if all of the following conditions are met: a) assets and liabilities that make up the reporting unit have not changed since the most recent fair value determination (August 31, 2009), b) the most recent fair value determination resulted in an amount that exceeded the carrying amount of the reporting unit by a substantial margin, c) based on analysis of events that have occurred and circumstances that have changed since the most recent fair value determination, the likelihood that a current fair value determination would be less than the current carrying amount of the reporting unit is remote. Based on the Company's analysis of the above criteria, the Company carried forward the fiscal 2009 detailed determination of the fair value of its reporting units to fiscal 2010. As the fair value of the reporting units exceeded their respective carrying amount, no impairment of goodwill was incurred at August 31, 2010.

*Acquired Intangible Assets*

Intangible assets consist of the following (in thousands):

	<u>As of October 31, 2010</u>		<u>As of October 31, 2009</u>	
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Intangible assets subject to amortization:				
Patents .....	\$ 11,560	\$ 6,175	\$ 11,560	\$ 5,610
Trademarks and trade names....	33,530	9,156	33,150	7,709
Customer relationships.....	21,200	6,291	21,200	5,232
Total .....	<u>\$ 66,290</u>	<u>\$ 21,622</u>	<u>\$ 65,910</u>	<u>\$ 18,551</u>

The intangible assets are being amortized over the period they are expected to contribute to the future cash flows of the Company. No residual value is estimated for the intangible assets.

Based on a combination of factors, including additional declines in housing start projections and further deterioration of the overall market conditions in the building products industry, the Company determined that there were events and circumstances during the first quarter of 2009 that could indicate that its carrying amount of intangible assets may not be recoverable. Accordingly, intangible assets were tested for recoverability during the three months ended January 31, 2009. The carrying amount of an intangible asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the intangible asset. If the carrying amount is not recoverable, the impairment loss is measured as the amount by which the carrying amount of the intangible exceeds its fair value. An impairment loss of \$11.9 million was recognized during the three months ended January 31, 2009 on certain Engineered Products' trademarks, trade names and patents whose carrying amount was not recoverable and whose carrying amount exceeded fair value. Fair value was determined by the relief from royalty approach which is a variation of the income approach. The intangible asset impairment charge is included in Impairment of goodwill and intangible assets in the accompanying Consolidated Statements of Income. Since this intangible impairment charge is non-cash, it does not affect liquidity or financial covenants. No impairment charges were recorded in 2010 or 2008.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The aggregate amortization expense for intangibles for the years ended October 31, 2010, 2009, and 2008 is \$3.1 million, \$3.2 million and \$5.7 million, respectively. Estimated amortization expense for the next five years for existing intangibles follows (in thousands):

<u>Fiscal Years Ending October 31,</u>	<u>Estimated Amortization</u>
2011 .....	3,082
2012 .....	3,082
2013 .....	3,020
2014 .....	2,986
2015 .....	2,921

**5. Earnings per Share**

The computational components of basic and diluted earnings per share from continuing operations for fiscal 2010 and 2008 are below (shares and dollars in thousands except per share amounts). As discussed below, fiscal 2009 basic and diluted earnings per share from continuing operations are identical as the Company reported a loss from continuing operations.

<b>For the Year Ended October 31, 2010</b>			
	<u><b>Numerator (Income)</b></u>	<u><b>Denominator (Shares)</b></u>	<u><b>Per Share Amount</b></u>
Basic earnings and earnings per share .....	\$ 24,201	37,220	\$ 0.65
Effect of dilutive securities:			
Common stock equivalents arising from stock options .....	—	261	
Restricted stock .....	—	190	
Diluted earnings and earnings per share .....	\$ 24,201	37,671	\$ 0.64

<b>For the Year Ended October 31, 2008</b>			
	<u><b>Numerator (Income)</b></u>	<u><b>Denominator (Shares)</b></u>	<u><b>Per Share Amount</b></u>
Basic earnings and earnings per share .....	\$ 15,993	37,274	\$ 0.43
Effect of dilutive securities:			
Common stock equivalents arising from settlement of contingent convertible debentures .....	—	1,133	
Common stock equivalents arising from stock options .....	—	6	
Restricted stock .....	—	13	
Common stock held by rabbi trust .....	—	102	
Diluted earnings and earnings per share .....	\$ 15,993	38,528	\$ 0.42

The computation of diluted earnings per share excludes outstanding options and other common stock equivalents in periods where inclusion of such potential common stock instruments would be anti-dilutive in the periods presented. When income from continuing operations is a loss, all potential dilutive instruments are excluded from the computation of diluted earnings per share as they would be anti-dilutive. Accordingly, for the year ended October 31, 2009, 0.1 million of restricted stock and 0.1 million of common stock held by the rabbi

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

trust were excluded from the computation of diluted earnings per share as the Company had a loss from continuing operations.

For the years ended October 31, 2010 and 2009, the Company had 0.3 million and 0.9 million of stock options, respectively, that are potentially dilutive in future earnings per share calculations. Such dilution will be dependent on the excess of the market price of the Company's stock over the exercise price and other components of the treasury stock method.

For the year ended October 31, 2008, 0.1 million stock options were excluded from the computation of diluted earnings per share as the options' exercise price was greater than the average market price of the common stock during the period. The 2.50% Convertible Senior Debentures (Debentures) had a dilutive impact for year-to-date earnings per share for fiscal 2008 as they were outstanding for a portion of the year; however, the Debentures do not have a dilutive effect after 2008.

The Company's former 2.50% Convertible Senior Debentures are reported in discontinued operations for historical periods as a result of the Separation. In 2005, the Company irrevocably elected to settle the principal amount of its former Debentures in cash when they became convertible and were surrendered by the holders thereof. The Company retained its option to satisfy any excess conversion obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash. As a result of the Company's election, if dilutive, diluted earnings per share up through the Separation in 2008 include the amount of shares it would have taken to satisfy the excess conversion obligation, assuming that all of the Debentures outstanding during the period were surrendered. For calculation purposes, the average closing price of the Company's common stock for each of the periods presented is used as the basis for determining dilution.

**6. Inventories**

Inventories consist of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Raw materials .....	\$ 18,823	\$ 19,992
Finished goods and work in process .....	23,756	23,804
	<u>42,579</u>	<u>43,796</u>
Supplies and other .....	2,621	2,719
Total .....	<u>\$ 45,200</u>	<u>\$ 46,515</u>

The values of inventories are based on the following accounting methods:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
LIFO .....	\$ 20,122	\$ 22,004
FIFO .....	25,078	24,511
Total .....	<u>\$ 45,200</u>	<u>\$ 46,515</u>

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$10.1 million and \$6.2 million at October 31, 2010 and 2009, respectively. During fiscal 2010 and fiscal 2009, there were LIFO liquidations that resulted in a reduction of the LIFO reserve (credit to

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

cost of sales) of approximately \$1.2 million and \$43 thousand, respectively. The LIFO liquidations increased the amount of income recognized in the respective years compared to what would have been recognized had there been no liquidations.

LIFO reserve adjustments are treated as corporate expenses as this matches how management reviews the businesses. The LIFO reserve adjustments are calculated on a consolidated basis in a single consolidated pool using the dollar-value link chain method. Upon completion of the consolidated calculation, the resulting reserve that is recorded to reflect inventories at their LIFO values is not allocated to the segments. Management believes LIFO reserves to be a corporate item and thus performs all reviews of segment operations on a FIFO or weighted-average basis.

Acquisitions are integrated into the Company's operations with some valuing inventory on a LIFO basis and others on a FIFO basis. The selection of the inventory valuation treatment of each acquisition depends on the facts and circumstances that existed at the time of the acquisition, including expected inventory levels and pricing expected in the foreseeable future; this evaluation is applied on each transaction individually. As discussed above, management reviews all of the businesses on a FIFO or weighted-average basis for comparability, with the LIFO reserve treated as a corporate item.

**7. Property, Plant and Equipment**

Property, plant and equipment consist of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Land and land improvements .....	\$ 9,827	\$ 9,747
Buildings and building improvements.....	68,276	66,929
Machinery and equipment .....	344,996	333,711
Construction in progress.....	11,420	7,063
Property, plant and equipment, gross .....	434,519	417,450
Less: accumulated depreciation and amortization ....	(299,002)	(276,164)
Property, plant and equipment, net.....	<u>\$ 135,517</u>	<u>\$ 141,286</u>

Depreciation expense for the years ended October 31, 2010, 2009, and 2008 was \$25.1 million, \$29.2 million, and \$29.3 million, respectively. The Company had commitments for the purchase or construction of capital assets amounting to approximately \$9.5 million at October 31, 2010.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**8. Accrued Liabilities**

Accrued liabilities consist of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Payroll, payroll taxes and employee benefits .....	\$ 22,312	\$ 13,130
Accrued insurance and workers compensation.....	3,977	4,278
Sales allowances .....	3,975	3,772
Accrued capital expenditures.....	3,621	—
Deferred revenue .....	3,005	1,648
Environmental.....	1,564	1,485
Deferred compensation and other retirement plans .....	350	1,492
Property and sales tax .....	969	1,063
Warranties.....	968	1,024
Other .....	2,706	2,428
Accrued liabilities .....	<u>\$ 43,447</u>	<u>\$ 30,320</u>

**9. Income Taxes**

Income taxes are provided on taxable income at the statutory rates applicable to such income.

Income tax expense (benefit) consists of the following:

	<b>Years Ended October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>		
Current:			
Federal .....	\$ 2,729	\$ 413	\$ 5,811
State .....	386	197	1,070
Foreign.....	(108)	(67)	(50)
	<u>3,007</u>	<u>543</u>	<u>6,831</u>
Deferred:.....	12,294	(43,609)	2,984
Income tax expense (benefit).....	15,301	(43,066)	9,815
Income taxes from discontinued operations ....	—	30	13,040
	<u>\$15,301</u>	<u>\$(43,036)</u>	<u>\$22,855</u>

The Company records the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Company's Consolidated Balance Sheets, as well as net operating losses and tax credit carry forwards. The carrying value of the net deferred tax assets reflects the Company's assumption that the Company will be able to generate sufficient future taxable income to realize its deferred tax assets. This assumption is based on estimating future taxable income using the same forecasts used to test goodwill and intangibles for impairment, scheduling out the future reversal of existing taxable temporary differences, reviewing the Company's most recent financial operations and analyzing federal and state NOL carry backs available to the Company. If the estimates and assumptions change in the future, the Company may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the Consolidated Statements of Income.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Significant components of the Company's net deferred tax assets are as follows:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Deferred tax assets:		
Goodwill and intangibles .....	\$ 28,003	\$ 34,133
Tax loss carry backs and carry forwards.....	1,489	17,766
Property, plant and equipment .....	4,958	10,815
Pension and postretirement benefit obligation.....	1,946	2,932
Other employee benefit obligations .....	11,152	5,892
Accrued liabilities and reserves .....	2,317	3,352
Inventory .....	3,254	3,060
Other .....	279	196
Total deferred tax assets .....	<u>\$ 53,398</u>	<u>\$ 78,146</u>
Deferred income tax assets, non-current.....	\$ 42,851	\$ 57,535
Deferred income tax assets, current .....	10,547	20,611
Net deferred tax assets .....	<u>\$ 53,398</u>	<u>\$ 78,146</u>

Income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes for the following reasons:

	<b>Years Ended October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>		
Income tax expense (benefit) at statutory tax rate.....	\$ 13,826	\$ (62,701)	\$ 9,033
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal effect.....	1,193	(3,695)	741
Change in deferred tax rate .....	327	(2,030)	(1,070)
Goodwill and intangibles .....	—	23,875	—
Transaction costs .....	—	—	908
Other items, net .....	(45)	1,485	203
	<u>\$ 15,301</u>	<u>\$ (43,066)</u>	<u>\$ 9,815</u>
Effective tax rate .....	38.7%	24.0%	38.0%

The Company's annual effective tax rate for fiscal 2010 was 38.7% compared to 24.0% in fiscal 2009 and 38.0% in fiscal 2008. The tax rate benefit for 2009 is unusually low primarily due to the nondeductible portion of the goodwill impairment charge in the fiscal year.

The change in the deferred tax rates in 2009 and 2008 are primarily the result of changes in the overall structure of the Company following the Separation.

Other current assets on the Consolidated Balance Sheet include an income tax receivable of \$2.6 million and \$0.7 million as of October 31, 2010 and 2009, respectively. Current deferred income taxes on the Consolidated Balance Sheet of \$20.6 million in 2009 include an \$11.4 million tax refund associated with the carry back of operating losses to prior years. This refund was received in the second quarter of 2010. Noncurrent deferred income taxes in 2010 of \$30.6 million include \$41.7 million of deferred taxes and



**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

\$1.2 million of state tax carry forwards of operating losses offset by a liability for unrecognized tax benefits of \$12.3 million associated with the Separation.

A reconciliation of the change in the unrecognized income tax benefits balance from November 1, 2007 to October 31, 2010 is as follows:

	<b>Accrued Interest and Penalties</b>	<b>Unrecognized Income Tax Benefits</b>
	<b>(In thousands)</b>	
Balance at November 1, 2007 .....	\$ 37	\$ 366
Additions for tax positions related to the current year.....	6	48
Additions for tax positions related to the Separation.....	—	16,585
Balance at October 31, 2008.....	<u>\$ 43</u>	<u>\$ 16,999</u>
Additions for tax positions related to the current year.....	—	9
Additions for tax positions related to the prior year .....	166	1,324
Balance at October 31, 2009.....	<u>\$ 209</u>	<u>\$ 18,332</u>
Additions for tax positions related to the current year.....	—	13
Additions for tax positions related to the prior year .....	227	270
Balance at October 31, 2010.....	<u>\$ 436</u>	<u>\$ 18,615</u>

The Company and its subsidiaries file income tax returns in the U.S. federal and various state jurisdictions as well as in Canada. The Company is not currently under a tax examination, but in certain jurisdictions the statute of limitations has not yet expired. The Company generally remains subject to examination of its U.S. federal income tax returns for 2007 and subsequent years. The Company generally remains subject to examination of its various state income tax returns for a period of four to five years from the date the return was filed. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the state of the federal change.

Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's financial statements or income tax returns. The final outcome of the future tax consequences of legal proceedings, if any, as well as the outcome of competent authority proceedings, changes in regulatory tax laws, or interpretation of those tax laws could impact the Company's financial statements. The Company is subject to the effects of these matters occurring in various jurisdictions. The Company has no knowledge of any event that would materially increase or decrease the unrecognized tax benefits within the next twelve months.

The unrecognized tax benefits at October 31, 2010 of \$18.6 million (including \$0.8 million for which the disallowance of such items would not affect the annual effective tax rate) primarily relate to the Separation as discussed in Note 1. For the years ended October 31, 2010 and 2009, the Company recognized \$0.2 million and \$0.2 million, respectively in interest and penalties, which are reported as Income tax expense in the Consolidated Statements of Income consistent with past practice. As of October 31, 2010, non-current unrecognized tax benefits of \$6.3 million and \$12.3 million are recorded in other liabilities and non-current deferred taxes, respectively.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**10. Long-Term Debt and Financing Arrangements**

Long-term debt consists of the following:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Revolving Credit Facility .....	\$ —	\$ —
City of Richmond, Kentucky Industrial Building Revenue Bonds .....	1,000	1,100
Scott County, Iowa Industrial Waste Recycling Revenue Bonds .....	800	1,000
Capital lease obligations and other .....	143	166
Total debt .....	<u>\$ 1,943</u>	<u>\$ 2,266</u>
Less maturities due within one year included in current liabilities..	327	323
Long-term debt .....	<u>\$ 1,616</u>	<u>\$ 1,943</u>

***Credit Facility***

The Company's \$270.0 million Senior Unsecured Revolving Credit Facility (the Credit Facility) was executed on April 23, 2008. The Credit Facility has a five-year term and is unsecured. The Credit Facility expires April 23, 2013 and provides for up to \$50.0 million for standby letters of credit, limited to the undrawn amount available under the Credit Facility. Borrowings under the Credit Facility bear interest at a spread above LIBOR based on a combined leverage and ratings grid. Proceeds from the Credit Facility may be used to provide availability for acquisitions, working capital, capital expenditures and general corporate purposes.

Under the Credit Facility, the Company is obligated to comply with certain financial covenants requiring the Company to maintain a Consolidated Leverage Ratio of no more than 3.25 to 1 and a Consolidated Interest Coverage Ratio of no less than 3.00 to 1. As defined by the Credit Facility's indenture, the Consolidated Leverage Ratio is the ratio of consolidated indebtedness as of such date to consolidated EBITDA for the previous four fiscal quarters; and the Consolidated Interest Coverage Ratio is the ratio of consolidated EBITDA to consolidated interest expense, in each case for the previous four consecutive fiscal quarters. EBITDA is defined by the indenture to include proforma EBITDA of acquisitions and to exclude certain items like non-cash charges. Additionally, the Credit Facility contains certain limitations on additional indebtedness, asset or equity sales, and acquisitions. Dividends and other distributions are permitted so long as after giving effect to such dividend or stock repurchase, there is no event of default.

As of October 31, 2010, the Company had no borrowings under the Credit Facility, and the Company was in compliance with all Credit Facility financial covenants. The availability under the Credit Facility is a function of both the facility amount utilized and meeting covenant requirements. Although there were no borrowings on the Credit Facility and only \$6.5 million of outstanding letters of credit under the Credit Facility, the aggregate availability under the Credit Facility was limited by the Consolidated Leverage Ratio resulting in an availability of \$209.4 million at October 31, 2010.

***Other Debt Instruments***

The City of Richmond, Kentucky Industrial Building Revenue Bonds were obtained as part of the acquisition of Mikron. These bonds are due in annual installments through October 2020. Interest is payable monthly at a variable rate. The average rate during fiscal 2010 and fiscal 2009 was 0.4% and 0.7%, respectively. These bonds are secured by the land, building and certain equipment of the Mikron East facility

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

located in Richmond, Kentucky. In addition, a \$1.0 million letter of credit under the Credit Facility serves as a conduit for making the scheduled payments.

In June 1999, the Company borrowed \$3.0 million through Scott County, Iowa Variable Rate Demand Industrial Waste Recycling Revenue Bonds Series 1999. The bonds require 15 annual principal payments of \$200,000 beginning on July 1, 2000. The variable interest rate is established by the remarketing agent based on the lowest weekly rate of interest that would permit the sale of the bonds at par, on the basis of prevailing financial market conditions. Interest is payable on the first business day of each calendar month. Interest rates on these bonds during fiscal 2010 have ranged from 0.4% to 0.8%. These bonds are secured by a Letter of Credit.

***Additional Debt Disclosures***

The Company's consolidated debt had a weighted average interest rate of 1.2% and 1.1% as of October 31, 2010 and October 31, 2009, respectively. Approximately 93% and 93% of the total debt had a variable interest rate at October 31, 2010 and 2009, respectively. As of October 31, 2010 and 2009, the Company's debt of \$1.9 million and \$2.3 million approximates fair value as nearly all the Company's debt is at a variable interest rate. As of October 31, 2010, the Company has \$6.5 million in letters of credit, of which \$5.7 million in letters of credit fall under the Credit Facility sublimit.

Aggregate maturities of long-term debt at October 31, 2010, are as follows (in thousands):

2011 .....	\$ 327
2012 .....	328
2013 .....	329
2014 .....	323
2015 .....	108
Thereafter .....	528
Total .....	<u>\$ 1,943</u>

**11. Retirement Plans**

The Company has a number of retirement plans covering substantially all employees. The Company provides both defined benefit and defined contribution plans. In general, the plant or location of his/her employment determines an employee's coverage for retirement benefits.

***Pension Plan***

The Company has a non-contributory, single employer defined benefit pension plan that covers substantially all non-union employees. Effective January 1, 2007, the Company amended this defined benefit pension plan to include a new cash balance formula for all new salaried employees hired on or after January 1, 2007 and for any non-union employees who were not participating in a defined benefit plan prior to January 1, 2007. All new salaried employees are eligible to receive credits equivalent to 4% of their annual eligible wages, while some of the employees at the time of the amendment were "grandfathered" and are eligible to receive credits ranging up to 6.5% based upon a percentage they received in the defined contribution plan prior to the amendment of the pension plan. Additionally, every year the participants will receive an interest related credit on their respective balance equivalent to the prevailing 30-year Treasury rate. Benefits for participants in this plan prior to January 1, 2007 continue to be based on a more traditional formula for retirement benefits where the plan pays benefits to employees upon retirement, using a formula based upon years of service and

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

pensionable compensation prior to retirement. Of the Company's participants, 99% are under the cash balance formula.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. This Act introduces a Medicare prescription-drug benefit beginning in 2006 as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit at least "actuarially equivalent" to the Medicare benefit. Management has concluded that the Company's plans are at least "actuarially equivalent" to the Medicare benefit. The Company has not included the federal subsidy from the Act for those eligible. The impact to net periodic benefit cost and to benefits paid did not have a material impact on the Consolidated Financial Statements.

Prior to the Separation, the Company's pension plan included participants from the vehicular products business, the building products businesses and corporate. Upon the Separation, Gerdau assumed the pension benefit liabilities for the vehicular products and corporate retiree participants (reported in discontinued operations) while the Company retained the pension benefit liabilities for the building products and active corporate participants. Accordingly, the plan assets were allocated in fiscal 2008 between Gerdau and the Company based on benefit priority categories of the respective participants. The following benefit balances and activity pertain to only continuing operations.

*Funded Status and Net Periodic Benefit Cost*

The funded status of the defined benefit pension plan at the respective year-ends was as follows:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year <sup>(1)</sup> .....	\$ 13,026	\$ 7,003
Service cost .....	3,357	2,815
Interest cost .....	661	563
Actuarial loss (gain) .....	(284)	3,805
Benefits paid .....	(726)	(717)
Administrative expenses .....	(419)	(443)
Benefit obligation at end of year <sup>(1)</sup> .....	<u>\$ 15,615</u>	<u>\$ 13,026</u>
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year ....	\$ 7,287	\$ 4,455
Actual return on plan assets .....	1,468	561
Employer contributions .....	5,340	3,430
Benefits paid .....	(726)	(717)
Administrative expenses .....	(419)	(442)
Fair value of plan assets at end of year .....	<u>\$ 12,950</u>	<u>\$ 7,287</u>
Funded Status	\$ (2,665)	\$ (5,739)

<sup>(1)</sup> The benefit obligation is the projected benefit obligation.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>Amounts Recognized in the Consolidated Balance Sheet:</b>		
Other liabilities .....	\$ (2,665)	\$ (5,739)
Net amount recognized.....	<u>\$ (2,665)</u>	<u>\$ (5,739)</u>
<b>Amounts Recognized in Accumulated Other Comprehensive Income (pretax):</b>		
Net actuarial (gain) loss .....	\$ (2,700)	\$ (3,844)
Net prior service cost (credit).....	—	—
Net transition obligation (asset) .....	—	—
Total .....	<u><u>\$ (2,700)</u></u>	<u><u>\$ (3,844)</u></u>

The accumulated benefit obligation is the present value of pension benefits (whether vested or unvested) attributed to employee service rendered before the measurement date and based on employee service and compensation prior to that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. The accumulated benefit obligations of the Company's pension plans as of the measurement dates in 2010 and 2009 were \$14.8 million and \$12.1 million, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were:

	<b>October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Projected benefit obligation .....	\$ 15,615	\$ 13,026
Accumulated benefit obligation .....	14,829	12,055
Fair value of plan assets .....	12,950	7,287

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The net periodic benefit cost and other changes in plan assets and benefit obligations recognized in other comprehensive loss (income) (pretax) for the years ended October 31, 2010, 2009 and 2008 were:

	<b>October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
	<b>(In thousands)</b>		
<b>Net Periodic Benefit Cost:</b>			
Service cost.....	\$ 3,357	\$ 2,815	\$ 3,786
Interest cost.....	661	563	371
Expected return on plan assets .....	(754)	(407)	(334)
Amortization of unrecognized net loss .....	146	—	—
Net periodic benefit cost.....	<u>\$ 3,410</u>	<u>\$ 2,971</u>	<u>\$ 3,823</u>
<b>Other changes in plan assets and benefit obligations recognized in other comprehensive loss (income) (pretax):</b>			
Net loss (gain) arising during the period .....	\$ (998)	\$ 3,651	\$ 2,057
Prior service cost (credit) arising during the period .....	—	—	—
Amortization of gain (loss).....	(146)	—	—
Amortization of prior service (cost) credit .....	—	—	—
Total recognized in other comprehensive loss (income)	<u>\$ (1,144)</u>	<u>\$ 3,651</u>	<u>\$ 2,057</u>
Total recognized in net periodic benefit cost and other comprehensive loss (income) .....	<u>\$ 2,266</u>	<u>\$ 6,622</u>	<u>\$ 5,880</u>

The increase in net pension cost from 2009 to 2010 is primarily attributable to a decrease in the discount rate which effectively increases pension costs. The decrease in net pension cost from 2008 to 2009 is primarily attributable to an increase in the discount rate which effectively decreases pension costs and a decrease in participants from reducing headcount.

The amount of prior service cost and net actuarial loss for the defined benefit pension plans that is expected to be amortized from accumulated other comprehensive income and reported as a component of net periodic benefit cost during fiscal 2011 is \$0 and \$89 thousand, respectively.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*Measurement Date and Assumptions*

The Company uses an October 31 measurement date for its defined benefit plans. The Company generally determines its actuarial assumptions on an annual basis. The assumptions for the pension benefit calculations for the years ended October 31, are as follows:

	<b>Pension Benefits</b>		
	<b>October 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b>Weighted average assumptions to determine benefit obligation at year-end:</b>			
Discount rate.....	5.15%	5.65%	8.34%
Rate of compensation increase .....	4.00%	4.00%	4.00%
<b>Weighted average assumptions to determine net periodic benefit costs:</b>			
Discount rate.....	5.65%	8.34%	6.47%
Expected return on plan assets.....	8.00%	8.00%	8.25%
Rate of compensation increase .....	4.00%	4.00%	4.00%

The discount rate is used to calculate the present value of the projected benefit obligation for pension benefits. The rate reflects the rate at which benefits could be effectively settled on the measurement date. For 2010, 2009 and 2008, the Company determined its discount rate based on a pension discount curve; and the rate represents the single rate that, if applied to every year of projected benefits payments, would result in the same discounted value as the array of rates that comprise the pension discount curve.

The expected return on plan assets is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. The return assumption is reviewed at least annually. The rate of compensation increase represents the long-term assumption for expected increases to salaries.

*Plan Assets*

The Company's target allocation for the year ending October 31, 2010 and actual asset allocation by asset category and fair value measurements as of October 31, 2010 and 2009 are as follows:

	<b>Target Allocation</b>	<b>Actual Allocation at October 31,</b>	
		<b>2010</b>	<b>2009</b>
Equity securities .....	60.0%	60.0%	59.0%
Debt securities .....	40.0%	40.0%	41.0%

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	<b>Fair Value Measurements at October 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
Large Capitalization.....	\$ 4,356	\$ 2,427
Small Capitalization.....	1,830	1,002
International Equity .....	1,584	833
Equity Securities.....	<u>\$ 7,770</u>	<u>\$ 4,262</u>
High-Quality Core Bond.....	\$ 2,561	\$ 1,484
High-Quality Government Bond.....	1,297	745
High-Yield Bond.....	1,312	746
Debt Securities.....	<u>\$ 5,170</u>	<u>\$ 2,975</u>
Total Securities <sup>(1)</sup> .....	<u><u>\$12,940</u></u>	<u><u>\$ 7,237</u></u>

(1) Quoted fair value prices are as of October 31, 2010 and 2009 and are quoted prices in active markets for identical assets (Level 1).

Inputs and valuation techniques used to measure the fair value of plan assets vary according to the type of security being valued. All of the equity and debt securities held directly by the plans are actively traded and fair values are determined based on quoted market prices.

The Company's investment objective for defined benefit plan assets is to meet the plans' benefit obligations, while minimizing the potential for future required Company plan contributions. The investment strategies focus on asset class diversification, liquidity to meet benefit payments and an appropriate balance of long-term investment return and risk. Target ranges for asset allocations are determined by matching the actuarial projections of the plans' future liabilities and benefit payments with expected long-term rates of return on the assets, taking into account investment return volatility and correlations across asset classes. Plan assets are diversified across several investment managers and are generally invested in liquid funds that are selected to track broad market equity and bond indices. Investment risk is carefully controlled with plan assets rebalanced to target allocations on a periodic basis and continual monitoring of investment managers performance relative to the investment guidelines established with each investment manager.

*Expected Benefit Payments and Funding*

The Company's pension funding policy generally has been to make the minimum annual contributions required by applicable regulations while considering targeted funded percentages. In fiscal 2010, the Company decided to modify its funding strategy and accelerate contributions to target a 100% funding threshold. Additionally, the Company will consider funding fiscal year requirements early in the fiscal year to potentially maximize returns on assets. During the third quarter 2010, the Company contributed \$2.7 million in addition to minimum funding requirements to achieve a 100% funded threshold. In fiscal 2010 and 2009, the Company made total pension contributions of \$5.3 million and \$3.4 million, respectively.

During fiscal 2011, the Company expects to contribute approximately \$1.9 million to the pension plan to reach targeted funding levels and meet minimum contribution requirements. For the pension benefit plan, this is comprised of expected contributions to the plan. Expected contributions are dependent on many variables, including the variability of the market value of the assets as compared to the obligation and other market or regulatory conditions. In addition, the Company takes into consideration its business investment



**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

opportunities and resulting cash requirements. Accordingly, actual funding may differ greatly from current estimates.

Total benefit payments expected to be paid to participants, which include payments funded from the Company's assets, as discussed above, as well as payments paid from the plan are as follows:

<u>Years Ended October 31,</u>	<u>Pension Benefits (In thousands)</u>
2011.....	602
2012.....	1,065
2013.....	1,315
2014.....	1,678
2015.....	1,545
2016 - 2020 .....	11,449

***Postretirement Benefit Plan***

The Company provides certain healthcare and life insurance benefits for a small number of eligible retired employees employed prior to January 1, 1993. Certain employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The Company continues to fund benefit costs on a pay-as-you-go basis. At October 31, 2010, the Company had a total liability of \$1.1 million of which \$0.1 million was recorded in Accrued liabilities and \$1.0 million was recorded in Deferred pension and postretirement benefits on the Consolidated Balance Sheets. At October 31, 2009, the Company had a total liability of \$1.0 million of which \$0.1 million was recorded in Accrued liabilities and \$0.9 million was recorded in Deferred pension and postretirement benefits on the Consolidated Balance Sheets.

***Defined Contribution Plans***

The Company also has defined contribution plans to which both employees and the Company make contributions. Effective April 1, 2009, the Company temporarily suspended its matching contributions to the Quanex Building Products Salaried and Non-Union Employee 401(k) Plan as part of its efforts to reduce controllable spending. Effective February 1, 2010, these matching contributions were reinstated. The Company matches 50% up to the first 5% of employee deferrals. The Company contributed approximately \$2.2 million, \$1.1 million and \$3.0 million to these plans in fiscal 2010, 2009 and 2008, respectively. The increase in contributions from 2009 to 2010 primarily resulted from the Company reinstating its matching contributions to the Quanex Building Products Salaried and Non-Union 401(K) Plan effective February 1, 2010. The reduction in contributions from 2008 to 2009 primarily resulted from the Company suspending its matching contributions to the Quanex Building Products Salaried and Non-Union 401(K) Plan effective April 1, 2009 as part of its efforts to reduce controllable spending. No shares of the Company's common stock were held by the Company's defined contribution plan as of October 31, 2010 and 2009 as Company stock is no longer an investment option offered under the Plan.

***Other***

Quanex has a Supplemental Benefit Plan covering certain key officers of the Company. Earned vested benefits under the Supplemental Benefit Plan were approximately \$1.1 million, \$0.7 million and \$4.2 million at October 31, 2010, 2009 and 2008, respectively. As of October 31, 2008, \$4.0 million of the total liability was recorded in Accrued liabilities, as the Company distributed this amount during fiscal 2009 with the remaining \$0.3 million recorded as part of Other (non-current) liabilities. The entire October 31, 2010

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

and 2009 balance is recorded as part of Other (non-current) liabilities. The Company also has a non-qualified Deferred Compensation Plan covering members of the Board of Directors and certain key employees of the Company. The estimated market values of the Deferred Compensation Plan as of October 31, 2010, 2009 and 2008, respectively were approximately \$5.0 million, \$5.2 million and \$2.9 million.

**12. Industry Segment Information**

Business segments are reported in accordance with ASC Topic 280 “*Segment Reporting*” (ASC 280). ASC 280 requires the Company to disclose certain information about its operating segments where operating segments are defined as “components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance.” Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Quanex has two reportable segments: Engineered Products and Aluminum Sheet Products. The Engineered Products segment produces engineered products and components primarily serving the window and door industry, while the Aluminum Sheet Products segment produces common alloy mill finished and coated aluminum sheet serving the broader building and construction markets, as well as other capital goods and transportation markets. The main market drivers of the two segments are residential housing starts and residential remodeling expenditures.

For financial reporting purposes three of the Company’s four operating segments, Homeshield, Truseal and Mikron, have been aggregated into the Engineered Products reportable segment. The remaining operating segment, Nichols Aluminum, is reported as a separate reportable segment. The financial performance of the operations is based upon operating income.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, with the exception of the inventory valuation method. The Company measures its inventory at the segment level on a FIFO or weighted-average basis; however at the consolidated Company level, approximately half of the inventory is measured on a LIFO basis. The LIFO reserve is computed on a consolidated basis as a single pool and is thus treated as a corporate expense. See Note 6 to the financial statements for more information. LIFO inventory adjustments along with corporate office charges and intersegment eliminations are reported as Corporate, Intersegment Eliminations or Other. The Company accounts for intersegment sales and transfers as though the sales or transfers were to third parties, that is, at current market prices. Corporate assets primarily include cash and equivalents partially offset by the Company’s consolidated LIFO inventory reserve.

For the year ended October 31, 2010, no one customer represented 10% or more of the consolidated net sales of the Company. For the year ended October 31, 2009, one customer, Andersen Corporation, represented \$62.7 million or 11% of the consolidated net sales of the Company. For the year ended October 31, 2008, one customer, Associated Materials, Inc., represented \$105.8 million or 12% of the consolidated net sales of the Company. Both of the Company’s segments make sales to both Andersen Corporation and Associated Materials, Inc. Following is selected segment information.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	For the Years Ended October 31,		
	2010	2009	2008 <sup>(1)</sup>
	(In thousands)		
<b>Net Sales:</b>			
Engineered Products .....	\$ 361,062	\$ 323,319	\$ 407,896
Aluminum Sheet Products .....	449,529	273,728	479,925
Intersegment Eliminations .....	(12,277)	(12,037)	(18,888)
Consolidated .....	<u>\$ 798,314</u>	<u>\$ 585,010</u>	<u>\$ 868,933</u>
<b>Depreciation and Amortization:</b>			
Engineered Products .....	19,760	23,365	26,082
Aluminum Sheet Products .....	8,334	8,954	8,793
Corporate & Other .....	120	134	193
Consolidated .....	<u>\$ 28,214</u>	<u>\$ 32,453</u>	<u>\$ 35,068</u>
<b>Operating Income (Loss) <sup>(3)</sup>:</b>			
Engineered Products .....	34,278	(140,378)	30,001
Aluminum Sheet Products .....	30,223	(26,416)	40,260
Corporate & Other <sup>(1)</sup> .....	(27,204)	(12,304)	(49,161)
Consolidated .....	<u>\$ 37,297</u>	<u>\$ (179,098)</u>	<u>\$ 21,100</u>
<b>Capital Expenditures:</b>			
Engineered Products .....	9,789	8,025	10,644
Aluminum Sheet Products .....	4,806	7,523	4,236
Corporate & Other .....	125	148	140
Consolidated .....	<u>\$ 14,720</u>	<u>\$ 15,696</u>	<u>\$ 15,020</u>
<b>Identifiable Assets:</b>			
Engineered Products .....	258,919	273,252	439,047
Aluminum Sheet Products .....	152,113	138,615	197,436
Corporate, Intersegment Eliminations & Other ..	179,756	129,977	42,989
Discontinued Operations <sup>(2)</sup> .....	462	1,756	1,375
Consolidated .....	<u>\$ 591,250</u>	<u>\$ 543,600</u>	<u>\$ 680,847</u>

<sup>(1)</sup> Corporate & Other includes transaction-related expenditures of \$26.5 million during the year ended October 31, 2008 compared to \$0.1 million during fiscal 2009. These 2008 transaction related expenses represent \$2.9 million of spin-off transaction costs, \$22.8 million non-cash expense related to the modification of stock-based compensation awards and \$0.8 million related to the acceleration of executive incentive and other benefits. For additional discussion of the stock-based compensation modification impact, see Note 14.

<sup>(2)</sup> As more fully described in Notes 1 and 3, in January 2010, management committed to a plan to shut down the operations of its start-up facility in China; therefore, the China assets are included in discontinued operations for all periods presented.

<sup>(3)</sup> As more fully described in Note 4, in fiscal 2009, the Company recorded a non-cash goodwill impairment charge of \$170.7 million. Engineered Products recorded \$150.3 million, and Aluminum Sheet Products recorded \$20.4 million of the goodwill impairment charge. Additionally, Engineered Products recorded an intangible impairment charge of \$11.9 million in fiscal 2009.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

***Net Sales by Product Information***

Reportable segment net sales separately reflect revenues for each group of similar products. The Engineered Products segment sells window and door components and the Aluminum Sheet Products segment sells aluminum mill sheet products.

***Geographic Information***

Operations of the Company and all long-lived assets are located in the United States. Net sales by geographic region are attributed to countries based on the location of the customer and are as follows:

	Years Ended October 31,		
	2010	2009	2008
	(In thousands)		
<b>Net Sales</b>			
United States .....	\$ 691,508	\$ 514,949	\$ 768,759
Mexico.....	12,277	6,519	15,109
Canada.....	67,856	42,246	65,736
Asian countries.....	15,810	13,758	6,536
European countries.....	10,048	7,210	11,860
Other foreign countries.....	815	328	933
Total foreign .....	106,806	70,061	100,174
Total net sales.....	\$ 798,314	\$ 585,010	\$ 868,933

**13. Stockholders' Equity**

The Company's authorized capital stock consists of 125,000,000 shares of Common Stock, par value \$0.01 per share, and 1,000,000 shares of Preferred Stock, no par value, as of October 31, 2010. As of October 31, 2010 and 2009, there were no shares of Preferred Stock issued or outstanding.

***Stock Repurchase Program and Treasury Stock***

On May 27, 2010, the Board of Directors approved a stock repurchase program of 1.0 million shares. The Company's objective of this program is to manage the dilution created by shares issued under stock-based compensation plans and to repurchase shares opportunistically. The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The Company uses a moving-average method on the subsequent reissuance of shares, and any resulting proceeds in excess of cost are credited to additional paid in capital while any deficiency is charged to retained earnings.

During the year ended October 31, 2010, the Company purchased 250,000 shares of treasury stock at a cost totaling \$4.3 million. In addition, to facilitate the winding down of the rabbi trust, the Company transferred 102,125 shares held by the trust into treasury stock at cost. As of October 31, 2010, there were 351,626 shares of treasury stock, and the remaining shares authorized for repurchase in the program was 750,000. There were no shares of treasury stock at October 31, 2009.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*Rabbi Trust*

The Company's rabbi trust held Quanex Corporation common stock which was recorded as a contra-equity at historical cost prior to the Separation. Upon completion of the Separation, the rabbi trust was separated between Quanex Building Products Corporation and Gerdau. For each share held in the Quanex Building Products rabbi trust, merger proceeds of \$39.20 per share and one share of Quanex Building Products common stock were received. The shares of Quanex Building Products common stock are recorded at the same historical cost as the Quanex Corporation common stock and are reported as contra-equity. The merger proceeds equated to \$4.0 million to the rabbi trust, which was recorded as income in Other, net during the second fiscal quarter of 2008. During the third fiscal quarter of 2008, Quanex Building Products received \$3.6 million of cash from the rabbi trust as reimbursement for deferred compensation payments made by Quanex Building Products. The rabbi trust's remaining merger proceeds of \$0.4 million as of October 31, 2009 are consolidated in Prepaid and other current assets. As of October 31, 2009, the rabbi trust held 102,125 shares of Quanex Building Products' common stock. To facilitate the winding down of the rabbi trust, the Company transferred shares held by the trust into treasury stock at cost. As of October 31, 2010, there were no shares of Quanex Building Products' common stock held in the rabbi trust.

**14. Stock-Based Compensation**

Effective with the Separation on April 23, 2008, the Company established the Quanex Building Products Corporation 2008 Omnibus Incentive Plan (the 2008 Plan). The 2008 Plan provides for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs), performance stock awards, performance unit awards, annual incentive awards, other stock-based awards and cash-based awards. The 2008 Plan is administered by the Compensation and Management Development Committee of the Board of Directors and allows for immediate, graded or cliff vesting options, but options must be exercised no later than ten years from the date of grant. The aggregate number of shares of common stock authorized for grant under the 2008 Plan is 2,900,000. Any officer, key employee and / or non-employee director of the Company or any of its affiliates is eligible for awards under the 2008 Plan. The initial awards granted under the 2008 Plan were on April 23, 2008; service is the vesting condition. All Quanex Corporation unvested stock options and restricted shares vested as set forth in the Separation related agreements prior to the completion of the Separation on April 23, 2008, and all such Quanex Corporation stock-based compensation awards were settled effective with the Separation.

The Company's practice is to grant options and restricted stock or RSUs to non-employee directors on October 31<sup>st</sup> of each year, with an additional grant of options to each director on the date of his or her first anniversary of service. Additionally, the Company's practice is to grant options and restricted stock to employees at the Company's December board meeting and occasionally to key employees on their respective dates of hire. The exercise price of the option awards is equal to the closing market price on these pre-determined dates. The Company generally issues shares from treasury stock, if available, to satisfy stock option exercises. If there are no shares in treasury stock the Company issues additional shares of common stock.

The Company's stock-based compensation expense prior to the Separation on April 23, 2008 was driven by stock awards issued by the Company's predecessor, Quanex Corporation. The Company's stock-based compensation following the Separation is related to the Company's stock awards only and is governed by the 2008 Plan. In all instances, the stock-based compensation recorded in Selling, general and administrative expense included in continuing operations relates to employees or former employees of the Company's building products operating divisions, Quanex Building Products Corporation corporate employees and non-employee directors of the Company. Stock-based compensation expense related to the Company's former vehicular products business, former corporate employees as of the Separation and former directors as of the Separation is reflected in discontinued operations for all periods presented. Stock-based compensation for the years ended October 31, 2010, 2009 and 2008 for the Company's continuing operations was as follows:

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	Years Ended October 31,		
	2010	2009	2008
	(In thousands)		
Modification – stock options.....	\$ —	\$ —	\$ 21,696
Modification – restricted stock.....	—	—	1,061
Modification – subtotal.....	—	—	22,757
Stock option expense.....	2,812	1,912	2,568
Restricted stock amortization.....	1,393	1,271	806
Restricted stock units.....	251	246	247
Total pretax stock-based compensation expense included in income from continuing operations.....	\$ 4,456	\$ 3,429	\$ 26,378
Income tax benefit related to stock-based compensation included in net income.....	\$ 1,724	\$ 1,313	\$ 10,050

The table above reflects \$22.8 million of expense in April 2008 related to the modification of stock-based compensation awards associated with the Separation. The Separation constituted a change in control for purposes of Quanex Corporation's outstanding stock option awards and restricted stock awards. Accordingly, all unvested stock options and restricted shares vested as set forth in the Separation related agreements prior to completion of the Separation on April 23, 2008. Additionally, pursuant to the Separation related agreements, all outstanding stock options were cash settled by Gerdau following the Separation. A change such as this in the terms and conditions of the stock-based awards constitutes a modification of the award. As a result, the Company incurred compensation cost from the incremental increase in fair value of the award upon modification just prior to the Separation over the award's original grant date fair value. Even though all stock option awards were cash settled by Gerdau following the Separation, the Company recorded \$21.7 million of non-cash stock option expense in continuing operations as the expense was associated with awards held by building products employees and then active corporate employees and directors. In connection with the Separation, 1.3 million stock options and 41 thousand restricted stock awards were modified.

The Company has not capitalized any stock-based compensation cost as part of inventory or fixed assets during the years ended October 31, 2010, 2009 and 2008. Cash received from option exercises and tax benefits from stock option exercises and lapses on restricted stock prior to the Separation are reflected in discontinued operations' cash flows from financing activities. Since the Separation on April 23, 2008, cash proceeds from stock option exercises and the related tax benefits are a component of financing cash flows from continuing operations. Cash received from stock option exercises for the year ended October 31, 2010 was \$0.4 million. The actual tax benefit realized for the tax deductions from stock option exercises and lapses on restricted stock totaled \$0.1 million. There were no stock option exercises as of October 31, 2009 and 2008.

### ***Stock Options***

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of its stock options. The 2010, 2009 and 2008 valuation assumptions pertain to grants made by Quanex Building Products Corporation subsequent to the Separation on April 23, 2008. A description of the methodology for the valuation assumption follows:

- *Expected Volatility* –For the 2010, 2009 and 2008 grants following the Separation, expected volatility was determined based on the historical data available for peer companies as Quanex Building Products Corporation is a new company with no historical price data available. The expected volatility assumption is adjusted if future volatility is expected to vary from historical experience.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

- *Expected Term* - The expected term of options represents the period of time that options granted are expected to be outstanding and falls between the option's vesting and contractual expiration dates. Quanex Building Products Corporation is a new company with no company specific exercise behavior available. Accordingly, for the 2010, 2009 and 2008 grants following the Separation, expected term was determined based on historical data from Quanex Corporation considering that Quanex Corporation's employee group was the most similar to Quanex Building Products Corporation's employee group. Separate groups of employees that have similar historical exercise behavior are considered separately. Accordingly, the expected term range given below results from certain groups of employees exhibiting different behavior.
- *Risk-Free Rate* - The risk-free rate is based on the yield at the date of grant of a zero-coupon U.S. Treasury bond whose maturity period equals the option's expected term.
- *Expected Dividend Yield* -For the 2010, 2009, and 2008 grants following the Separation, this valuation assumption was based on the expected dividend yield of Quanex Building Products Corporation following the Separation.

The fair value of each option was estimated on the date of grant. The following is a summary of valuation assumptions for grants during the years ended October 31, 2010, 2009 and 2008:

Valuation assumptions	Grants During the Years Ended October 31,		
	2010	2009	2008
Weighted-average expected volatility .....	55.0%	47.0%	39.0%
Expected term (in years) .....	4.9-5.1	4.9-5.1	4.9-5.1
Risk-free interest rate .....	2.0%	1.6%	2.8%
Expected dividend yield over expected term .....	1.0%	1.0%	1.0%
Weighted-average grant-date fair value per share ...	\$ 7.38	\$ 3.21	\$ 5.24

The fluctuation in the weighted average grant-date fair value is primarily related to the Company's stock price; for Quanex Building Products Corporation, the weighted-average market price on the date of grant was \$16.39 in 2010 compared to \$8.24 in 2009 and \$14.90 in 2008.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

*Quanex Building Products Corporation – Stock Options*

As previously described, effective with the Separation on April 23, 2008, the Company established the Quanex Building Products Corporation 2008 Omnibus Incentive Plan (the 2008 Plan) which includes stock options. The 2008 Plan is the only plan currently active. Below is a table summarizing the stock option activity for the 2008 Plan (applicable to periods subsequent to the Separation). All activity relates to the Company's continuing operations.

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at October 31, 2009.....	1,409,921	\$ 12.38		
Granted .....	359,790	16.39		
Exercised .....	(38,641)	11.42		
Cancelled/Expired .....	(6,769)	12.56		
Outstanding at October 31, 2010.....	<u>1,724,301</u>	13.24	7.8	\$ 8,249
Vested or expected to vest at October 31, 2010..	<u>1,641,503</u>	13.23	7.7	\$ 7,864
Exercisable at October 31, 2010.....	<u>844,039</u>	13.67	7.2	\$ 3,675

The total intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the year ended October 31, 2010 was \$0.3 million. No options were exercised during fiscal year 2009 or 2008 under the 2008 Plan. The total fair value of shares vested during the year ended October 31, 2010 and October 31, 2009 was \$2.1 million and \$1.8 million, respectively. Total unrecognized compensation cost related to stock options granted under the 2008 Plan was \$2.4 million as of October 31, 2010. That cost is expected to be recognized over a weighted-average period of 1.5 years.

*Quanex Corporation Predecessor Stock Options*

Below are descriptions and activity of all former Quanex Corporation plans (applicable to periods prior to the Separation). The summary below reflects all stock option awards of the Company and its accounting predecessor, including those awarded to former vehicular products employees and corporate retirees whose expense is reported in discontinued operations.



**QUANEX BUILDING PRODUCTS CORPORATION**  
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2006 Omnibus Incentive Plan (Predecessor Quanex Corporation Plan)

The predecessor Company's 2006 Omnibus Incentive Plan (the 2006 Plan) provided for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance stock awards, performance unit awards, annual incentive awards, other stock-based awards and cash-based awards. The 2006 Plan was administered by the Compensation Committee of the Board of Directors and allowed for immediate, graded or cliff vesting options with options required to be exercised no later than ten years from the date of grant. The aggregate number of shares of common stock authorized for grant under the 2006 Plan was 2,625,000. Any officer, key employee and / or non-employee director of the Company or any of its affiliates was eligible for awards under the 2006 Plan. Service was the vesting condition for awards granted under the 2006 Plan. The 2006 Plan was terminated upon closing of the Separation.

The total intrinsic value of options exercised during the fiscal 2008 period prior to the Separation was \$0.1 million. The total fair value of options vested during the 2008 period prior to the Separation was \$1.3 million. The total fair value of shares vested in connection with the Separation (reflecting the modification) was \$10.8 million.

Key Employee and Non-Employee Director Stock Option Plans (Predecessor Quanex Corporation Plan)

The predecessor Company's 1996 Employee Stock Option and Restricted Stock Plan (the 1996 Plan) and 1997 Key Employee Stock Plan (the 1997 Plan) provided for the granting of options to employees and non-employee directors of up to an aggregate of 6,637,500 common shares. Unless otherwise provided by the Board of Directors at the time of grant, options became exercisable in one-third increments maturing cumulatively on each of the first through third anniversaries of the date of grant and were required to be exercised no later than ten years from the date of grant. The 1996 Plan expired as of December 31, 2005, and the 1997 Plan was terminated effective December 31, 2005.

The total intrinsic value of options exercised during the fiscal 2008 period prior to the Separation was \$3.7 million. The total fair value of options vested during the 2008 period prior to the Separation was \$2.1 million. The total fair value of shares vested in connection with the Separation in April 2008 (reflecting the modification) was \$4.0 million.

1997 Non-Employee Director Stock Option Plan (Predecessor Quanex Corporation Plan)

The predecessor Company's 1997 Non-Employee Director Stock Option Plan provided for the granting of stock options to non-employee directors to purchase up to an aggregate of 900,000 shares of common stock. Options granted under this plan generally became exercisable immediately or became exercisable in one-third increments maturing cumulatively on each of the first through third anniversaries of the date of grant. Options generally must be exercised no later than ten years from the date of grant. On December 5, 2002, the Company elected to terminate future grants of options under this plan.

The total intrinsic value of options exercised during the fiscal 2008 period prior to the Separation was \$0.1 million. All stock options under this plan were vested as of October 31, 2005.

***Restricted Stock***

Under the 2008 Plan, common stock may be awarded to key employees, officers and non-employee directors. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The awards vest over a specified time period, but typically either immediately vest or cliff vest over a three-year period with service as the vesting condition. Upon issuance of stock under the plan, fair value is measured by the grant date price of the Company's shares. This fair value is then expensed

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

over the restricted period with a corresponding increase to additional paid-in-capital. A summary of non-vested restricted shares at October 31, 2009, and changes during the year ended October 31, 2010 follows.

	<u>Shares</u>	<u>Weighted- Average Grant- Date Fair Value Per Share</u>
Nonvested at October 31, 2009 .....	312,049	\$12.38
Granted.....	74,900	16.21
Vested.....	(8,333)	15.55
Nonvested at October 31, 2010 .....	<u>378,616</u>	<u>13.07</u>

For the following discussion, the Separation and periods prior to the Separation include restricted stock awards awarded to former vehicular products employees whose expense is reported in discontinued operations. However, just prior to the Separation, restrictions on all outstanding restricted stock awards lapsed. Therefore, all activity post Separation would relate to the Company's continuing operations. Restricted stock awards prior to Separation were granted under the predecessor plans as described previously. The weighted-average grant-date fair value of restricted stock granted during the year ended October 31, 2010 and October 31, 2009 was \$16.21 and \$7.82, respectively. The weighted-average grant-date fair value of restricted stock granted during the year ended October 31, 2008 and post Separation was \$15.16. The total fair value of restricted stock vested during the years ended October 31, 2010 and 2009 were \$0.1 million and \$0.1 million, respectively. The total fair value of restricted stock vested in 2008 prior to the Separation and in connection with the Separation were \$2.3 million and \$2.2 million, respectively. Total unrecognized compensation cost related to unamortized restricted stock awards was \$1.7 million as of October 31, 2010. That cost is expected to be recognized over a weighted-average period of 1.4 years.

***Restricted Stock Units***

Restricted stock units (RSUs) were first awarded for the scheduled October 31, 2006 grant to non-employee directors in lieu of restricted stock. Beginning in fiscal 2010, RSUs were awarded to key employees. RSUs granted prior to the Separation were granted under the 2006 Plan, and RSUs granted post Separation were granted under the 2008 Plan. RSUs prior to the Separation were cash settled at Separation, and outstanding RSUs as of October 31, 2010 are under the 2008 Plan. RSUs are not considered to be outstanding shares of common stock and do not have voting rights. Holders of RSUs receive cash for an equivalent amount of cash dividends paid on the underlying common stock. Upon the earlier of the date the director ceases to be a board member or a change of control or upon vesting for the employee grants, each RSU is payable in cash in an amount equal to the market value of one share of the Company's common stock. Accordingly, the RSU liability will be adjusted to fair market value at each reporting date. The Company granted 29,388, 9,426, and 18,191 RSU awards in 2010, 2009, and 2008, respectively. The fair market value per share of the outstanding awards was \$18.02 and \$14.87 as of October 31, 2010 and 2009, respectively, and the aggregate amount charged to expense with respect to these awards was \$0.3 million, \$0.2 million, and \$0.2 million in fiscal 2010, 2009, and 2008, respectively. The number of RSU awards outstanding as of October 31, 2010 and 2009 was 46,132 and 27,617, respectively.

**15. Commitments**

Quanex has operating leases for certain real estate and equipment. Rental expense for the years ended October 31, 2010, 2009, and 2008 was \$4.8 million, \$4.8 million, and \$4.9 million, respectively. Quanex is a party to non-cancelable purchase obligations primarily for natural gas and aluminum scrap used in the

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

manufacturing process. Amounts purchased under these purchase obligations for the years ended October 31, 2010, 2009 and 2008 were \$1.6 million, \$17.5 million and \$2.4 million, respectively.

Future minimum payments as of October 31, 2010, by year and in the aggregate under operating leases having original non-cancelable lease terms in excess of one year and estimated non-cancellable purchase obligations with remaining terms in excess of a year as of October 31, 2010, by year and in the aggregate were as follows (in thousands):

	<b>Operating Leases</b>	<b>Purchase Obligations</b>
2011 .....	\$ 4,456	\$ 3,534
2012 .....	4,320	351
2013 .....	4,090	—
2014 .....	3,908	—
2015 .....	2,713	—
Thereafter.....	1,803	—
Total.....	<u>\$ 21,290</u>	<u>\$ 3,885</u>

**16. Contingencies**

*Environmental*

Quanex is subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. To satisfy such requirements, Quanex must make capital and other expenditures on an ongoing basis. The Company accrues its best estimates of its remediation obligations and adjusts such accruals as further information and circumstances develop. Those estimates may change substantially depending on information about the nature and extent of contamination, appropriate remediation technologies, and regulatory approvals. In accruing for environmental remediation liabilities, costs of future expenditures are not discounted to their present value, unless the amount and timing of the expenditures are fixed or reliably determinable. When environmental laws might be deemed to impose joint and several liability for the costs of responding to contamination, the Company accrues its allocable share of liability taking into account the number of parties participating, their ability to pay their shares, the volumes and nature of the wastes involved, the nature of anticipated response actions, and the nature of the Company's alleged connections. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management is not currently aware of any conditions that it believes are likely to have a material adverse effect on Quanex's operations, financial condition or cash flows.

As described below, the Company currently is engaged in remediation activities at one of its plant sites. The total associated environmental reserve and corresponding recovery as of October 31, 2010 and October 31, 2009 were as follows:

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

	<u>October 31, 2010</u>	<u>October 31, 2009</u>
	(In thousands)	
Current <sup>(1)</sup> .....	\$ 1,564	\$ 1,485
Non-current.....	12,027	1,767
Total environmental reserves.....	<u>\$ 13,591</u>	<u>\$ 3,252</u>
Receivable for recovery of remediation costs <sup>(2)</sup> ...	<u>\$ 12,747</u>	<u>\$ 3,437</u>

Approximately \$1.4 million of the October 31, 2010 reserve represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. The reserve has not been discounted. As discussed below, an associated \$12.7 million and \$3.4 million undiscounted recovery from indemnitors of remediation costs at one plant site is recorded as of October 31, 2010 and October 31, 2009, respectively. The increase in the environmental reserve during the year ended October 31, 2010 is primarily due to revisions in remediation plans.

The Company's Nichols Aluminum-Alabama, LLC (NAA) subsidiary operates a plant in Decatur, Alabama that is subject to an Alabama Hazardous Wastes Management and Minimization Act Post-Closure Permit. Among other things, the permit requires NAA to remediate, as directed by the state, historical environmental releases of wastes and waste constituents. Consistent with the permit, NAA has undertaken various studies of site conditions and, during the first quarter of 2006, started a phased program to treat in-place free product petroleum that had been released underneath the plant. During the second quarter 2010, NAA submitted to the state the first component of its proposed workplan for implementing a site-wide remedy; the full workplan was submitted to the state during the third quarter 2010. Based on its current plans, which remain subject to revision and to state approval, the Company's remediation reserve at NAA's Decatur plant is \$13.6 million. NAA was acquired through a stock purchase in which the sellers agreed to indemnify Quanex and NAA for identified environmental matters related to the business and based on conditions initially created or events initially occurring prior to the acquisition. Environmental conditions are presumed to relate to the period prior to the acquisition unless proved to relate to releases occurring entirely after closing. The limit on indemnification is \$21.5 million excluding legal fees. While the Company's current estimates indicate it will not reach this limit, changing circumstances could result in additional costs or expense that are not foreseen at this time. In accordance with the indemnification, the indemnitors paid the first \$1.5 million of response costs and have been paying 90% of ongoing costs. Based on its experience to date, its estimated cleanup costs going forward, and costs incurred to date as of October 31, 2010, the Company expects to recover from the sellers' shareholders an additional \$12.7 million. Of that, \$12.2 million is recorded in Other assets on the Consolidated Balance Sheets, and the balance is reflected in Accounts receivable on the Consolidated Balance Sheets.

The Company's final remediation costs and the timing of those expenditures will depend upon such factors as the nature and extent of contamination, the cleanup technologies employed, the effectiveness of the cleanup measures that are employed, and regulatory concurrences. While actual remediation costs, therefore, may be more or less than amounts accrued, the Company believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals because of uncertainties as to the extent of environmental impact, cleanup technologies, and concurrence of governmental authorities.

<sup>(1)</sup> Reported in Accrued liabilities on the Consolidated Balance Sheets

<sup>(2)</sup> Reported in Accounts receivable and Other assets on the Consolidated Balance Sheets

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The Company currently expects to pay the accrued remediation reserve through at least fiscal 2034, although some of the same factors discussed earlier could accelerate or extend the timing.

*Asset Retirement Obligations*

The Company has asset retirement obligations at certain Engineered Products leased facilities due to leasehold improvements constructed for the Company's manufacturing processes. Upon lease termination, the Company may be required to remove the leasehold improvements per the lease agreements. As of October 31, 2010 and 2009 the Company has asset retirement obligations for these leasehold improvements of \$0.8 million and \$0.8 million, respectively, which is included in Other liabilities on the Company's Consolidated Balance Sheets.

*Other*

From time to time, the Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of their business. Although the ultimate resolution and impact of such litigation on the Company is not presently determinable, the Company's management believes that the eventual outcome of such litigation will not have a material adverse effect on the overall financial condition, results of operations or cash flows of the Company.

**17. Transition Services Agreement**

Quanex Building Products Corporation entered into a transition services agreement on December 19, 2007 with Quanex Corporation to provide services to Quanex Corporation (and ultimately Gerdau), including, but not limited to, benefit administration services, salary administration services, transitional legal services, accounting services, tax return preparation, tax consulting and related services, as such services may reasonably be necessary as a result of the Separation and in connection with Gerdau's ownership of Quanex Corporation following the Separation. Accordingly, such services pertain to the Company's former vehicular products business and non-building products related corporate items.

The fees to be paid for the services are determined by the parties based on market rates for such 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 agreement terminated in May 2009. For the year ended October 31, 2009 and October 31, 2008, Quanex Building Products Corporation recorded \$0.1 million and \$1.3 million of income related to the transition services agreement.

**18. Fair Value Measurement of Assets and Liabilities**

The Company holds Money Market Fund investments that are classified as cash equivalents and are measured at fair value on a recurring basis, based on quoted prices in active markets for identical assets (Level 1). The Company had cash equivalent investments totaling approximately \$180.6 million and \$118.8 million at October 31, 2010 and October 31, 2009, respectively. In addition, the Company's pension plan assets are measured at fair value on a recurring basis, based on quoted prices in active markets for identical assets (Level 1), see Note 11 for additional information.

As of October 31, 2010, the Company did not have any assets or liabilities obtained from readily available pricing sources for comparable instruments (Level 2) or requiring measurement at fair value without observable market values that would require a high level of judgment to determine fair value (Level 3).

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**19. Other Income (Expense)**

In May 2009, a tornado struck and damaged the Company's Mikron facility in Richmond, Kentucky. In May 2010, the Company received the final insurance payment bringing the total cash proceeds from property insurance settlement to \$1.8 million of which \$0.4 million was received in fiscal 2010 and \$1.4 million was received in fiscal 2009. In its third fiscal quarter of 2010, the Company recorded a gain on involuntary conversion in Other, net of approximately \$0.9 million, which represents the amount of insurance proceeds received over the carrying value of the damaged property.

In February 2010, the Company completed a small acquisition for approximately \$1.6 million in consideration. This operation has been integrated into one of its existing Engineered Products businesses. The acquisition was effected through an asset purchase through a receivership proceeding and no liabilities were assumed. ASC 805 "Business Combinations" requires that a gain be recorded when the fair value of the net assets acquired is greater than the fair value of the consideration transferred. Though uncommon, bargain purchases can occur because of underpayments for the business acquired due to a forced liquidation or distress sale. These assets were acquired at auction due to the business being in Wisconsin receivership proceedings. As such, the Company obtained the assets at a bargain and recognized a gain of approximately \$1.3 million in Other, net in its second fiscal quarter of 2010.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**20. Quarterly Results of Operations (Unaudited)**

The following sets forth the selected quarterly information for the years ended October 31, 2010 and 2009.

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
(In thousands except per share amounts)				
<b>2010<sup>(3)</sup>:</b>				
Net sales.....	\$ 151,422	\$ 199,386	\$225,203	\$ 222,303
Cost of sales <sup>(1)</sup> .....	126,134	167,626	184,799	182,290
Depreciation and amortization <sup>(2)</sup> .....	7,334	7,035	6,639	7,206
Impairment of goodwill and intangibles.....	—	—	—	—
Operating income (loss).....	1,847	5,679	16,199	13,572
Income (loss) from continuing operations.....	1,083	4,384	10,429	8,305
Net income (loss).....	194	4,313	10,281	8,310
Earnings per share:				
Basic earnings (loss) from continuing operations	\$ 0.03	\$ 0.12	\$ 0.28	\$ 0.22
Basic earnings (loss).....	\$ 0.01	\$ 0.12	\$ 0.28	\$ 0.22
Diluted earnings (loss) from continuing operations.....	\$ 0.03	\$ 0.12	\$ 0.27	\$ 0.22
Diluted earnings (loss).....	\$ 0.01	\$ 0.11	\$ 0.27	\$ 0.22
<b>2009<sup>(3)</sup>:</b>				
Net sales.....	\$ 112,888	\$ 113,206	\$163,977	\$ 194,939
Cost of sales <sup>(1)</sup> .....	106,662	104,385	128,996	149,285
Depreciation and amortization <sup>(2)</sup> .....	8,647	7,864	7,938	8,004
Impairment of goodwill and intangibles.....	137,299	45,263	—	—
Operating income (loss).....	(155,374)	(56,988)	12,712	20,552
Income (loss) from continuing operations.....	(120,274)	(39,972)	8,349	15,818
Net income (loss).....	(120,413)	(40,146)	8,137	15,331
Earnings per share:				
Basic earnings (loss) from continuing operations	\$ (3.22)	\$ (1.07)	\$ 0.22	\$ 0.42
Basic earnings (loss).....	\$ (3.23)	\$ (1.08)	\$ 0.22	\$ 0.41
Diluted earnings (loss) from continuing operations.....	\$ (3.22)	\$ (1.07)	\$ 0.22	\$ 0.42
Diluted earnings (loss).....	\$ (3.23)	\$ (1.08)	\$ 0.22	\$ 0.41

(1) Cost of sales excludes depreciation and amortization shown separately.

(2) Depreciation and amortization represent depreciation and amortization directly associated with or allocated to products sold and services rendered and excludes corporate depreciation and amortization.

(3) As more fully described in Notes 1 and 3, the Company's start-up facility in China is reported in discontinued operations for all periods presented.

**QUANEX BUILDING PRODUCTS CORPORATION**  
**SUPPLEMENTARY FINANCIAL DATA**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at Beginning of Year	Charged (Credited) to Costs & Expenses	Write-offs (In thousands)	Other	Balance at End of Year
<b>Allowance for doubtful accounts<sup>(1)</sup>:</b>					
Year ended October 31, 2010 .....	\$ 1,696	\$ (482) <sup>(2)</sup>	\$ (178)	\$ 1	\$ 1,037
Year ended October 31, 2009 .....	1,892	607	(785)	(18)	1,696
Year ended October 31, 2008 .....	2,058	323	(397)	(92)	1,892
<b>Inventory reserves (primarily LIFO)<sup>(1)</sup>:</b>					
Year ended October 31, 2010 .....	\$ 8,165	\$ 5,444	\$ (840)	\$ (1)	\$ 12,768
Year ended October 31, 2009 .....	15,358	(6,353)	(832)	(8)	8,165
Year ended October 31, 2008 .....	14,733	1,210	(548)	(37)	15,358

- (1) As more fully described in Notes 1 and 3, the Company's start-up facility in China, former Vehicular Products segment and non-building products related corporate accounts are reported in discontinued operations for all periods presented.
- (2) During the fiscal year ended 2009, a customer filed for Chapter 11 bankruptcy, so a special reserve was recorded. During the second quarter of fiscal 2010, the customer completed its balance sheet restructuring and emerged from bankruptcy resulting in a reversal of the special reserve.



**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

**Changes in Internal Control over Financial Reporting**

There have been no changes in internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Quanex Building Products Corporation and its subsidiaries (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement presentation and preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company's internal control over financial reporting was effective as of October 31, 2010. Deloitte & Touche LLP, the registered public accounting firm that audited the financial statements contained in this report, has issued an attestation report on the Company's internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders  
Quanex Building Products Corporation  
Houston, Texas

We have audited the internal control over financial reporting of Quanex Building Products Corporation and subsidiaries (the “Company”) as of October 31, 2010, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of October 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended October 31, 2010 of the Company and our report dated December 20, 2010 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas  
December 20, 2010

## **PART III**

### **Item 10. *Directors, Executive Officers and Corporate Governance***

Pursuant to General Instruction G(3) to Form 10-K, additional information on directors, executive officers and corporate governance of the Registrant is incorporated herein by reference from the Registrant's Definitive Proxy Statement or an amendment to this Form 10-K to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2010.

### **Item 11. *Executive Compensation***

Pursuant to General Instruction G(3) to Form 10-K, information on executive compensation is incorporated herein by reference from the Registrant's Definitive Proxy Statement or an amendment to this Form 10-K to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2010.

### **Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Pursuant to General Instruction G(3) to Form 10-K, information on security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference from the Registrant's Definitive Proxy Statement or an amendment to this Form 10-K to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2010.

### **Item 13. *Certain Relationships and Related Transactions, and Director Independence***

Pursuant to General Instruction G(3) to Form 10-K, information on certain relationships and related transactions, and director independence is incorporated herein by reference from the Registrant's Definitive Proxy Statement or an amendment to this Form 10-K to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2010.

### **Item 14. *Principal Accountant Fees and Services***

Pursuant to General Instruction G(3) to Form 10-K, information on principal accountant fees and services is incorporated herein by reference from the Registrant's Definitive Proxy Statement or an amendment to this Form 10-K to be filed pursuant to Regulation 14A within 120 days after the close of the fiscal year ended October 31, 2010.

## PART IV

### Item 15. *Exhibits and Financial Statement Schedules*

#### (a) *Listing of Documents*

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1. <i>Financial Statements</i>	
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2. <i>Financial Statement Schedule</i>	
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Schedules not listed or discussed above have been omitted as they are either inapplicable or the required information has been given in the Consolidated Financial Statements or the notes thereto.	
3. <i>Exhibits</i> .....	98

## EXHIBIT INDEX

<b><u>Exhibit Number</u></b>	<b><u>Description of Exhibits</u></b>
2.1	Distribution Agreement among Quanex Corporation, Quanex Building Products LLC and Quanex Building Products Corporation (incorporated by reference to Exhibit 10.1 to Quanex Corporation's Current Report on Form 8-K filed with the Commission on December 24, 2007).
3.1	Certificate of Incorporation of the Registrant dated as of December 12, 2007, filed as Exhibit 3.1 of the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on January 11, 2008, and incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Registrant dated as of August 28, 2008, filed as Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-33913) as filed with the Securities and Exchange Commission for the quarter ended July 31, 2008, and incorporated herein by reference.
4.1	Form of Registrant's common stock certificate, filed as Exhibit 4.1 of Amendment No. 1 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.
4.2	Credit Agreement dated as of April 23, 2008, among the Company, certain of its subsidiaries as guarantors, Wells Fargo Bank, National Association, in its capacity as administrative agent, and certain lender parties, filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) dated April 23, 2008, and incorporated herein by reference.
† 10.1	Quanex Building Products Corporation 2008 Omnibus Incentive Plan, filed as Exhibit 10.4 of Amendment No. 4 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on March 17, 2008, and incorporated herein by reference.
† 10.2	Quanex Building Products Corporation Deferred Compensation Plan, filed as Exhibit 10.7 of Amendment No. 4 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on March 17, 2008, and incorporated herein by reference.
† 10.3	Quanex Building Products Corporation Restoration Plan, filed as Exhibit 10.8 of Amendment No. 4 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on March 17, 2008, and incorporated herein by reference.
† 10.4	Quanex Building Products Corporation Supplemental Employees Retirement Plan, filed as Exhibit 10.9 of Amendment No. 4 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on March 17, 2008, and incorporated herein by reference.
† 10.5	Form of Severance Agreement between the Registrant and certain of its executive officers, filed as Exhibit 10.5 of Amendment No. 1 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.
† 10.6	Form of Change in Control Agreement between the Registrant and certain of its executive officers, filed as Exhibit 10.6 of Amendment No. 1 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.
† 10.7	Letter Agreement between the Registrant and David D. Petratis, effective as of July 1, 2008, filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on May 22, 2008, and incorporated herein by reference.
† 10.8	Form of Indemnity Agreement between the Registrant and each of its independent directors, effective September 2, 2008, filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on August 29, 2008, and incorporated herein by reference.

**Exhibit  
Number**

**Description of Exhibits**

- † 10.9 Form of Indemnity Agreement between the Registrant and each of its officers, effective September 2, 2008, filed as Exhibit 10.2 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913), as filed with the Securities and Exchange Commission on August 29, 2008, and incorporated herein by reference.
- 10.10 Lease Agreement between Cabot Industrial Properties, L.P. and Quanex Corporation dated August 30, 2002 (and assumed by Quanex Homeshield, LLC on November 1, 2007), filed as Exhibit 10.52 to the Annual Report on Form 10-K of Quanex Corporation (Reg. No. 001-05725) for the fiscal year ended October 31, 2003 and incorporated herein by reference.
- 10.11 First Amendment to Lease Agreement between Cabot Industrial Properties, L.P. and Quanex Corporation dated May 22, 2007 (and assumed by Quanex Homeshield, LLC on November 1, 2007), filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K (Reg. No. 001-33913) for the fiscal year ended October 31, 2008.
- 10.12 Lease dated May 3, 1989, and Lease Extension dated June 9, 2004, between Mikron Industries, Inc. and the W.R. Sandwith and Michael G. Ritter Partnership, filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K (Reg. No. 001-33913) for the fiscal year ended October 31, 2008.
- 10.13 Amendment to Lease by and between W.R. Sandwith and Michael G. Ritter Partnership and Mikron Washington LLC, filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (Reg. No. 001-33913) for the quarter ended April 30, 2010.
- \* 12.1 Ratio of Earnings to Fixed Charges.
- \* 21.1 Subsidiaries of the Registrant.
- \* 23.1 Consent of Deloitte and Touche LLP.
- \* 31.1 Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
- \* 31.2 Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).
- \* 32 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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\* Filed herewith.

† Management Compensation or Incentive Plan

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Annual Report on Form 10-K certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### QUANEX BUILDING PRODUCTS CORPORATION

By: /s/ David D. Petratis December 20, 2010  
David D. Petratis  
*Chairman of the Board, President and*  
*Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David D. Petratis</u> David D. Petratis	Chairman of the Board, President and Chief Executive Officer	December 20, 2010
<u>/s/ Donald G. Barger, Jr.</u> Donald G. Barger, Jr.	Director	December 20, 2010
<u>/s/ Susan F. Davis</u> Susan F. Davis	Director	December 20, 2010
<u>/s/ William C. Griffiths</u> William C. Griffiths	Director	December 20, 2010
<u>/s/ LeRoy D. Nosbaum</u> LeRoy D. Nosbaum	Director	December 20, 2010
<u>/s/ Joseph D. Rupp</u> Joseph D. Rupp	Director	December 20, 2010
<u>/s/ Curtis M. Stevens</u> Curtis M. Stevens	Director	December 20, 2010
<u>/s/ Brent L. Korb</u> Brent L. Korb	Senior Vice President—Finance Chief Financial Officer (Principal Financial Officer)	December 20, 2010
<u>/s/ Deborah M. Gadin</u> Deborah M. Gadin	Vice President and Controller (Principal Accounting Officer)	December 20, 2010

**CHIEF EXECUTIVE OFFICER CERTIFICATION**

I, David D. Petratis, certify that:

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

December 20, 2010

/s/ DAVID D. PETRATIS

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DAVID D. PETRATIS

Chairman of the Board, President and  
Chief Executive Officer  
(Principal Executive Officer)



**CHIEF FINANCIAL OFFICER CERTIFICATION**

I, Brent L. Korb, certify that:

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

December 20, 2010

/s/ BRENT L. KORB

BRENT L. KORB

Senior Vice President – Finance and  
Chief Financial Officer  
(Principal Financial Officer)

**Certification Pursuant To Section 906  
of the Sarbanes-Oxley Act of 2002  
(18 U.S.C. SECTION 1350)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) (the Act), David D. Petratis, President and Chief Executive Officer of Quanex Building Products Corporation (the Company) and Brent L. Korb, Senior Vice President – Finance and Chief Financial Officer of the Company, each hereby certify that, to the best of their knowledge:

(a) the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the Report), fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

December 20, 2010

/s/ DAVID D. PETRATIS

DAVID D. PETRATIS

*Chairman of the Board, President and  
Chief Executive Officer*

/s/ BRENT L. KORB

BRENT L. KORB

*Senior Vice President—Finance and  
Chief Financial Officer*

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

# Shareholder Info



## Corporate Office

### **Quanex Building Products Corporation**

1900 West Loop South  
Suite 1500  
Houston, Texas 77027

713.961.4600  
800.231.8176  
[inquiry@quanex.com](mailto:inquiry@quanex.com)

## Company Information on the Web

[www.quanex.com](http://www.quanex.com)  
[www.nicholsal.com](http://www.nicholsal.com)  
[www.home-shield.com](http://www.home-shield.com)  
[www.truseal.com](http://www.truseal.com)  
[www.besteninc.com](http://www.besteninc.com)  
[www.mikronvinyl.com](http://www.mikronvinyl.com)

## Annual Shareholder Meeting

8:00 a.m. C.S.T.  
Thursday, February 24, 2011  
Quanex Corporate Offices

## Transfer Agent, Shareholder Records & Dividend Disbursing Agent

### **Wells Fargo Bank N.A.**

#### **Shareowner Services**

161 North Concord Exchange  
South St. Paul, Minnesota 55075-1139

P 800.468.9716  
F 651.450.4085  
[www.wellsfargo.com/shareownerservices](http://www.wellsfargo.com/shareownerservices)



1900 West Loop South  
Suite 1500  
Houston, Texas 77027

**[www.quanex.com](http://www.quanex.com)**