

QUANEX CORP
Form 10-K
December 14, 2007

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

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, 2007

or

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

Commission file number 1-5725

QUANEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

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

38-1872178

(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

Name of each exchange on which registered

Common Stock, \$.50 par value

New York Stock Exchange, Inc.

Rights to Purchase Series A Junior Participating

New York Stock Exchange, Inc.

Preferred Stock

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 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, or a non-accelerated
filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 common equity held by non-affiliates as of April 30, 2007, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was \$1,586,436. Such calculation assumes only the registrant's current officers and directors were affiliates of the registrant.

At December 11, 2007, there were outstanding 37,227,774 shares of the registrant's Common Stock, \$.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2008 Annual Meeting of Stockholders or Form 10-K/A to be filed with the Commission within 120 days of October 31, 2007 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. The Company reincorporated in Delaware in 1968 under the same name and then changed its name to Quanex Corporation in 1977. The Company's executive offices are located at 1900 West Loop South, Suite 1500, Houston, Texas 77027. References made to the Company or Quanex include Quanex Corporation and its subsidiaries unless the context indicates otherwise.

The Company's businesses are focused on two end markets, vehicular products and building products, and are managed on a decentralized basis. The businesses are presented as three reportable segments: Vehicular Products, Engineered Building Products and Aluminum Sheet Building Products. Each business has administrative, operating and marketing functions. The Company measures each business's 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 engineered carbon and alloy steel bars, heat treated bars, aluminum flat-rolled products, flexible insulating glass spacer systems, extruded profiles, and precision-formed metal and wood products which primarily serve the North American vehicular products and building products markets. The Company uses state-of-the-art manufacturing technologies, low-cost production processes, and engineering and metallurgical expertise to provide customers with specialized products for specific applications. Quanex believes these capabilities also provide the Company with unique competitive advantages.

Planned Merger and Separation

On November 19, 2007, the Company announced that its Board of Directors unanimously approved a merger of Quanex, 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) in exchange for \$39.20 per share in cash. Quanex entered into a definitive agreement with Gerdau with respect to the merger on November 18, 2007 (the Gerdau Merger Agreement). In connection with the merger, the Company will spin-off its Building Products business to its shareholders as a stand alone company called Quanex Building Products in a taxable distribution. All Quanex shareholders of record will receive one share of Quanex Building Products stock for each share of Quanex stock.

The merger of Quanex with Gerdau remains subject to approval by Quanex shareholders, clearance under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the Exon-Florio Amendment to the Defense Production Act, completion of the spin-off and other customary closing conditions. The spin and merger are expected to be completed by the end of the first calendar quarter of 2008. Until then, Quanex expects to continue to pay a regular, quarterly cash dividend on its outstanding common stock. The proposed Building Products spin-off is expected to be consummated immediately prior to completion of the Quanex Corporation/Gerdau merger and is structured as a taxable distribution at the corporate level.

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The Company expects Quanex Building Products to report as discontinued operations for financial reporting purposes the Company's Vehicular Products and non-Building Products related corporate accounts following the completion of the spin-off and merger. Notwithstanding the legal form of the proposed transactions to spin-off the Building Products business and merge what remains of Quanex Corporation with Gerda, because of the substance of the transactions, Quanex Building Products is anticipated to be the divesting entity and treated as the accounting successor to Quanex Corporation for financial reporting purposes in accordance with Emerging Issues Task Force (EITF) Issue No. 02-11, *Accounting for Reverse Spinoffs* (EITF 02-11). Effective with the spin-off, Quanex Building Products is expected to report the historical consolidated results of operations (subject to certain adjustments) of Vehicular Products and non-Building Products related corporate items in discontinued operations in accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). Pursuant to SFAS 144, this presentation is not permitted until the accounting period in which the spin-off occurs.

Unless otherwise noted, the information included in this Annual Report on Form 10-K relates to Quanex Corporation without giving effect to the proposed spin-off and merger.

Business Developments

In the Company's Vehicular Products segment, rotary centrifugal continuous casters are used at two of the steel bar plants (Fort Smith, Arkansas and Jackson, Michigan), each with an in-line manufacturing process to produce bearing grade quality, seam-free, engineered carbon and alloy steel bars that enable Quanex to participate in higher margin niches of the vehicular products bar market. Over the past ten years, the Company has invested approximately \$361 million through internal growth and acquisitions to enhance its steel bar manufacturing and refining processes, to improve rolling and finishing capability, and to expand shipping capacity from 550 thousand tons to approximately 1.3 million tons per year. Approximately 79% of tonnage shipped has some value-added operation performed to the bars. Phases I through IX of the MACSTEEL expansions have been completed.

The Phase VIII capital project announced in September 2004 was completed in July 2007. Phase VIII increased the annual capacity of the Fort Smith, Arkansas facility by approximately 40,000 tons, thereby increasing MACSTEEL's total engineered bar shipping capacity to approximately 1.3 million tons. In addition to an increase in capacity, the Phase VIII modernization improved production flow and further enhanced metallurgical quality. Specifically included in the project were upgrades to the rotary continuous caster, direct rolling mill, and metallurgical refining areas.

On February 1, 2007, Quanex purchased the assets of Atmosphere Annealing, Inc. (AAI) for \$58.5 million. AAI is a leading provider of metal heat-treating, phosphate coating, finishing, bar shearing and other value-added services to the cold forming, stamping, forging and casting industries.

Manufacturing Processes, Markets, and Product Sales by Business Segment

Quanex has 27 manufacturing facilities in 12 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 materials for the vehicular products and 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.

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The majority of the Company's products are sold into the vehicular products and building products markets. The primary market drivers are North American light vehicle builds, heavy duty truck builds, residential housing starts and remodeling expenditures.

For financial information regarding each of Quanex's 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 years ended October 31, 2007, 2006, and 2005, no one customer accounted for 10% or more of the Company's sales.

Vehicular Products Segment

The Vehicular Products segment includes engineered steel bar manufacturing, steel bar and tube heat-treating services, steel bar and tube corrosion and wear resistant finishing services, metal heat-treating, phosphate coating, finishing, bar shearing and other value-added services.

The Company's MACSTEEL engineered steel bar operations, which represent the majority of the segment's sales and operating income, include three plants, one located in Arkansas and two in Michigan, which in aggregate are capable of shipping 1.3 million tons of hot rolled and cold finished, engineered, carbon and alloy steel bars annually. The Company believes that it has the only two bar plants in North America using rotary continuous casting technology. The highly automated continuous casting and direct charge rolling at these plants substantially reduce labor and energy costs by eliminating the intermittent steps that characterize manufacturing operations at most other steel mills. MACSTEEL produces various grades of customized, engineered steel bars by melting steel scrap and casting it through both static and rotary continuous casters. Prior to casting, molten steel benefits from secondary refining processes that include argon stirring, ladle refining, and vacuum arc degassing. These processes enable the production of higher quality, cleaner steel. The Company believes that it is the lowest cost producer of engineered carbon and alloy steel bars in North America, in part because its average energy cost per produced ton are significantly lower than those of its competitors; at the two plants that utilize continuous rotary casting technology, bars move directly from the continuous caster to the rolling mill before cooling to ambient temperature, thereby reducing the need for costly reheating. Its highly automated manufacturing processes enable the Company to produce finished steel bars using approximately 1.6 man-hours of labor per ton.

Bar products are custom manufactured primarily for customers within the vehicular product markets serving the passenger car, light truck, sport utility vehicle, heavy truck, off-road and farm equipment industries. These customers use engineered steel bars in critical applications such as camshafts, crankshafts, gears, wheel spindles and hubs, bearing components, steering components, hydraulic mechanisms and seamless tube production.

Vehicular Products also includes three additional, complementary value-added business units. The first is a heat-treating plant in Indiana that uses custom designed, in-line equipment to provide tube and bar quench and tempering and related value-added processes such as complete metallurgical testing and cut-to-length just-in-time delivery. This plant primarily serves customers in the vehicular products and energy markets. The second, located in Wisconsin, treats steel bars and tubes using the patented Nitrotec process to improve the metal's corrosion and wear resistance properties while providing a more environmentally friendly, non-toxic alternative to chrome plating. Their primary end market is the mobile fluid power applications in the vehicular products market. The third, with facilities in Michigan, Ohio and Indiana, specializes in high volume ferrous heat-treating using large furnaces. Products treated by this operation are used for a variety of automotive, heavy truck, farm equipment, construction equipment and military applications, with a particular focus on vehicular components such as powertrain, steering and brake systems.

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Engineered Building Products Segment

The Engineered Building Products segment is comprised of six fabricated metal components operations, two facilities producing wood fenestration (door and window) products, three vinyl extrusion facilities, a flexible insulating glass spacer operation and a facility that produces glass spacer installation equipment. The segment's operations produce window and door components and products for original equipment manufacturers (OEMs) that serve the building and remodeling markets. Products include flexible insulating glass spacer systems, window and patio door screens, window cladding frames, residential exterior products and engineered vinyl and composite door and window frames and custom window grilles and trim in a variety of woods for the home improvement, residential, and light commercial construction markets.

The extrusion operations use highly automated production facilities to manufacture vinyl profiles and composites, the window and door structural frames used by high-end fenestration OEMs. The value added capabilities include frame design, tooling design and fabrication, laser welding, roll forming, poly laminating, stamping, and end-product assembly to produce a variety of fenestration products. In addition, the insulating glass sealant business uses composite and laminating technology to produce highly engineered window spacer products used to separate two panes of glass in a window sash to improve its thermal performance. Engineered Products customers' end-use applications include windows, window screens, sills, cladding, doors, exterior door thresholds, astragals, patio door systems, and custom hardwood architectural moldings. Key success factors range from design and development expertise to flexible, world class quality manufacturing capability and just-in-time delivery.

Aluminum Sheet Building Products Segment

The Aluminum Sheet Building Products segment is comprised of an aluminum sheet casting operation and three stand-alone aluminum sheet finishing operations. Aluminum sheet finishing capabilities include reducing coil to specific gauge, annealing, slitting and custom coating. Customer end-use applications include exterior housing trim, fascias, roof edgings, soffits, downspouts, gutters, trim, and trim coils. The product is packaged and delivered just-in-time for use by various customers in the building and construction markets, as well as other capital goods and transportation markets.

The Company's aluminum mini-mill uses an in-line casting process that can produce approximately 400 million pounds of reroll (hot-rolled aluminum sheet) annually. The mini-mill converts aluminum scrap to reroll through melting, continuous casting, and in-line hot rolling processes. It also has shredding and blending capabilities, including two rotary barrel furnaces and a dross recovery system that broaden its use of raw materials, allowing it to melt lesser grades of scrap, while improving raw material yields. Delacquering equipment improves the quality of the raw material before it reaches the primary melt furnaces by burning off combustibles in the scrap. In addition, scrap is blended using computerized processes to most economically achieve the desired molten aluminum alloy composition. The Company believes its production capabilities result in a significant manufacturing advantage and savings from reduced raw material costs, optimized scrap utilization, reduced unit energy cost and lower labor costs.

Raw Materials and Supplies

The Vehicular Products segment's operations purchase their principal raw material, steel scrap, on the open market. Collection and transportation of raw materials to the Company's plants can be adversely affected by extreme weather conditions. Prices for the steel scrap also vary in relation to the general business cycle and global demand.

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The Engineered Building Products segment's operations 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 resin. In most cases the raw materials are available from several suppliers at market prices. One exception is aluminum sheet which is purchased from the Aluminum Sheet Building Products segment 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 Company's raw material requirements.

The Aluminum Sheet Building Products segment's 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.

Backlog

At October 31, 2007, Quanex's backlog of orders to be shipped in the next twelve months was approximately \$357 million, comprised of \$308 million for the Vehicular Products segment, \$10 million for the Engineered Building Products segment, and \$39 million for the Aluminum Sheet Building Products segment. This compares to approximately \$298 million at October 31, 2006, comprised of \$263 million for the Vehicular Products segment, \$10 million for the Engineered Building Products segment, and \$25 million for the Aluminum Sheet Building Products segment. The Vehicular Products increase from October 31, 2006 to October 31, 2007 is primarily related to low demand last year while the increase at Aluminum Sheet Building Products is price related. Because many of the markets in which Quanex operates have short lead times, the Company does not believe that backlog figures are reliable indicators of annual sales volume or operating results.

Competition

The Company's products are sold under highly competitive conditions. Quanex competes with a number of companies, some of which have greater financial resources. Competitive factors include product quality, price, delivery, and the ability to manufacture to customer specifications. The amounts of engineered steel bars, aluminum mill sheet products, engineered products and extruded products manufactured by the Company represent a small percentage of annual domestic production.

MACSTEEL's operations compete with several large non-integrated steel producers. Although these producers may be larger and have greater resources than the Company, Quanex believes that the technology used at the Company's facilities permits it to compete effectively in the markets it serves.

The operations of the Engineered Building Products segment compete with a range of small and midsize metal, vinyl and wood fabricators and wood molding facilities. The Company also competes against sealant firms and insulated glass panel fabricators. Competition is primarily based on regional presence, custom engineering, product development, quality, service and price. The operations also compete with in-house operations of vertically integrated fenestration OEMs.

The Aluminum Sheet Building Products segment competes with small to large aluminum sheet manufacturers, some of which are divisions or subsidiaries of major corporations with substantially greater resources than the Company. The Company competes in 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.

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Sales and Distribution

The Company has sales organizations with sales representatives in many parts of the United States. Engineered steel bars are primarily sold to tier-one or tier-two suppliers through the Company's direct sales force and a limited number of manufacturers' representatives. The Engineered Building Products segment's products are sold primarily to OEMs through company direct sales force, along with the limited use of distributors to market wood moldings and in other business segments that are not North American. The Aluminum Sheet Building Products segment's products are sold to both OEM and distribution customers through both direct and indirect sales groups.

Seasonal Nature of Business

Sales for both the Engineered Building Products and Aluminum Sheet Building Products segment's products are seasonal. The winter weather typically reduces homebuilding and home improvement activity. These segments typically experience their lowest sales during the Company's first fiscal quarter. 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.

Sales for the Vehicular Products segment are generally not seasonal. However, due to the number of holidays in the Company's first fiscal quarter, sales have historically been lower in this period as some customers reduce production schedules. As a result of reduced production days combined with the effects of seasonality, the Company generally expects that, absent unusual activity, its lowest sales will occur in the first fiscal quarter.

Service Marks, Trademarks, Trade Names, and Patents

The Company's federally registered trademarks or service marks include QUANEX, QUANEX and design, SEAM-FREE and design, NITROSTEEL, MACGOLD, MACSTEEL, MACSTEEL THE MIGHTY MITE and design, MAC+, MACPLUS, ULTRA-BAR, TRUSEAL TECHNOLOGIES, SWIGGLE, SWIGGLE STRIP, SWIGGLEPRO, OPTI-BEAD, PROGLAZE, EDGETHERM, INSULEDGE, COLONIAL CRAFT, MIKRON, MIKRONWOOD, MIKRONWOOD A PAINTABLE COMPOSITE and design, M design, MIKRONBLEND, MIKRON BLEND and design, SPECTUSBLEND, SPECTUS BLEND and design, K2 MIKRON and design, BUILDER & REMODELER EXECUTIVE, WINDOW EXECUTIVE, HOMESHIELD, HOMESHIELD and design, STORM SEAL, MACPRIME, Seam-Free, NITRO-100, NITROSTEEL, and THE BEST ALLOY & SPECIALTY BARS marks. The trade name Nichols Aluminum is used in connection with the sale of the Company's aluminum mill sheet products, and the trade name Atmosphere Annealing is used in connection with certain of the Company's value-added steel processes. The HOMESHIELD, COLONIAL CRAFT, MACSTEEL, TRUSEAL TECHNOLOGIES, MIKRON and QUANEX word and design marks and associated trade names are considered valuable in the conduct of the Company's business. The business conducted by the Company generally does not depend upon patent protection other than at its vinyl extrusion and window sealant business units. Although the Company holds numerous patents, the proprietary process technology that the Company has 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 the Company's products for specific customer applications (b) developing superior, proprietary process technology and (c) partnering with customers to develop new products.

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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 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 aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations, financial condition, or cash flow.

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 Quanex has owned or operated at any time. The Company is currently participating in environmental investigations or remediation at several such locations.

From time to time, Quanex 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 involved at several such facilities.

Total environmental reserves and corresponding recoveries for Quanex's current plants, former operating locations, and disposal facilities were as follows:

| | October 31, | |
|---|-----------------------|-------------|
| | 2007 | 2006 |
| | (In thousands) | |
| Current ¹ | \$ 2,894 | \$ 2,591 |
| Non-current | 12,738 | 14,186 |
| Total environmental reserves | \$ 15,632 | \$ 16,777 |
| Receivable for recovery of remediation costs ² | \$ 5,591 | \$ 7,192 |

Approximately \$3.4 million of the October 31, 2007 reserve represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. As discussed below, the reserve includes net present values for certain fixed and reliably determinable components of the Company's remediation liabilities. Without such discounting, the Company's estimate of its environmental liabilities as of October 31, 2007 and 2006 would be \$17.1 million and \$18.6 million, respectively. An associated \$5.6 million and \$7.2 million undiscounted recovery from indemnitors of remediation costs at one plant site is recorded as of October 31, 2007 and 2006, respectively. The change in the environmental reserve from October 31, 2006 to October 31, 2007 primarily consisted of cash payments for existing environmental matters.

¹ Reported in
Accrued
liabilities on the
Consolidated
Balance Sheets

² Reported in
Prepaid and
other current
assets and Other
assets on the

Consolidated
Balance Sheets

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The Company's Nichols Aluminum-Alabama, Inc. (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 2006, started a phased program to treat in place free product petroleum that had been released to soil and groundwater. Based on its studies to date, which remain ongoing, the Company's remediation reserve at NAA's Decatur plant is \$5.7 million or approximately 37% of the Company's total environmental reserve. NAA was acquired through a stock purchase in which the sellers agreed to indemnify Quanex and NAA for 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. 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, 2007, the Company expects to recover from the sellers' shareholders an additional \$5.6 million. Of that, \$5.2 million is recorded in Other assets, and the balance is reflected in Prepaid and other current assets.

The Company's reserve for its MACSTEEL plant in Jackson, Michigan is \$5.9 million or 38% of the Company's total environmental reserve. During fiscal 2006, the Company completed studies supporting selection of an interim remedy to address the impact on groundwater of a historical plant landfill and slag cooling and sorting operation. Based on those studies, in January 2007, the Company held a meeting with the Michigan Department of Environmental Quality to present the interim response remedy of a hydraulic barrier (sheet pile wall) and groundwater extraction and treatment system to prevent impacted groundwater migration. Installation of this interim response remedy began in August 2007 and is scheduled to be completed by the end of this calendar year. The primary component of the reserve is for the estimated cost of operating the groundwater extraction and treatment system for the interim remedy over the next 9 years. The Company has estimated the annual cost of operating the system to be approximately \$0.5 million. These operating costs and certain other components of the Jackson reserve have been discounted utilizing a discount rate of 4.5% and an estimated inflation rate of 2.0%. Without discounting, the Company's estimate of its Jackson remediation liability as of October 31, 2007 would be \$6.5 million. In addition to the \$5.9 million reserve, the Company anticipates incurring a total capital cost of \$4.4 million to construct the sheet pile wall and install the groundwater extraction and treatment system, of which \$1.3 million has been spent through October 31, 2007. Depending on the effectiveness of the interim remedy, the results of future operations, and regulatory concurrences, the Company may incur additional costs to implement a final site remedy and may pay costs beyond the nine-year time period currently projected for operation of the interim remedy.

Approximately 18% or \$2.8 million of the Company's total environmental reserve is currently allocated to cleanup work related to Piper Impact. In the fourth fiscal quarter of 2005, the Company sold the location on Highway 15 in New Albany where Piper Impact previously had operated a plant (the Highway 15 location), but as part of the sale retained environmental liability for pre-closing contamination there. The Company voluntarily implemented a state-approved remedial action plan at the Highway 15 location that includes natural attenuation together with a groundwater collection and treatment system. The Company has estimated the annual cost of operating the existing system to be approximately \$0.1 million and has assumed that the existing system will continue to be effective. The primary component of the reserve is the estimated operational cost over the next 27 years, which was discounted to a net present value using a discount rate of 4.7% and an estimated inflation rate of 2.0%. The aggregate undiscounted amount of the estimated Piper Impact remediation costs as of October 31, 2007 is \$3.6 million. The Company continues to monitor conditions at the Highway 15 location and to evaluate performance of the remedy.

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The final remediation costs and the timing of the expenditures at the NAA plant, Jackson plant, Highway 15 location, and other sites for which the Company has remediation obligations 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 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 \$4.8 million and capitalized an additional \$1.5 million during fiscal 2007 in order to comply with existing environmental regulations. This compares to \$3.0 million of expense and \$1.0 million of capital incurred during fiscal 2006. For fiscal 2008, the Company estimates expenses at its facilities will be approximately \$4.9 million for continuing environmental compliance. In addition, the Company estimates that capital expenditures for environmental compliance in fiscal 2008 will be approximately \$3.1 million, which represents the remaining expenditures for construction of the Jackson plant sheet pile wall and installation of the groundwater extraction and treatment system. Future expenditures relating to environmental matters will necessarily depend upon the application to Quanex and its facilities of future regulations and government decisions. Quanex will continue to have expenditures beyond fiscal 2008 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, the application of requirements to Quanex, and, as to decommissioning, settlement dates. Based upon its experience to date, Quanex does not believe that its compliance with environmental requirements will have a material adverse effect on its operations or financial condition.

Employees

The Company had 4,131 employees at October 31, 2007 and approximately 4,091 at December 11, 2007. Of the total employed, approximately 34% are covered by collective bargaining agreements. Following is a table of collective bargaining agreements currently in place.

| Facility | Expires | Union | Covered Employees at 10/31/07 |
|------------------------------------|-----------|---|-------------------------------|
| Nichols Aluminum Davenport/Casting | Nov. 2007 | International Brotherhood of Teamsters | 245 |
| MACSTEEL Monroe ² | Dec. 2007 | United Automobile Workers International Union of America | 311 |
| MACSTEEL Arkansas | Jan. 2008 | United Steelworkers of America | 274 |
| MACSTEEL Jackson | Feb. 2009 | United Steelworkers of America | 227 |
| Nichols Aluminum Lincolnshire | Jan. 2009 | International Association of Machinists and Aerospace Workers | 91 |
| Truseal Technologies | Dec. 2009 | United Steelworkers of America | 171 |
| Nichols Aluminum Alabama | May 2011 | United Steelworkers of America | 89 |

¹ A new Nichols Aluminum Davenport / Casting

collective bargaining agreement was ratified on November 28, 2007. The new agreement expires November 15, 2011.

² A new MACSTEEL Monroe collective bargaining agreement was ratified on December 7, 2007. The new agreement expires December 1, 2011.

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Financial Information about Foreign and Domestic Operations

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. Quanex invites inquiries to the Company and its Board of Directors. 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. This material may also be obtained from the Company website at 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 Financial Information link. They can also be obtained free of charge upon request to 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 Raymond A. Jean, The Chairman of the Board of Directors, at the Company's principal address below or hotline@quanex.com.

Hotline

Accounting Issues:

Persons who have concerns or complaints regarding 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.

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 of the Board of Directors of the Company. If concerns or complaints require confidentiality, then this confidentiality will be protected, subject to applicable laws.

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Reporting 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 also encourages persons who are not affiliated with the Company to report any suspected illegal or unethical behavior.

1) **By Letter**

Quanex 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 Electronic Mail HOTLINE**

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. 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 our actual results to differ materially from those projected in any forward-looking statements. You should carefully consider these factors, as well as the other information contained in this document, when evaluating your investment in our securities. Any of the following risks could have material adverse effects on our financial condition, operating results and cash flow. The below list of important factors is not all-inclusive or necessarily in order of importance.

Risks Relating to Consummation of the Merger

Completion of the merger is subject to various risks.

There is no guarantee the proposed merger will be finalized. Completion of the proposed merger is subject to a number of specific factors and conditions including, but not limited to:

Stockholder approval;

Compliance with anti-trust and other governmental requirements;

Absence of judgement, injunction or other order prohibiting consummation of the merger;

The representations and warranties contained in the merger agreement continuing to be correct in all material respects;

Performance of obligations under the merger agreement required to be performed prior to the merger; and

The spin-off having occurred.

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In addition, there are various risks that, while not preventing consummation of the merger, are inherent in the merger process, including, but not limited to:

Costs related to the proposed transaction; and

Increased demands on our management team as a result of executing the spin-off and the merger in addition to their regular day-to-day management responsibilities.

Risks Relating to Current Operations

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 our customers or maintain our profit levels.

Quanex requires substantial 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 our 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. For example, the Company experienced a steep increase in costs for steel and aluminum scrap in fiscal 2004 due to a global rebound in manufacturing in addition to increased demand from China and other consumers for scrap metal. 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 our ability to timely produce products for the Company's customers. Although the Company has contractual arrangements with many of our customers that permit us to increase prices in response to increased raw material costs, in times of rapidly rising raw material prices the adjustments will lag the current market price creating material volatility in top and bottom line results.

Portions of our business are generally cyclical in nature. Lowered vehicle production, fewer housing starts, reduced remodeling expenditures or weaknesses in the economy could significantly reduce our 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 such as the automotive and construction industries.

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The demand for the Vehicular Products Segment's products is largely dependent on the North American production level of vehicles. The markets for these products have historically been cyclical because new vehicle demand is dependent on, among other things, consumer spending and is tied closely to the overall strength of the economy. Declines in vehicle production could significantly reduce our net earnings. The segment's sales are also impacted by retail inventory levels and their customers' production schedules. If its OEM customers significantly reduce their inventory levels and reduce their orders from us, the segment's performance could be impacted.

The primary drivers of the Engineered Building Products and Aluminum Sheet Building Products segments are housing starts and remodeling expenditures. 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 our control. Declines in housing starts and remodeling expenditures due to such factors could significantly reduce the segments' net earnings.

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 Quanex 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.

Under applicable state and federal laws, the Company also may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations the Company has owned or operated at any time. The Company is currently involved in environmental investigations or remediation at several such locations. 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. While the Company has established reserves for such liabilities, such reserves may not be adequate to cover the ultimate cost of remedial measures required by environmental authorities. The discovery of previously unknown contamination, inadequate performance of a remedy or the imposition of new clean-up requirements at any site for which Quanex is responsible could require the Company to incur additional costs or become subject to significant new or increased liabilities.

The Company may not be able to successfully identify, manage or integrate future acquisitions, and if the Company is unable to do so, it is unlikely to sustain its historical growth rates and profitability.

Historically, Quanex has grown through a combination of internal growth and external expansion through acquisitions, such as its December 2003 acquisitions of Truseal Technologies and MACSTEEL Monroe and its December 2004 acquisition of Mikron Industries. Although Quanex is actively pursuing its growth strategy both in its domestic target markets and overseas and expect to continue doing so in the future, 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 Quanex common stock. In addition, the Company's ability to access the credit markets in the future to obtain additional financing, if needed,

could be influenced by the its ability to meet current covenant requirements associated with its existing credit agreement, its credit rating, or other factors.

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

The principal markets that Quanex 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 Quanex does and some of which have more established brand names in the markets Quanex serves. Any of these competitors may foresee the course of market development more accurately than the Company, develop products that are superior to the Company's products, have the ability to produce similar products at a lower cost than the Company, 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. Quanex 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 over the past several years. 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 will lose customers and revenues if its customers locate in areas that the Company chooses not to serve or that it cannot economically serve.

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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 its 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 34% of the Company's employees are covered by collective bargaining agreements which expire between 2008 and 2011. 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 our operating margins and income.

In addition, many OEMs and their suppliers have unionized work forces. Work stoppages or slowdowns experienced by OEMs or their suppliers could result in slowdowns or closures of assembly plants where Quanex products are included in assembled vehicles. In the event that one or more of the Company's customers experiences a material work stoppage, such work stoppage could prevent the customers from purchasing Quanex products.

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 our 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, Quanex generally manufactures its products only after receiving the order from the customer and thus does not hold large inventories. In the event of a stoppage in production at any of our manufacturing facilities, even if only temporary, or if Quanex 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 us 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 our results of operations or financial condition. Although the Company has obtained property damage and business interruption insurance, the Company may not have adequate insurance to compensate it for all losses that result from any of these events.

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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 its manufacturing facilities. Although the Company employs safety procedures in the design and operation of its 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 it 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 vehicles, buildings and other applications where problems in the design or manufacture of our 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 us 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 success depends upon its ability to develop new products and services, integrate acquired products and services and enhance its existing products and services.

The Company has continuing programs designed to develop new products and to enhance and improve its products. Quanex is expending resources for the development of new products in all of its segments. The successful development of its products and product enhancements are subject to numerous risks, both known and unknown, including: 1) unanticipated delays; 2) access to capital; 3) budget overruns; 4) technical problems; and 5) 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, 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.

The Company has a risk that its goodwill and indefinite-lived intangible assets may be impaired and result in a charge to income.

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 SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). 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 primarily uses the present value of future cash flows to

determine fair value and validates the result against 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 which would result in a charge to income from operations in the year of the impairment with a resulting decrease in our recorded net worth.

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

A significant amount of time, effort and expense is devoted to (a) custom engineering which qualifies our products for specific customer applications and (b) 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 the Company's intellectual property. Any patents owned by the Company 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 the Company seeks, if at all. In addition, the laws of some countries do not provide the same level of protection of the Company's proprietary rights as do the laws of the United States. If the Company cannot protect its proprietary information against unauthorized use, it may not remain competitive.

The Company may not be able to repay or repurchase the principal amount of its debentures when required.

At maturity, the entire outstanding principal amount of Convertible Senior Debentures due 2034 (the Debentures) will become due and payable by the Company. In addition, on May 15 of 2011, 2014, 2019, 2024 and 2029 or if certain designated events occur (including the occurrence of certain corporate transactions, as defined), holders of the Debentures may require the Company to repurchase their Debentures for cash. The Debentures are also convertible during any fiscal quarter if the closing price of the Company's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of the Company's common stock on such last trading day; excluding the first fiscal quarter of fiscal 2007, the Debentures have been convertible effective May 1, 2005 and continue to be convertible though the quarter ending January 31, 2008, as the closing price of the Company's common stock exceeded the contingent conversion price during the applicable periods as described previously. If the holders require Quanex to repurchase the Debentures or in the event a fundamental change occurs, the Company will be required to purchase all or any part of the holder's Debentures at a purchase price equal to 100% of their principal amount, plus accrued and unpaid interest (including contingent interest and additional interest, if any) to, but not including, the date of purchase. It is possible that Quanex will not have sufficient funds at the time of repurchase to

ARGIN-RIGHT: 0pt" align="justify">The Company's two nominees, Francis J. Jules and Michael J. Mardy, are both members of the Company's Audit Committee, with Mr. Mardy serving as its Chair. The Company's proxy statement describes the Audit Committee's primary function as "assist[ing] the Board in fulfilling its responsibilities to stockholders concerning the Company's financial reporting and internal controls..." In this regard, we believe Messrs. Jules and Mardy have failed miserably. The Audit Committee did not detect the Company's material accounting issues, which were discovered only as a result of an SEC inquiry and required a restatement of its financial results spanning six (6) years, or the related weaknesses in internal control over financial reporting. The Company's restatement process has subjected the Shares to potential delisting and led to the further destruction of stockholder value. We believe Messrs. Jules and Mardy must be held responsible for failing to exercise the diligence and oversight their jobs clearly require.

WE BELIEVE THE BOARD MUST BE HELD ACCOUNTABLE FOR THE COMPANY'S POOR STOCK PRICE PERFORMANCE, NON-COMPLIANCE WITH SEC AND NASDAQ RULES, AND LACK OF STRATEGIC DIRECTION

We believe the Company's Share price performance reflects the inability of the Board to adequately address the serious issues facing the Company

We believe the leadership void at the Board level is reflected in the Company's dismal stock price performance, both on a total return basis and as compared to its peer group. Consider the following:

- Over the last one-, three- and five-year periods, the Company's stock price has declined approximately 44.8%, 63.2% and 73.6%, respectively.

- Since June 30, 2003, just after Company nominees Jules and Mardy first joined the Board, the Company's stock price has dropped over 77%, as compared to an increase of over 89% for the Russell 2000 index. The Company is a component of the Russell 2000 index, the peer group used for benchmarking of the Company's stock price performance by Institutional Shareholder Services Inc. ("ISS"), a leading independent proxy advisory firm.
- Following the Company's June 11, 2012 announcement of its accounting improprieties, the Company's stock price cratered, plummeting nearly 35% from \$4.26 to \$2.78, a level not seen since 2009! The fact that, in the ensuing six months, the Company's stock price has recovered only to \$2.98 at December 21, 2012, demonstrates, in our view, the continued extreme pessimism among investors in the ability of this Board to enhance value for stockholders.

We are concerned with the Company's extensive periods of non-compliance with Nasdaq and SEC listing and reporting rules

Following announcement of the Company's accounting improprieties in June 2012, it has taken the Company over six months to regain compliance with the SEC's reporting requirements, with the Company not having filed with the SEC an annual or quarterly report, or issued any earnings release or other definitive guidance, for over nine (9) months. Furthermore, the Company has yet to bring itself back into compliance with Nasdaq's continued listing standards, subjecting the Shares to the risk of delisting. We believe the Board has displayed an extreme lack of urgency and indifference to stockholders' interests in failing to expeditiously resolve these critical matters. In our view, the prolonged lack of financial disclosure and transparency has caused tremendous uncertainty in the markets, further exacerbating the downward pressure on the Company's already tenuous stock price.

We have substantial doubts that the strategic review process being conducted by the Board will result in a transaction that is in stockholders' best interests

Against this backdrop, the Board has been conducting a strategic review process for over one year that, in our view, has been adversely impacted by the Company's accounting restatement, continued deterioration of its financial performance and bleak outlook for a turnaround in the near future. As a result, we question whether this process will result in a transaction that truly maximizes value for stockholders. Given this Board's track record, and the fact that all of the incumbent directors combined own less than 1% of the Company's outstanding Shares, ask yourselves whether you trust the current Board to protect your interests in entering into a significant strategic transaction at a time when the Company has a dire need for a capital infusion. As the Company's largest stockholder, owning 14.9% of the outstanding Shares, our interests are clearly aligned with yours in ensuring that this process produces an outcome that benefits all stockholders. We believe that stockholder representation on the Board is critical to obtaining a result that is designed to maximize stockholder value.

OUR NOMINEES HAVE A PLAN TO ENHANCE VALUE FOR STOCKHOLDERS

Our Nominees have identified specific actions to turn around the Company's poor performance. Specifically, if elected, our Nominees would work with the other members of the Board to, among other things,

- Immediately fill open senior management positions with highly qualified individuals having substantial relevant industry experience.
- Redeem the poison pill so that stockholders willing to buy additional Shares and support the floundering stock can do so.

- Explore a rights offering to all existing stockholders to raise needed capital and shore up the Company's cash position, which would allow all stockholders to benefit from any future appreciation in value of the Company. We are willing to backstop this rights offering to the maximum extent allowable to preserve the Company's net operating loss carryforwards ("NOLs"), ensuring that the Company receives sufficient working capital to invest in its deteriorating businesses.
 - Reduce unnecessary operational and corporate overhead and infrastructure.
- Sell or appropriately finance any non-core or underperforming business units, real estate and other assets, and refinance the Company's credit facility, to generate significant free cash flow.
- Determine the best use of the Company's capital base to drive profitability and maximize utilization of the Company's NOLs, one of its most valuable assets.

Our Nominees have the experience and qualifications necessary to maximize value for stockholders

We believe our Nominees have the qualifications and experience necessary to assist the Board in the challenges identified above and in taking the necessary steps to enhance stockholder value.

Warren G. Lichtenstein has served as the Chairman of the Board and Chief Executive Officer of the general partner of Steel Holdings, a global diversified holding company that owns and operates businesses and has significant interests in leading companies in a variety of industries, including diversified industrial products, energy, defense, banking, insurance, and food products and services, since July 15, 2009. He is also the Chairman and Chief Executive Officer of Steel Partners LLC ("Steel Partners"), a subsidiary of Steel Holdings, and has been associated with Steel Partners and its affiliates since 1990. Mr. Lichtenstein has also served as Chairman of the Board of HNH, a diversified global industrial company, since July 2005. Mr. Lichtenstein's expertise in corporate finance, extensive experience in managing private investment funds and his related service as a director of, and advisor to, a diverse group of public companies, including other companies having attributes similar to the Company, make him well qualified to serve on the Board.

Richard K. McClelland has served as an advisor and consultant in the transportation and logistics industry since 2011. Previously, he served as a director and Chairman of the Board of Dynamex Inc. ("Dynamex"), a provider of local and regional transportation and distribution services throughout the United States and Canada, from May 1995 and February 1996, respectively, until its merger with TransForce Inc. in February 2011. Mr. McClelland's broad cross-disciplined background and senior executive experience in the logistics industry make him well qualified to serve on the Board.

PROPOSAL NO. 1

ELECTION OF DIRECTORS

The Company has a classified Board, which currently consists of two Class I directors, three Class II directors, and two Class III directors. We believe that the terms of two Class I directors expire at the Annual Meeting. We are seeking your support at the Annual Meeting to elect our Nominees in opposition to the Company's two Class I director nominees. Your vote to elect such Nominees will have the legal effect of replacing the two incumbent Class I directors with the Nominees. If elected, such Nominees will represent a minority of the members of the Board, and therefore it is not guaranteed that they can implement the actions that they believe are necessary to enhance stockholder value.

THE NOMINEES

The following information sets forth the name, age, present principal occupation, and employment and material occupations, positions, offices, employments and directorships for the past five years of each of the Nominees. The specific experience, qualifications, attributes and skills that led us to conclude that the Nominees should serve as directors of the Company are set forth above in the section entitled "Reasons For Our Solicitation." This information has been furnished to us by the Nominees.

Warren G. Lichtenstein (Age 47) has served as the Chairman of the Board and Chief Executive Officer of the general partner of Steel Holdings, a global diversified holding company that owns and operates businesses and has significant interests in leading companies in a variety of industries, including diversified industrial products, energy, defense, banking, insurance, and food products and services, since July 15, 2009. He is also the Chairman and Chief Executive Officer of Steel Partners LLC ("Steel Partners"), a subsidiary of Steel Holdings, and has been associated with Steel Partners and its affiliates since 1990. Mr. Lichtenstein has served as Chairman of the Board of HNH, a diversified global industrial company, since July 2005. He is a Co-Founder of Steel Partners Japan Strategic Fund (Offshore), L.P., a private investment partnership investing in Japan, and Steel Partners China Access I LP, a private equity partnership investing in China. He also co-founded Steel Partners II, L.P. ("SPII"), a private investment partnership that is now a wholly-owned subsidiary of Steel Holdings, in 1993. Mr. Lichtenstein has served as a director of GenCorp Inc., a manufacturer of aerospace and defense products and systems with a real estate business segment, since March 2008. He has served as a director of SL Industries, Inc. ("SLI"), a company that designs, manufactures and markets power electronics, motion control, power protection, power quality electromagnetic and specialized communication equipment, since March 2010. He previously served as a director (formerly Chairman of the Board) of SLI from January 2002 to May 2008 and served as Chief Executive Officer from February 2002 to August 2005. He has served as a director (currently Chairman of the Board) of Steel Excel Inc. ("Steel Excel"), a company whose business is expected to consist primarily of capital redeployment and identification of new, profitable operations in the sports, training, education, entertainment and lifestyle businesses, since October 2010. Mr. Lichtenstein served as the Chairman of the Board, President and Chief Executive Officer of SP Acquisition Holdings, Inc. ("SPAH"), a company formed for the purpose of acquiring one or more businesses or assets, from February 2007 until October 2009. He served as a director of WebFinancial Corporation, a predecessor entity of Steel Holdings, from 1996 to June 2005, as Chairman and Chief Executive Officer from December 1997 to June 2005 and as President from December 1997 to December 2003. From May 2001 to November 2007, Mr. Lichtenstein served as a director (formerly Chairman of the Board) of United Industrial Corporation ("United Industrial"), a company principally focused on the design, production and support of defense systems, which was acquired by Textron Inc. He served as a director of KT&G Corporation, South Korea's largest tobacco company, from March 2006 to March 2008. Mr. Lichtenstein served as a director of Layne Christensen Company, a provider of products and services for the water, mineral, construction and energy markets, from January 2004 to October 2006. Mr. Lichtenstein does not directly own, and

has not purchased or sold during the past two years, any securities of the Company. Mr. Lichtenstein is a citizen of the United States of America.

Richard K. McClelland (Age 61) has served as an advisor and consultant in the transportation and logistics industry since 2011. Previously, he served as a director and Chairman of the Board of Dynamex Inc. (“Dynamex”), a provider of local and regional transportation and distribution services throughout the United States and Canada, from May 1995 and February 1996, respectively, until its merger with TransForce Inc. in February 2011. Mr. McClelland served as Dynamex’s President and Chief Executive Officer from May 1995 until November 2008. Mr. McClelland became the President, Chief Executive Officer and a director of Dynamex in May 1995 upon the closing of Dynamex’s acquisition of Dynamex Express (the ground courier division of Air Canada), where he also served as President since 1988. Prior to joining Dynamex Express in 1986, Mr. McClelland held a number of advisory and management positions with the Irving Group, Purolator Courier Ltd., where he was engaged in the domestic and international transportation and logistics industries. Mr. McClelland does not directly own, and has not purchased or sold during the past two years, any securities of the Company. Mr. McClelland is a citizen of Canada.

If elected as a director of the Company, each of the Nominees would be an “independent director” within the meaning of applicable Nasdaq listing standards applicable to board composition and Section 301 of the Sarbanes-Oxley Act of 2002.

Each of the Nominees, as a member of a “group” for the purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), with the other members of the Group (as defined below), may be deemed to beneficially own the securities of the Company beneficially owned in the aggregate by all the members of the Group. Each of the Nominees specifically disclaims beneficial ownership of all such securities.

On September 28, 2012, HNH together with the Nominees and the other participants named herein (the “Group”) entered into a Joint Filing and Solicitation Agreement pursuant to which, among other things, the parties agreed to solicit proxies or written consents to elect the Nominees to the Board at the Annual Meeting and to take all other action necessary or advisable to achieve the foregoing (the “Solicitation”), and HNH agreed to bear all expenses incurred in connection with the Group’s activities with respect to the Solicitation, subject to certain limitations.

On September 28, 2012, HNH entered into an Indemnification Agreement with Mr. McClelland pursuant to which it agreed to indemnify Mr. McClelland from and against claims arising from the Solicitation and any related matters.

Other than as stated herein, there are no arrangements or understandings between or among HNH, any of the other members of the Group and any of the Nominees or any other person or persons pursuant to which the nomination of the Nominees described herein is to be made, other than the consent by each of the Nominees to be named in this Proxy Statement and to serve as a director of the Company if elected as such at the Annual Meeting. None of the Nominees is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries in any material pending legal proceedings.

We do not expect that the Nominees will be unable to stand for election, but, in the event any Nominee is unable to serve or for good cause will not serve, the Shares represented by the enclosed GOLD proxy card will be voted for substitute nominee(s), to the extent this is not prohibited under the Third Amended and Restated Bylaws of the Company (the "Bylaws") and applicable law. In addition, we reserve the right to nominate substitute person(s) if the Company makes or announces any changes to its Bylaws or takes or announces any other action that has, or if consummated would have, the effect of disqualifying any Nominee, to the extent this is not prohibited under the Bylaws and applicable law. In any such case, Shares represented by the enclosed GOLD proxy card will be voted for such substitute nominee(s). We reserve the right to nominate additional person(s), to the extent this is not prohibited under the Bylaws and applicable law, if the Company increases the size of the Board above its existing size or increases the number of directors whose terms expire at the Annual Meeting. Additional nominations made pursuant to the preceding sentence are without prejudice to the position of HNH that any attempt to increase the size of the current Board or to reconstitute or reconfigure the classes on which the current directors serve constitutes an unlawful manipulation of the Company's corporate machinery.

YOU ARE URGED TO VOTE FOR THE ELECTION OF THE NOMINEES ON THE ENCLOSED GOLD PROXY CARD.

PROPOSAL NO. 2

APPROVAL OF THE AMENDMENT TO THE COMPANY'S RESTATED CERTIFICATE OF INCORPORATION

As discussed in further detail in the Company's proxy statement, the Company is submitting for stockholder approval an amendment to the Company's Restated Certificate of Incorporation that would phase in the declassification of the Board. The proposed amendment eliminates the classification of the Board over a three-year period, provides for the annual election of all directors beginning at the 2015 annual meeting of stockholders and makes certain conforming changes to the Company's Restated Certificate of Incorporation and the Bylaws.

Although we strongly believe that the Company's declassification proposal should de-stagger the Board, and provide for the annual election of all directors, at this Annual Meeting, we believe that the Company's proposal, as it stands, is nonetheless preferable to maintaining the classification of the Board. We therefore intend to vote our Shares in favor of this proposal, approval of which requires the affirmative vote of seventy-five percent (75%) of the outstanding Shares entitled to vote.

WE RECOMMEND THAT STOCKHOLDERS VOTE IN FAVOR OF THIS PROPOSAL.

PROPOSAL NO. 3

ADVISORY VOTE ON EXECUTIVE COMPENSATION

As discussed in further detail in the Company's proxy statement, the Company is providing stockholders with the opportunity to approve on an advisory basis the compensation of the Company's named executive officers as disclosed in the Company's proxy statement. This proposal will be presented at the Annual Meeting as a resolution in substantially the following form:

“Resolved, that the stockholders approve, on an advisory basis, the compensation of the Company's named executive officers as described in the Compensation Discussion and Analysis, the Summary Compensation Table and other related tables and disclosures in [the Company's] proxy statement.”

This vote will not be binding on the Board.

We intend to vote our Shares against this proposal for the reasons described above under “Reasons for the Solicitation.”

WE RECOMMEND THAT STOCKHOLDERS VOTE AGAINST THIS PROPOSAL.

PROPOSAL NO. 4

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

According to the Company's proxy statement, the Audit Committee of the Board has appointed KPMG LLP, an independent registered public accounting firm, to audit the Company's consolidated financial statements for the fiscal year ending July 31, 2013.

WE MAKE NO RECOMMENDATION WITH RESPECT TO THIS PROPOSAL AND INTEND TO VOTE OUR SHARES "FOR" THIS PROPOSAL.

VOTING AND PROXY PROCEDURES

Only stockholders of record on the Record Date will be entitled to notice of and to vote at the Annual Meeting. Each Share is entitled to one vote. Stockholders who sell Shares before the Record Date (or acquire them without voting rights after the Record Date) may not vote such Shares. Stockholders of record on the Record Date will retain their voting rights in connection with the Annual Meeting even if they sell such Shares after the Record Date. Based on publicly available information, we believe that the only outstanding class of securities of the Company entitled to vote at the Annual Meeting is the Shares.

Shares represented by properly executed GOLD proxy cards will be voted at the Annual Meeting as marked and, in the absence of specific instructions, will be voted FOR the election of the Nominees to the Board, FOR the amendment to the Company's Restated Certificate of Incorporation to declassify the Board, AGAINST the advisory vote on executive compensation, FOR the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for the current fiscal year, and in the discretion of the persons named as proxies on all other matters as may properly come before the Annual Meeting.

According to the Company's proxy statement for the Annual Meeting, the current Board intends to nominate two candidates for election as Class I directors at the Annual Meeting. This Proxy Statement is soliciting proxies to elect only our Nominees. Accordingly, the enclosed GOLD proxy card may only be voted for our Nominees and does not confer voting power with respect to the Company's, or any other third party's, nominees. The participants in this solicitation intend to vote all of their Shares in favor of the Nominees.

QUORUM; ABSTENTIONS; BROKER NON-VOTES

According to the Company's proxy statement, the presence of a majority of the outstanding Shares represented in person or by proxy and entitled to vote at the Annual Meeting will constitute a quorum.

Abstentions and broker non-votes will be considered shares "present and entitled to vote" for the purpose of determining whether a quorum exists. A "broker non-vote" occurs when a custodian does not vote on a particular proposal because it has not received voting instructions from the applicable beneficial owner and does not have discretionary voting power on the matter in question.

With respect to the election of directors, the advisory vote on executive compensation and the ratification of the appointment of the independent registered accounting firm, abstentions and any "broker non-votes" will not be included in the vote totals and, as such, will have no effect on the outcome of these proposals. With respect to the proposal to declassify the Board, abstentions and any "broker non-votes" will have the same effect as votes cast against this proposal.

VOTES REQUIRED FOR APPROVAL

Election of Directors According to the Company's proxy statement, the two nominees for Director receiving the highest vote totals will be elected as directors of the Company. Withheld votes will have no impact on the election of directors.

Declassification of Board According to the Company's proxy statement, approval of the amendment to the Company's Restated Certificate of Incorporation to declassify the Board (Proposal No. 2) will require the affirmative vote of seventy-five percent (75%) of the outstanding Shares entitled to vote.

Advisory Vote on Executive Compensation and Ratification Of Independent Registered Public Accounting Firm According to the Company's proxy statement, approval of the advisory vote on executive compensation (Proposal No. 3 and ratification of the appointment of the Company's independent registered public accounting firm (Proposal No. 4) will each require the affirmative vote of a majority of the votes cast on each proposal.

REVOCATION OF PROXIES

Stockholders of the Company may revoke their proxies at any time prior to exercise by attending the Annual Meeting and voting in person (although attendance at the Annual Meeting will not in and of itself constitute revocation of a proxy) or by delivering a written notice of revocation. The delivery of a subsequently dated proxy which is properly completed will constitute a revocation of any earlier proxy. The revocation may be delivered either to HNH in care of MacKenzie Partners, Inc. at the address set forth on the back cover of this Proxy Statement or to the Company at 1601 Trapelo Road, Waltham, Massachusetts 02451, or any other address provided by the Company. Although a revocation is effective if delivered to the Company, HNH requests that either the original or photostatic copies of all revocations be mailed to HNH in care of MacKenzie Partners, Inc. at the address set forth on the back cover of this Proxy Statement so that HNH will be aware of all revocations and can more accurately determine if and when proxies have been received from the holders of record on the Record Date of a majority of the outstanding Shares. Additionally, MacKenzie Partners, Inc. may use this information to contact stockholders who have revoked their proxies in order to solicit later dated proxies for the election of the Nominees.

IF YOU WISH TO VOTE FOR THE ELECTION OF THE NOMINEES TO THE BOARD, PLEASE SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED GOLD PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED.

SOLICITATION OF PROXIES

The solicitation of proxies pursuant to this Proxy Statement is being made by HNH. Proxies may be solicited by mail, facsimile, telephone, telegraph, Internet, in person and by advertisements.

HNH has entered into an agreement with MacKenzie Partners, Inc. for solicitation and advisory services in connection with this solicitation, for which MacKenzie Partners, Inc. will receive a fee not to exceed \$[], together with reimbursement for its reasonable out-of-pocket expenses, and will be indemnified against certain liabilities and expenses, including certain liabilities under the federal securities laws. MacKenzie Partners, Inc. will solicit proxies from individuals, brokers, banks, bank nominees and other institutional holders. HNH has requested banks, brokerage houses and other custodians, nominees and fiduciaries to forward all solicitation materials to the beneficial owners of the Shares they hold of record. HNH will reimburse these record holders for their reasonable out-of-pocket expenses in so doing. It is anticipated that MacKenzie Partners, Inc. will employ approximately [] persons to solicit the Company's stockholders for the Annual Meeting.

The entire expense of soliciting proxies is being borne by HNH pursuant to the terms of the Joint Filing and Solicitation Agreement (as described above). Costs of this solicitation of proxies are currently estimated to be approximately \$[]. HNH estimates that through the date hereof, its expenses in connection with this solicitation are approximately \$[]. HNH intends to seek reimbursement from the Company of all expenses it incurs in connection with the solicitation of proxies for the election of the Nominees to the Board at the Annual Meeting. HNH does not intend to submit the question of such reimbursement to a vote of security holders of the Company.

OTHER PARTICIPANT INFORMATION

Other than the Nominees, the participants in this solicitation are HNH, SPL, Steel Holdings, SPHG, SPHG Holdings and Steel Holdings GP.

HNH is a diversified industrial products and manufacturing company. SPL is a holding company. Steel Holdings is a global diversified holding company that engages or has interests in a variety of operating businesses through its subsidiary companies. Steel Holdings may seek to obtain majority or primary control, board representation or other significant influence over the businesses in which it holds an interest. The principal business of SPHG Holdings is holding securities for the account of Steel Holdings. The principal business of SPHG is serving as the sole member of SPHG Holdings and other affiliates. The principal business of Steel Holdings GP is serving as the general partner of Steel Holdings, the managing member of SPHG and the manager of SPHG Holdings.

The principal business address of HNH is 1133 Westchester Avenue, Suite N222, White Plains, New York 10604. The principal business address of the other participants (other than HNH and Richard K. McClelland) is 590 Madison Avenue, 32nd Floor, New York, New York 10022. Richard K. McClelland's principal business address is 117 Caulder Drive, Oakville Ontario Canada L6J 4T2.

As of the date hereof, HNH owns directly 5,941,170 Shares, SPHG Holdings owns directly 540,015 Shares and SPL owns directly 60,000 Shares.

Steel Holdings owns 99% of the membership interests of SPHG. SPHG is the sole member of SPHG Holdings. Steel Holdings GP is the general partner of Steel Holdings, the managing member of SPHG and the manager of SPHG Holdings. By virtue of these relationships, each of Steel Holdings, SPHG and Steel Holdings GP may be deemed to beneficially own the Shares owned directly by SPHG Holdings.

SPHG Holdings owns approximately 55% of the outstanding shares of common stock of HNH. Accordingly, each of Steel Holdings, SPHG, SPHG Holdings and Steel Holdings GP could be deemed to beneficially own the Shares owned directly by HNH.

Warren G. Lichtenstein is the Chief Executive Officer and sole director of SPL. By virtue of this relationship, Mr. Lichtenstein may be deemed to beneficially own the Shares owned directly by SPL.

Jack L. Howard, who is the Vice Chairman of HNH, President of Steel Holdings GP and SPL, and a principal of Mutual Securities, Inc., a registered broker dealer, may be deemed to be a participant in this solicitation. As of the date hereof, Mr. Howard owns directly 10,000 Shares.

Glen M. Kassan, Vice Chairman of the Board of HNH and a Managing Director and operating partner of Steel Partners, may be deemed to be a participant in this solicitation. Mr. Kassan does not directly own any Shares.

The Shares owned collectively by the participants are held primarily in margin accounts maintained with prime brokers, which may extend margin credit as and when required to open or carry positions in the margin accounts, subject to applicable federal margin regulations, stock exchange rules and the prime brokers' credit policies. In such instances, the positions held in the margin accounts are pledged as collateral security for the repayment of debit balances in the accounts.

As of the date hereof, the participants collectively owned an aggregate of 6,551,185 Shares, constituting approximately 14.9% of the Shares outstanding. Each participant in this solicitation, as a member of a "group" with the other participants, for purposes of Rule 13d-5(b)(1) of the Exchange Act, may be deemed to beneficially own the Shares owned by the other participants. Each participant specifically disclaims beneficial ownership of the Shares disclosed herein that he or it does not directly own. For information regarding purchases and sales of securities of the Company during the past two years by the participants, see Schedule I.

Except as set forth in this Proxy Statement (including the Schedules hereto), (i) during the past 10 years, no participant in this solicitation has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors); (ii) no participant in this solicitation directly or indirectly beneficially owns any securities of the Company; (iii) no participant in this solicitation owns any securities of the Company which are owned of record but not beneficially; (iv) no participant in this solicitation has purchased or sold any securities of the Company during the past two years; (v) no part of the purchase price or market value of the securities of the Company owned by any participant in this solicitation is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities; (vi) no participant in this solicitation is, or within the past year was, a party to any contract, arrangements or understandings with any person with respect to any securities of the Company, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies; (vii) no associate of any participant in this solicitation owns beneficially, directly or indirectly, any securities of the Company; (viii) no participant in this solicitation owns beneficially, directly or indirectly, any securities of any parent or subsidiary of the Company; (ix) no participant in this solicitation or any of his or its associates was a party to any transaction, or series of similar transactions, since the

beginning of the Company's last fiscal year, or is a party to any currently proposed transaction, or series of similar transactions, to which the Company or any of its subsidiaries was or is to be a party, in which the amount involved exceeds \$120,000; (x) no participant in this solicitation or any of his or its associates has any arrangement or understanding with any person with respect to any future employment by the Company or its affiliates, or with respect to any future transactions to which the Company or any of its affiliates will or may be a party; and (xi) no participant in this solicitation has a substantial interest, direct or indirect, by securities holdings or otherwise in any matter to be acted on at the Annual Meeting.

There are no material proceedings to which any participant in this solicitation or any of his or its associates is a party adverse to the Company or any of its subsidiaries or has a material interest adverse to the Company or any of its subsidiaries. With respect to each of the Nominees, none of the events enumerated in Item 401(f)(1)-(8) of Regulation S-K of the Exchange Act occurred during the past ten years.

OTHER MATTERS AND ADDITIONAL INFORMATION

Other Matters

Other than as discussed above, we are unaware of any other matters to be considered at the Annual Meeting. However, should other matters, which we are not aware of a reasonable time before this solicitation, be brought before the Annual Meeting, the persons named as proxies on the enclosed GOLD proxy card will vote on such matters in their discretion.

Stockholder Proposals

Any proposal that a stockholder of the Company wishes to be considered for inclusion in the Company's Proxy Statement, Notice of Internet Availability of Proxy Materials and proxy card for the Company's 2013 Annual Meeting of Stockholders (the "2013 Annual Meeting") must be submitted to the Secretary of the Company at its offices, 1601 Trapelo Road, Waltham, Massachusetts 02451, no later than _____, 2013. In addition, such proposals must comply with the requirements of Rule 14a-8 under the Exchange Act and the Bylaws, as applicable.

If a stockholder of the Company wishes to present a proposal or nominate a director before the 2013 Annual Meeting, but does not wish to have the proposal considered for inclusion in the Company's Proxy Statement and proxy card, such stockholder must also give written notice to the Secretary of the Company at the address noted above. The Secretary must receive such notice no earlier than _____, 2013 and no later than _____, 2013 (unless the Company's 2013 Annual Meeting is held before _____, 2013 or after _____, 2014, in which case different deadlines are established by the Bylaws) and the stockholder must comply with the provisions of the Bylaws. If a stockholder fails to provide timely notice of a proposal to be presented at the 2013 Annual Meeting, the stockholder will not be permitted to present the proposal to the stockholders for a vote at the 2013 Annual Meeting.

The information set forth above regarding the procedures for submitting stockholder proposals for consideration at the 2013 Annual Meeting is based on information contained in the Company's proxy statement. The incorporation of this information in this Proxy Statement should not be construed as an admission by HNH that such procedures are legal, valid or binding.

Incorporation by Reference

We have omitted from this Proxy Statement certain disclosure required by applicable law that is already included in the Company's proxy statement relating to the Annual Meeting. This disclosure includes, among other things, current biographical information on the Company's directors, information concerning executive compensation, and other important information. Although we do not have any knowledge indicating that any statement made by us herein is untrue, we do not take any responsibility for the accuracy or completeness of statements taken from public documents and records that were not prepared by or on our behalf, or for any failure by the Company to disclose events that may affect the significance or accuracy of such information. See Schedule II for information regarding persons who beneficially own more than 5% of the Shares and the ownership of the Shares by the directors and management of the Company.

The information concerning the Company contained in this Proxy Statement and the Schedules attached hereto has been taken from, or is based upon, publicly available information.

Handy & Harman
Ltd.

[],
2013

SCHEDULE I

TRANSACTIONS IN SECURITIES OF MODUSLINK GLOBAL SOLUTIONS, INC.
DURING THE PAST TWO YEARS

| Class of Security | Securities Purchased/(Sold) | Price Per Share (\$) | Date of Purchase/Sale |
|---------------------|-----------------------------|----------------------|-----------------------|
| Handy & Harman Ltd. | | | |
| Common Stock | 1,547,733 | 3.5200 | 09/30/11 |
| Common Stock | 1,992,147 | 3.5020 | 10/04/11 |
| Common Stock | 75,000 | 3.7500 | 10/05/11 |
| Common Stock | 83,000 | 3.9500 | 10/06/11 |
| Common Stock | 30,000 | 4.0300 | 10/07/11 |
| Common Stock | 29,380 | 3.7970 | 10/11/11 |
| Common Stock | 50,000 | 4.0000 | 10/14/11 |
| Common Stock | 11,430 | 3.9820 | 10/17/11 |
| Common Stock | 40,115 | 3.9940 | 11/01/11 |
| Common Stock | 6,955 | 4.0000 | 11/02/11 |
| Common Stock | 1,681 | 4.0000 | 11/09/11 |
| Common Stock | 1,120 | 4.0000 | 11/10/11 |
| Common Stock | 1,283 | 4.0000 | 11/16/11 |
| Common Stock | 47,066 | 4.2490 | 11/17/11 |
| Common Stock | 9,530 | 4.2500 | 11/18/11 |
| Common Stock | 26,091 | 4.2500 | 11/21/11 |
| Common Stock | 5,350 | 4.2110 | 11/22/11 |
| Common Stock | 37,289 | 4.2200 | 11/23/11 |
| Common Stock | 28,916 | 4.2170 | 11/25/11 |
| Common Stock | 33,257 | 4.2490 | 11/28/11 |
| Common Stock | 57,300 | 4.2500 | 11/29/11 |
| Common Stock | 199,100 | 4.5200 | 12/01/11 |
| Common Stock | 180,000 | 4.5200 | 12/01/11 |
| Common Stock | 70,000 | 4.5200 | 12/01/11 |
| Common Stock | 48,000 | 4.5200 | 12/01/11 |

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| Class of Security | Securities Purchased/(Sold) | Price Per Share (\$) | Date of Purchase/Sale |
|-------------------|-----------------------------|----------------------|-----------------------|
| Common Stock | 900 | 4.5000 | 12/01/11 |
| Common Stock | 5,346 | 4.9190 | 12/13/11 |
| Common Stock | 113,767 | 4.9420 | 12/14/11 |
| Common Stock | 30,000 | 4.9500 | 12/14/11 |
| Common Stock | 26,400 | 5.1120 | 12/15/11 |
| Common Stock | 11,915 | 5.3170 | 01/05/12 |
| Common Stock | 26,346 | 5.3740 | 01/06/12 |
| Common Stock | 57,993 | 5.4110 | 01/09/12 |
| Common Stock | 70,940 | 5.4970 | 01/10/12 |
| Common Stock | 43,577 | 5.4130 | 01/11/12 |
| Common Stock | 33,396 | 5.4970 | 01/13/12 |
| Common Stock | 22,115 | 5.5090 | 01/17/12 |
| Common Stock | 3,100 | 5.4870 | 01/18/12 |
| Common Stock | 28,706 | 5.5600 | 01/19/12 |
| Common Stock | 7,100 | 5.5920 | 01/20/12 |
| Common Stock | 8,952 | 5.6000 | 01/23/12 |
| Common Stock | 44,030 | 5.5980 | 01/25/12 |
| Common Stock | 14,210 | 5.6000 | 01/26/12 |
| Common Stock | 20,782 | 5.5980 | 02/10/12 |
| Common Stock | 13,786 | 5.5920 | 02/13/12 |
| Common Stock | 27,617 | 5.5740 | 02/14/12 |
| Common Stock | 23,530 | 5.5880 | 02/15/12 |
| Common Stock | 1,300 | 5.5900 | 02/16/12 |
| Common Stock | 300 | 5.6000 | 02/17/12 |
| Common Stock | 1,780 | 5.6000 | 02/21/12 |
| Common Stock | 14,805 | 5.5980 | 02/22/12 |
| Common Stock | 350 | 5.6000 | 02/23/12 |
| Common Stock | 6,597 | 5.5880 | 02/27/12 |
| Common Stock | 22,460 | 5.5950 | 02/29/12 |
| Common Stock | 27,500 | 5.5980 | 03/01/12 |

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| Class of Security | Securities Purchased/(Sold) | Price Per Share (\$) | Date of Purchase/Sale |
|-------------------|-----------------------------|----------------------|-----------------------|
| Common Stock | 44,111 | 5.5120 | 03/02/12 |
| Common Stock | 69,400 | 5.4590 | 03/05/12 |
| Common Stock | 60,200 | 5.4700 | 03/06/12 |
| Common Stock | 162,747 | 5.5570 | 03/07/12 |
| Common Stock | 102,600 | 5.2050 | 03/08/12 |
| Common Stock | 78,900 | 5.2520 | 03/09/12 |
| Common Stock | 101,869 | 5.3100 | 03/12/12 |

SPH Group Holdings LLC

| | | | |
|--------------|----------|--------|----------|
| Common Stock | 540,015* | 2.8900 | 06/13/12 |
|--------------|----------|--------|----------|

BNS Holding, Inc.

| | | | |
|--------------|------------|--------|----------|
| Common Stock | 97,300 | 3.7280 | 08/08/11 |
| Common Stock | 163,732 | 3.7020 | 08/09/11 |
| Common Stock | 59,111 | 3.7960 | 08/10/11 |
| Common Stock | 11,282 | 3.7830 | 08/12/11 |
| Common Stock | 5,047 | 3.7980 | 08/12/11 |
| Common Stock | 300 | 3.7900 | 08/15/11 |
| Common Stock | 12,431 | 3.8970 | 08/16/11 |
| Common Stock | 6,078 | 3.9070 | 08/17/11 |
| Common Stock | 19,177 | 3.9000 | 08/18/11 |
| Common Stock | 3,929 | 3.8450 | 08/19/11 |
| Common Stock | 34,997 | 3.7800 | 08/22/11 |
| Common Stock | 12,432 | 3.8080 | 08/23/11 |
| Common Stock | 3,000 | 3.8440 | 08/24/11 |
| Common Stock | 34,199 | 3.8480 | 08/25/11 |
| Common Stock | 52,000 | 3.4600 | 09/29/11 |
| Common Stock | 25,000 | 3.6160 | 09/30/11 |
| Common Stock | (540,015)* | 2.8900 | 06/13/12 |

* In connection with the plan of complete liquidation and dissolution of BNS Holding, Inc. ("BNS"), on June 13, 2012 the 540,015 shares of Common Stock owned directly by BNS were distributed to SPHG Holdings at \$2.89 per share.

| Class of Security | Securities Purchased/(Sold) | Price Per Share (\$) | Date of Purchase/Sale |
|----------------------|-----------------------------|----------------------|-----------------------|
| Steel Partners, Ltd. | | | |
| Common Stock | 50,000 | 6.8580 | 10/20/10 |
| Common Stock | 10,000 | 6.6470 | 10/21/10 |

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SCHEDULE II

The following table is reprinted from the Company's preliminary proxy statement filed with the Securities and Exchange Commission on December 21, 2012.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information, as of November 26, 2012, with respect to the beneficial ownership of shares of Common Stock by: (i) 5% stockholders; (ii) the members of the Board of the Company, (iii) the named executive officers (as defined under "Summary Compensation Table"); and (v) all current executive officers and members of the Board of the Company, as a group.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | |
|---|--|---------------------|
| | Number of Shares | Percent of Class(2) |
| 5% Stockholders | | |
| Steel Partners, Ltd.(3) | 6,551,185 | 14.9% |
| BlackRock, Inc.(4) | 2,558,732 | 5.8% |
| Dimensional Fund Advisors LP(5) | 2,795,753 | 6.5% |
| The Vanguard Group, Inc.(6) | 2,192,546 | 5.0% |
| Directors and Nominees | | |
| Virginia G. Breen(7) | 45,916 | * |
| Jeffrey J. Fenton(8) | 55,460 | * |
| Francis J. Jules(9) | 64,466 | * |
| Edward E. Lucente(10) | 74,316 | * |
| Michael J. Mardy(11) | 73,516 | * |
| Joseph M. O'Donnell(12) | 41,060 | * |
| Jeffrey S. Wald | 13,505 | * |
| Named Executive Officers | | |
| Joseph Lawler(13) | 679,393 | 1.5% |
| Steven G. Crane(14) | 278,449 | * |
| Scott R. Crawley(15) | 34,020 | * |
| Peter L. Gray(16) | 131,448 | * |
| Thomas Nightingale(17) | 159,093 | * |
| William R. McLennan(18) | 68,274 | * |
| David J. Riley(19) | 36,976 | * |
| All current executive officers and directors, as a group (11 persons)(20) | 971,249 | 2.2% |

* Less than 1%

- (1) For purposes of this table, beneficial ownership is determined by rules promulgated by the Securities and Exchange Commission (the “SEC”), and the information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any shares over which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days after November 26, 2012, through the exercise of any stock option or other right (“Presently Exercisable Options”). The inclusion herein of such shares, however, does not constitute an admission that the named stockholder is a direct or indirect beneficial owner of such shares. The Company believes that each person or entity named in the table has sole voting power and investment power (or shares such power with his or her spouse) with respect to all shares of Common Stock listed as owned by such person or entity unless noted otherwise. Unless otherwise indicated, the address of each person listed in the table is c/o ModusLink Global Solutions, Inc., 1601 Trapelo Road, Suite 170, Waltham, MA 02451.
- (2) Number of shares deemed outstanding includes 43,841,342 shares of Common Stock as of November 26, 2012, plus any shares subject to Presently Exercisable Options held by the person in question.
- (3) Based on information provided in the Schedule 13D filed by Handy & Harman, Ltd. (“HNH”), BNS Holdings, Inc. (“BNS”), Steel Partners, Ltd. (“SPL”), Steel Partners Holdings L.P. (“Steel Holdings”), SPH Group LLC (“SPHG”), SPH Group Holdings LLC (“SPHG Holdings”), Steel Partners LLC (“Partners LLC”), and Warren G. Lichtenstein with the SEC on October 14, 2011 and all amendments thereto, including that certain Amendment No. 12 to Schedule 13D filed by HNH, SPL, Steel Holdings, SPHG, SPHG Holdings, Steel Partners Holdings GP, Inc. (“Steel Holdings GP”), Mr. Lichtenstein, Glen M. Kassan and Richard K. McClelland on September 28, 2012, a Form 4 filed by HNH on March 14, 2012 and Forms 4 filed by BNS and SPHG Holdings on June 15, 2012. The principal business address of HNH is 1133 Westchester Avenue, Suite N222, White Plains, NY 10604. The principal business address of the Reporting Persons other than HNH and Mr. McClelland is 590 Madison Avenue, 32nd Floor, New York, NY 10022. The principal business address of Mr. McClelland is 117 Caulder Drive, Oakville, Ontario Canada L6J 4T2.
- SPL owns 60,000 shares of Common Stock. Mr. Lichtenstein is the Chief Executive Officer and sole director of SPL. Accordingly, by virtue of Mr. Lichtenstein’s relationship with SPL, Mr. Lichtenstein may be deemed to beneficially own the shares of Common Stock owned directly by SPL. Mr. Lichtenstein disclaims beneficial ownership of the shares of Common Stock owned directly by SPL except to the extent of his pecuniary interest therein. SPL and Mr. Lichtenstein have shared dispositive and voting power with respect to the 60,000 shares owned by SPL.
 - SPHG Holdings owns 540,015 shares of Common Stock. Steel Holdings owns 99% of the membership interests of SPHG. SPHG is the sole member of SPHG Holdings. Steel Holdings GP is the general partner of Steel Holdings, the managing manager of SPHG and the manager of SPHG Holdings. Accordingly, by virtue the relationships discussed above, each of Steel Holdings, SPHG, and Steel Holdings GP may be deemed to beneficially own the shares of Common Stock owned directly by SPHG Holdings. Each of SPHG, Steel Holdings, and

Steel Holdings GP disclaims beneficial ownership of the shares of Common Stock owned directly by SPHG Holdings except to the extent of his or its pecuniary interest therein. SPHG Holdings, SPHG, Steel Holdings and Steel Holdings GP have shared dispositive and voting power with respect to the 540,015 shares owned by SPHG Holdings.

- HNH owns 5,941,170 shares of Common Stock. SPHG Holdings owns approximately 55% of the outstanding shares of common stock of HNH. Steel Holdings owns 99% of the membership interests of SPHG. SPHG is the sole member of SPHG Holdings. Steel Holdings GP is the general partner of Steel Holdings, the managing manager of SPHG and the manager of SPHG Holdings. Accordingly, each of SPHG Holdings, Steel Holdings, SPHG and Steel Holdings GP could be deemed to beneficially own the shares of Common Stock owned directly by HNH. Each of SPHG Holdings, Steel Holdings, SPHG and Steel Holdings GP disclaims beneficial ownership of the shares of Common Stock owned directly by HNH. HNH has sole dispositive and voting power with respect to the 5,941,170 shares owned by HNH.

- (4) Based solely on information provided in Amendment No. 2 to Schedule 13G filed by BlackRock, Inc. (“BlackRock”) with the SEC on February 13, 2012, BlackRock has sole dispositive power and sole voting power with respect to such shares. BlackRock’s address is 40 East 52nd Street, New York, NY 10022.
- (5) Based solely on information provided in a Schedule 13G filed by Dimensional Fund Advisors LP (“Dimensional”) with the SEC on February 14, 2012, Dimensional has shared dispositive power with respect to such shares and sole voting power with respect to 2,695,138 shares. Dimensional is an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishing investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are collectively referred to as the “Funds.” As a result of its role as investment advisor or investment manager to the Funds, Dimensional may be deemed to be the beneficial owner of the 2,795,753 shares of Common Stock held by the Funds. However, Dimensional does not have the right to receive any dividends from, or the proceeds from the sale of, the securities held by the Funds and Dimensional disclaims beneficial ownership of such securities. Dimensional’s address is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX 78746.
- (6) Based solely on information provided in a Schedule 13G filed by The Vanguard Group, Inc. (“Vanguard”) with the SEC on February 10, 2012, Vanguard has sole dispositive power with respect to 2,127,023 shares and sole voting power with respect to 65,523 shares. Vanguard has shared dispositive power with respect to 65,523 shares. Vanguard Fiduciary Trust Company (“VFTC”), a wholly-owned subsidiary of Vanguard is the beneficial owner of 65,523 shares as a result of its serving as an investment manager of collective trust accounts and VFTC directs the voting of such shares. Vanguard’s address is 100 Vanguard Blvd., Malvern, PA 19355.
- (7) Includes 16,800 shares which may be acquired by Ms. Breen pursuant to Presently Exercisable Options.
- (8) Includes 14,444 shares which may be acquired by Mr. Fenton pursuant to Presently Exercisable Options.
- (9) Includes 34,400 shares which may be acquired by Mr. Jules pursuant to Presently Exercisable Options.
- (10) Includes 27,200 shares which may be acquired by Mr. Lucente pursuant to Presently Exercisable Options. Includes 15,000 shares held by a limited partnership controlled by Mr. Lucente and his wife; Mr. Lucente and his wife have shared dispositive and voting power with respect to such shares.
- (11) Includes 34,400 shares which may be acquired by Mr. Mardy pursuant to Presently Exercisable Options.
- (12) Includes 14,444 shares which may be acquired by Mr. O’Donnell pursuant to Presently Exercisable Options.

- (13) Includes 325,110 shares which may be acquired by Mr. Lawler pursuant to Presently Exercisable Options. Mr. Lawler retired from the Company on October 1, 2012.
- (14) Includes 175,810 shares which may be acquired by Mr. Crane pursuant to Presently Exercisable Options.
- (15) Includes 11,666 shares which may be acquired by Mr. Crawley pursuant to Presently Exercisable Options.
- (16) Includes 83,404 shares which may be acquired by Mr. Gray pursuant to Presently Exercisable Options.
- (17) Includes 108,333 shares which may be acquired by Mr. Nightingale pursuant to Presently Exercisable Options.
- (18) Mr. McLennan's employment with the Company ceased on June 11, 2012.
- (19) Mr. Riley's employment with the Company ceased on July 3, 2012.
- (20) Includes 520,901 shares which may be acquired pursuant to Presently Exercisable Options.

IMPORTANT

Tell your Board what you think! Your vote is important. No matter how many Shares you own, please give us your proxy FOR the election of our Nominees by taking three steps:

- SIGNING the enclosed GOLD proxy card,
- DATING the enclosed GOLD proxy card, and
- MAILING the enclosed GOLD proxy card TODAY in the envelope provided (no postage is required if mailed in the United States).

If any of your Shares are held in the name of a brokerage firm, bank, bank nominee or other institution, only it can vote such Shares and only upon receipt of your specific instructions. Depending upon your broker or custodian, you may be able to vote either by toll-free telephone or by the Internet. Please refer to the enclosed voting form for instructions on how to vote electronically. You may also vote by signing, dating and returning the enclosed GOLD voting form.

If you have any questions or require any additional information concerning this Proxy Statement, please contact MacKenzie Partners, Inc. at the address set forth below.

If you have any questions, require assistance in voting your GOLD proxy card, or need additional copies of HNH's proxy materials, please contact MacKenzie Partners, Inc. at the phone numbers or email listed below.

105 Madison Avenue
New York, New York 10016
(212) 929-5500 (Call Collect)
proxy@mackenziepartners.com
or
CALL TOLL FREE (800) 322-2885

PRELIMINARY COPY SUBJECT TO COMPLETION
DATED DECEMBER 27, 2012

GOLD PROXY CARD

MODUSLINK GLOBAL SOLUTIONS, INC.

2012 ANNUAL MEETING OF STOCKHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF
HANDY & HARMAN LTD.
STEEL PARTNERS, LTD.
STEEL PARTNERS HOLDINGS L.P.
SPH GROUP LLC
SPH GROUP HOLDINGS LLC
STEEL PARTNERS HOLDINGS GP INC.
WARREN G. LICHTENSTEIN
RICHARD K. MCCLELLAND

THE BOARD OF DIRECTORS OF MODUSLINK GLOBAL SOLUTIONS, INC.
IS NOT SOLICITING THIS PROXY

P R O X Y

The undersigned appoints [] and [], and each of them, attorneys and agents with full power of substitution to vote all shares of Common Stock, par value \$0.01 per share (the “Common Stock”), of ModusLink Global Solutions, Inc. (the “Company”), which the undersigned would be entitled to vote if personally present at the 2012 Annual Meeting of Stockholders of the Company scheduled to be held at [], on [], 2013, at []:[] [] .m., Eastern time (including at any adjournments or postponements thereof and at any meeting called in lieu thereof, the “Annual Meeting”).

The undersigned hereby revokes any other proxy or proxies heretofore given to vote or act with respect to the shares of Common Stock of the Company held by the undersigned, and hereby ratifies and confirms all action the herein named attorneys and proxies, their substitutes, or any of them may lawfully take by virtue hereof. If properly executed, this Proxy will be voted as directed on the reverse and in the discretion of the herein named attorneys and proxies or their substitutes with respect to any other matters as may properly come before the Annual Meeting that are unknown to Handy & Harman Ltd. (“HNH”) a reasonable time before this solicitation.

IF NO DIRECTION IS INDICATED WITH RESPECT TO THE PROPOSALS ON THE REVERSE, THIS PROXY WILL BE VOTED “FOR” PROPOSALS 1, 2 AND 4 AND “AGAINST” PROPOSAL 3

This Proxy will be valid until the sooner of one year from the date indicated on the reverse side and the completion of the Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting

HNH's Proxy Statement and this GOLD proxy card are available at
www.[]

IMPORTANT: PLEASE SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY!

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

GOLD PROXY CARD

HNH RECOMMENDS A VOTE “FOR” THE NOMINEES LISTED IN PROPOSAL 1, “FOR” PROPOSAL 2 AND “AGAINST” PROPOSAL 3. HNH MAKES NO RECOMMENDATION WITH RESPECT TO PROPOSAL 4.

[X] Please mark vote as in this example

1. HNH’S PROPOSAL TO ELECT DIRECTORS:

| | | FOR ALL NOMINEES | WITHHOLD AUTHORITY TO VOTE FOR ALL NOMINEES | FOR ALL NOMINEES EXCEPT |
|-----------|---|---------------------|---|----------------------------|
| Nominees: | Warren G. Lichtenstein Richard K. McClelland | [] | [] | [] |

NOTE: If you do not wish for your shares to be voted “FOR” a particular nominee, mark the “FOR ALL NOMINEES EXCEPT” box and write the name(s) of the nominee(s) you do not support on the line below. Your shares will be voted for the remaining nominee(s).

2. THE COMPANY’S PROPOSAL TO AMEND THE COMPANY’S
RESTATED CERTIFICATE OF INCORPORATION TO DECLASSIFY
THE BOARD OF DIRECTORS: FOR AGAINST ABSTAIN

3. THE COMPANY’S PROPOSAL TO APPROVE, BY AN ADVISORY
VOTE, EXECUTIVE COMPENSATION: FOR AGAINST ABSTAIN

4. THE COMPANY’S PROPOSAL TO RATIFY THE APPOINTMENT OF
KPMG LLP AS THE COMPANY’S INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM FOR THE CURRENT FISCAL YEAR: FOR AGAINST ABSTAIN

DATED: _____,
2013

Signature

Signature (if held jointly)

Title

WHEN SHARES ARE HELD JOINTLY,
JOINT OWNERS SHOULD EACH
SIGN. EXECUTORS,
ADMINISTRATORS, TRUSTEES, ETC.,
SHOULD INDICATE THE CAPACITY IN
WHICH SIGNING. PLEASE SIGN
EXACTLY AS NAME APPEARS ON
THIS PROXY.