Quanex Building Products CORP
Form 10-Q
March 09, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2009

OR

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

For the transition period from __________ to __________.

Commission File Number 1-33913

QUANEX BUILDING PRODUCTS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	**26-1561397**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1900 West Loop South, Suite 1500, Houston, Texas 77027
(Address of principal executive offices and zip code)

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

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 þ No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ (Do not check if a small reporting company)	Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at February 27, 2009**
Common Stock, par value $0.01 per share	37,670,367

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX BUILDING PRODUCTS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	January 31, 2009	October 31, 2008
	(In thousands except share data)	
ASSETS		
Current assets:		
Cash and equivalents	$ 75,355	$ 67,413
Accounts receivable, net of allowance of $1,880 and $1,892	40,494	101,211
Inventories	58,566	63,848
Deferred income taxes	10,931	10,932
Prepaid and other current assets	6,908	6,239
Total current assets	192,254	249,643
Property, plant and equipment, net	153,761	157,389
Deferred income taxes	39,349	3,875
Goodwill	70,455	196,338
Intangible assets, net	49,611	62,476
Other assets	11,136	11,126
Total assets	$ 516,566	$ 680,847
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 30,328	$ 79,512
Accrued liabilities	27,132	38,316
Current maturities of long-term debt	362	363
Total current liabilities	57,822	118,191
Long-term debt	2,176	2,188
Non-current environmental reserves	1,887	2,485
Other liabilities	12,081	10,155
Total liabilities	73,966	133,019
Stockholders equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding none		
Common stock, $0.01 par value, shares authorized 125,000,000; issued 37,772,492 and 37,760,016	378	378
Additional paid-in-capital	231,146	230,316

Retained earnings		212,613		318,648
Accumulated other comprehensive income (loss)		(167)		(144)
		443,970		549,198
Less common stock held by rabbi trust, 102,125 shares		(1,370)		(1,370)
Total stockholders equity		442,600		547,828
Total liabilities and stockholders equity	$	516,566	$	680,847

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

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QUANEX BUILDING PRODUCTS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended January 31, 2009	Three Months Ended January 31, 2008
	(In thousands, except per share amounts)	
Net sales	$ 112,888	$ 174,912
Cost and expenses:		
Cost of sales (exclusive of items shown separately below)	106,664	147,077
Selling, general and administrative expense	15,781	20,043
Impairment of goodwill and intangible assets	137,299	
Depreciation and amortization	8,705	8,959
Operating income (loss)	(155,561)	(1,167)
Interest expense	(122)	(138)
Other, net	122	308
Income (loss) from continuing operations before income taxes	(155,561)	(997)
Income tax (expense) benefit	35,148	388
Income (loss) from continuing operations	(120,413)	(609)
Income (loss) from discontinued operations, net of tax		3,693
Net income (loss)	$ (120,413)	$ 3,084
Basic and diluted earnings per common share:		
Earnings (loss) from continuing operations	$ (3.23)	$ (0.02)
Income (loss) from discontinued operations		0.10
Earnings (loss) per share	$ (3.23)	$ 0.08
Weighted-average common shares outstanding:		
Basic and diluted	37,333	37,166

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

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QUANEX BUILDING PRODUCTS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Three Months Ended January 31,	
	2009	2008
	(In thousands)	
Operating activities:		
Net income (loss)	$ (120,413)	$ 3,084
(Income) loss from discontinued operations		(3,693)
Adjustments to reconcile net income to cash provided by operating activities:		
Impairment of goodwill and intangible assets	137,299	
Depreciation and amortization	8,723	8,961
Deferred income taxes	(22,492)	83
Stock-based compensation	818	853
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable	58,948	21,360
Decrease (increase) in inventory	5,259	(4,132)
Decrease (increase) in other current assets	(132)	200
Increase (decrease) in accounts payable	(49,239)	(14,223)
Increase (decrease) in accrued liabilities	(6,979)	(8,088)
Increase (decrease) in income taxes	(15,013)	(372)
Increase (decrease) in pension and postretirement benefits	954	962
Other, net	584	2,907
Cash provided by (used for) operating activities from continuing operations	(1,683)	7,902
Cash provided by (used for) operating activities from discontinued operations		16,168
Cash provided by (used for) operating activities	(1,683)	24,070
Investing activities:		
Capital expenditures, net of retirements	(4,611)	(3,413)
Cash provided by (used for) investing activities from continuing operations	(4,611)	(3,413)
Cash provided by (used for) investing activities from discontinued operations		36,350
Cash provided by (used for) investing activities	(4,611)	32,937
Financing activities:		
Repayments of long-term debt	(13)	(14)
Common stock dividends paid	(1,130)	
Funding from Separation	15,401	20,900
Cash provided by (used for) financing activities from continuing operations	14,258	20,886
Cash provided by (used for) financing activities from discontinued operations		(40,402)

Cash provided by (used for) financing activities		14,258		(19,516)
Effect of exchange rate changes on cash equivalents		(22)		(55)
Less: (Increase) decrease in cash and equivalents from discontinued operations				(12,116)
Increase (decrease) in cash and equivalents from continuing operations		7,942		25,320
Cash and equivalents at beginning of period		67,413		1,778
Cash and equivalents at end of period	$	75,355	$	27,098

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

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QUANEX BUILDING PRODUCTS CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY
(Unaudited)

Three months Ended January 31, 2009	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Rabbi Trust	Total Stockholders Equity
	(In thousands, except per share amounts)					
Balance at October 31, 2008	$ 378	$ 230,316	$ 318,648	$ (144)	$ (1,370)	$ 547,828
Net income (loss)			(120,413)			(120,413)
Common dividends ($0.03 per share)			(1,130)			(1,130)
Stock-based compensation activity (excluding transaction related):						
Stock-based compensation earned		830				830
Restricted stock awards	1	(1)				
Separation from Quanex Corporation			15,508			15,508
Other	(1)	1		(23)		(23)
Balance at January 31, 2009	$ 378	$ 231,146	$ 212,613	$ (167)	$ (1,370)	$ 442,600

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

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

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

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

Notwithstanding the legal form of the Separation, because Gerdau merged with and into Quanex Corporation immediately following the spin-off and because the senior management of Quanex Corporation continued as the senior management of Quanex Building Products Corporation following the spin-off, the Company considers Quanex Building Products Corporation as divesting the Quanex Corporation vehicular products segment and non-building products related corporate items and has treated it 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). For purposes of describing the events related to the Separation as well as other events, transactions and financial results of Quanex Building Products Corporation and its subsidiaries related to periods prior to April 23, 2008, the term Quanex or the Company also refer to Quanex Building Products Corporation s accounting predecessor, Quanex Corporation.

In accordance with the provisions of Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) effective with the Separation on April 23, 2008, the results of operations and cash flows related to the vehicular products business and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations as of January 31, 2009 or October 31, 2008. Unless otherwise noted, all disclosures in the notes accompanying the consolidated financial statements reflect only continuing operations.

The interim unaudited consolidated financial statements of the Company include all adjustments which, in the opinion of management, are necessary for a fair presentation of the Company s financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company s operating environment changes. Actual results could differ from estimates. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2008.

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

2. New Accounting Pronouncements

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP 132(R)-1), which provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. This interpretation is effective for financial statements issued for fiscal years ending after December 15, 2009 (October 31, 2010 for the Company). The Company is currently evaluating the disclosure requirements of this pronouncement.

In June 2008, the FASB ratified FSP No. EITF 03-6-1, Determining *Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1), which addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, must be included in the earnings allocation in calculating earnings per share under the two-class method described in SFAS No. 128, *Earnings per Share* (SFAS No. 128). FSP EITF 03-6-1 requires that unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend-equivalents be treated as participating securities in calculating earnings per share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company), and interim periods within those fiscal years, and shall be applied retrospectively to all prior periods. The Company is currently evaluating the impact of adopting FSP EITF 03-6-1 on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. The effective date of this statement is November 15, 2008. The adoption of SFAS 162 did not have a material impact on the Company s consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position (FSP) No. SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP SFAS 142-3). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R (revised 2007), *Business Combinations* (SFAS 141R) and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for the fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company) and must be applied prospectively to intangible assets acquired after the effective date. The Company s adoption of FSP SFAS 142-3 could have a potential impact on its future results of operations or financial condition from intangibles acquired after November 1, 2009.

In December 2007, the FASB issued SFAS No. 141R *Business Combinations* . This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, the goodwill acquired, contractual contingencies and any estimate or contingent consideration measured at their fair value at the acquisition date. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (for acquisitions closed on or after November 1, 2009 for the Company). Early application is not permitted. While the Company has not yet evaluated SFAS 141R for the impact, if any, the statement will have on its consolidated financial statements, the Company will be required to expense costs related to any acquisitions closed on or after November 1, 2009.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160). SFAS 160 addresses the accounting and reporting framework for minority interests by a parent company. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (as of November 1, 2009 for the Company). The adoption of SFAS 160 will not have a material impact on the Company s consolidated financial statements.

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

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). This standard provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007 (as of November 1, 2008 for the Company). The Company adopted SFAS 159 effective November 1, 2008, and did not elect the fair value option for eligible instruments existing on that date. Therefore, the initial adoption of SFAS 159 did not have an impact on our results of operations or financial condition. The Company will assess the impact of electing the fair value option for any newly acquired eligible instruments. Electing the fair value option for such instruments could have a material impact on our future results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. SFAS 157, as it relates to financial assets and financial liabilities, becomes effective for fiscal years beginning after November 15, 2007 (as of November 1, 2008 for the Company). On February 12, 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until fiscal years beginning after November 15, 2008 (as of November 1, 2009 for the Company). Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

3. Discontinued Operations

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

In accordance with SFAS 144, effective with the closing of the Separation on April 23, 2008, the results of operations and cash flows related to the vehicular products business and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations as of January 31, 2009 or October 31, 2008.

In connection with the Separation, Quanex Building Products Corporation received initial funding from Quanex Corporation of $20.9 million as of November 1, 2007. Although the transaction closed on April 23, 2008, economic interests between Quanex Corporation s building products operations and its vehicular products business/legacy corporate accounts were segregated as of November 1, 2007 whereby cash flows generated by the Company s building products businesses were retained by Quanex Building Products Corporation upon the Separation.

Because the Separation was a spin-off among shareholders, for financial statement presentation, there is no gain or loss on the separation of the disposed net assets and liabilities. Rather, the carrying amounts of the net assets and liabilities of the Company s former vehicular products business and non-building products related corporate accounts are removed at their historical cost with an offsetting reduction to stockholders equity. As of October 31, 2008, the Company incurred a $345.8 million reduction in stockholders equity from the Separation. During January 2009, this reduction was partially offset by $15.5 million primarily related to the finalization of transaction tax liabilities resulting in a cumulative reduction to stockholders equity of $330.3 million related to the Separation. The Separation transaction agreements contained four primary true-up items: stock option true-up, change of control agreement true-up, convertible debenture true-up and tax true-up. Three of the true-up items were finalized and cash settled prior to October 31, 2008 and, accordingly are reflected in the $345.8 million; the Company received a net $6.9 million from Gerdau for the Quanex Corporation stock option true-up and the change of control agreement true-up and a true-up receipt of $5.0 million related to Quanex Corporation s 2.5% Convertible Senior Debentures (the Debentures). The Company received $15.4 million in cash from Gerdau in January 2009 for the settlement of transaction taxes (as the Separation was a taxable spin) representing the fourth and final true-up. As these true-ups were settled pursuant to the transaction agreements, the Company recorded an adjustment to its cash balance with an offsetting amount to stockholders equity.

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

There were no assets or liabilities of discontinued operations as of January 31, 2009 or October 31, 2008. The results of discontinued operations for the three months ended January 31, 2009 and 2008 were as follows:

	Three Months Ended January 31, 2009	2008
	(In thousands)	
Net sales	$	$ 272,639
Transaction expenses and other related Separation costs, before tax	$	$ (3,741)
Income from discontinued operations before tax	$	$ 12,948
Income tax expense		(9,255)
Income from discontinued operations, net of tax	$	$ 3,693

Net sales and income from discontinued operations for the three months ended January 31, 2008 represent activity of the Company s former vehicular products segment. The three months ended January 31, 2009 has no comparable activity as the Separation occurred in April 2008.

Transaction expenses and other related Separation costs for the three months ended January 31, 2008 include $3.7 million of transaction costs (primarily investment banking fees, legal fees and accounting fees for the merger and discontinued operations portion of spin costs).

During the first fiscal quarter of 2008, certain holders elected to convert $9.4 million principal of Debentures. Quanex Corporation paid $18.8 million to settle these conversions, including the premium which Quanex Corporation opted to settle in cash. Quanex Corporation recognized a $9.7 million loss on early extinguishment which represents the conversion premium and the non-cash write-off of unamortized debt issuance costs. This loss is reported in discontinued operations before tax above.

Discontinued operations effective tax rate for the three months ended January 31, 2008 was 71.5% as a result of the predominately nondeductible pretax loss on early extinguishment of the Debentures coupled with transaction costs which are largely nondeductible for tax purposes.

4. Goodwill and Acquired Intangible Assets

Goodwill

Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. The Company elected to make August 31 the annual impairment assessment date for goodwill. The August 31, 2008 review of goodwill indicated that goodwill was not impaired. As described in Note 4 of the Company s 2008 Form 10-K, the Company disclosed that it would continue to monitor its market capitalization (which fell below book value in October 2008) and other indicators to evaluate the need for an interim impairment assessment. During the first fiscal quarter of 2009, based on a combination of factors, including additional declines in housing start projections, falling aluminum ingot prices, further deterioration of the overall market conditions in the building products industry, downward revision to earnings guidance, and the continued gap between the Company s market value of equity and book value of equity, the Company concluded that there were sufficient indicators to require Quanex to perform an interim goodwill impairment analysis.

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

SFAS 142 provides for a two-step impairment test for goodwill. The first step of the impairment test compares the fair value of a reporting unit with its carrying amount, including goodwill, to determine if a potential impairment exists. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure the amount of impairment by comparing the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. For purposes of this analysis, estimates of fair value were based on a combination of the income approach, which estimates the fair value of the Company s reporting units based on future discounted cash flows, and the market approach, which estimates the fair value of the Company s reporting units on comparable market prices. As of this filing, the Company has not completed the goodwill impairment analysis, due to the complexities involved in determining the implied fair value of the goodwill of each reporting unit. However, based on the work performed to date, the Company has concluded that an impairment loss is probable and can be reasonably estimated. Accordingly, during the three months ended January 31, 2009, the Company recorded a $125.4 million non-cash goodwill impairment charge, representing the low end of the range of the estimated impairment loss.

After recognizing this $125.4 million estimated impairment charge, $70.4 million of goodwill is reflected on the Company s balance sheet as of January 31, 2009. The Company expects to finalize its goodwill impairment analysis during the second quarter of fiscal 2009, at which time there could be a material upward adjustment to the goodwill impairment charge estimate. Any adjustment to the Company s preliminary estimates will be recorded in its financial statements for the quarter ending April 30, 2009. Since this goodwill impairment charge is non-cash, it does not affect liquidity or financial covenants.

The changes in the carrying amount of goodwill for the three months ended January 31, 2009 are as follows (in thousands):

	Engineered Building Products	Aluminum Sheet Building Products	Consolidated
Balance at October 31, 2008	$ 175,949	$ 20,389	$ 196,338
Estimated impairment	(105,000)	(20,389)	(125,389)
Other	(494)		(494)
Balance at January 31, 2009	$ 70,455	$	$ 70,455

Acquired Intangible Assets

Intangible assets are all related to Engineered Products and consist of the following (in thousands):

	As of January 31, 2009		As of October 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	$ 21,200	$ 4,436	$ 23,691	$ 6,588
Trademarks and trade names	33,150	6,676	37,930	7,089
Patents	11,560	5,187	17,328	4,996
Total	$ 65,910	$ 16,299	$ 78,949	$ 18,673

Intangible assets not subject to amortization:		
Trade name	$	$ 2,200

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

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

The aggregate amortization expense for the three month period ended January 31, 2009 was $1.0 million. The aggregate amortization expense for the three month period ended January 31, 2008 was $1.7 million. Estimated amortization expense for the next five years, based upon the amortization of pre-existing intangibles follows (in thousands):

Fiscal Years Ending October 31,	Estimated Amortization
2009 (remaining nine months)	$ 2,255
2010	$ 3,006
2011	$ 3,006
2012	$ 3,006
2013	$ 2,944

5. Inventories

Inventories consist of the following:

	January 31, 2009	October 31, 2008
	(In thousands)	
Raw materials	$ 29,264	$ 30,221
Finished goods and work in process	26,577	30,732
	55,841	60,953
Supplies and other	2,725	2,895
Total	$ 58,566	$ 63,848

The values of inventories in the consolidated balance sheets are based on the following accounting methods:

	January 31, 2009	October 31, 2008
	(In thousands)	
LIFO	$ 29,864	$ 32,947
FIFO	28,702	30,901
Total	$ 58,566	$ 63,848

Fixed overhead costs related to excess manufacturing capacity have been expensed in the period, and therefore, are not capitalized into inventory. An actual valuation of inventory under the last in, first out (LIFO) method can be made only at the end of each year based on the inventory costs and levels at that time. Accordingly, interim LIFO calculations must be based on management s estimates of expected year-end inventory costs and levels. Because these are subject to many factors beyond management s control, interim results are subject to the final year-end LIFO inventory valuation which could significantly differ from interim estimates. To estimate the effect of LIFO on interim periods, the Company performs a projection of the year-end LIFO reserve and considers expected year-end inventory pricing and expected inventory levels. Depending on this projection, the Company may record an interim allocation of the projected year-end LIFO calculation. With respect to inventories valued using the LIFO method as no interim

LIFO allocation was made, replacement cost exceeded the LIFO value by approximately $14.0 million as of January 31, 2009 and October 31, 2008.

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

6. Earnings Per Share

The computation of diluted earnings per share excludes outstanding options and other common stock equivalents in periods where inclusion of such potential common stock instruments would be anti-dilutive in the periods presented. When income from continuing operations is a loss, all potential dilutive instruments are excluded from the computation of diluted earnings per share as they would be anti-dilutive. Accordingly, for the three months ended January 31, 2009, 0.2 million of common stock equivalents were excluded from the computation of diluted earnings per share. Additionally, as of January 31, 2009, the Company had 0.9 million of stock options that are potentially dilutive in future earnings per share calculations; such dilution will be dependent on the excess of the market price of the Company s stock over the exercise price and other components of the treasury stock method.

For the three months ended January 31, 2008, 3.0 million of common stock equivalents were excluded from the computation of diluted earnings per share, primarily related to the Company s former 2.50% Convertible Senior Debentures (the Debentures). The Debentures are reported in discontinued operations for historical periods as a result of the Separation. In 2005, the Company irrevocably elected to settle the principal amount of its former Debentures in cash when they became convertible and were surrendered by the holders thereof. The Company retained its option to satisfy any excess conversion obligation (stock price in excess of conversion price) with shares, cash or a combination of shares and cash. As a result of the Company s election, if dilutive, diluted earnings per share up through the Separation include the amount of shares it would have taken to satisfy the excess conversion obligation, assuming that all of the Debentures outstanding during the period were surrendered. For calculation purposes, the average closing price of the Company s common stock for each of the periods presented is used as the basis for determining dilution. Although the Debentures are reported in discontinued operations for historical periods, they had a dilutive impact for year-to-date earnings per share for the third and fourth quarters of 2008. There was no dilutive impact for the first or second quarter of 2008 as income from continuing operations was a loss for those respective periods, and there was no dilutive impact for the third and fourth quarter-to-date earnings per share as these periods were entirely post Separation.

7. Comprehensive Income

Comprehensive income comprises net income and all other non-owner changes in equity, including foreign currency translation, pension related adjustments and realized and unrealized gains and losses on derivatives, if any. Comprehensive income for the three months ended January 31, 2009 and 2008 was as follows:

	Three Months Ended January 31,	
	2009	2008
	(In thousands)	
Comprehensive income:		
Net income (loss)	$ (120,413)	$ 3,084
Change in pension	(2)	
Foreign currency translation adjustment	(21)	(102)
Total comprehensive income (loss), net of taxes	$ (120,436)	$ 2,982

8. Long-term Debt

Long-term debt consists of the following:

	January 31, 2009	October 31, 2008
	(In thousands)	

Revolving Credit Facility	$		$	
City of Richmond, Kentucky Industrial Building Revenue Bonds		1,250		1,250
Scott County, Iowa Industrial Waste Recycling Revenue Bonds		1,200		1,200
Capital lease obligations and other		88		101
Total debt	$	2,538	$	2,551
Less maturities due within one year included in current liabilities		362		363
Long-term debt	$	2,176	$	2,188

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

Approximately 97% and 96% of the total debt had a variable interest rate at January 31, 2009 and October 31, 2008, respectively. See Interest Rate Risk section in Item 3, Quantitative and Qualitative Disclosures About Market Risk of this Form 10-Q for additional discussion.

Credit Facility

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

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

As of January 31, 2009, the Company had no borrowings under the Credit Facility, and the Company was in compliance with all current Credit Facility covenants. The availability under the Credit Facility is a function of both the facility amount utilized and meeting covenant requirements. Although there were no borrowings on the Credit Facility and there was only $6.0 million of outstanding letters of credit under the Credit Facility, the aggregate availability under the Credit Facility was limited by the Consolidated Leverage Ratio resulting in an availability of $204.2 million at January 31, 2009.

9. Pension Plans and Other Postretirement Benefits

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

The Company has a non-contributory, single employer defined benefit pension plan that covers substantially all non-union employees. Effective January 1, 2007, the Company amended this defined benefit pension plan to include a new cash balance formula for all new salaried employees hired on or after January 1, 2007 and for any non-union employees who were not participating in a defined benefit plan prior to January 1, 2007. All new salaried employees are eligible to receive credits equivalent to 4% of their annual eligible wages, while some of the employees at the time of the plan amendment were grandfathered and are eligible to receive credits ranging up to 6.5% based upon a percentage they received in the defined contribution plan prior to the amendment of the pension plan. Additionally, every year the participants will receive an interest related credit on their respective balance equivalent to the prevailing 30-year Treasury rate. Benefits for participants in this plan prior to January 1, 2007 continue to be based on a more traditional formula for retirement benefits where the plan pays benefits to employees upon retirement, using a formula based upon years of service and pensionable compensation prior to retirement. Of the Company s participants, 99% are under the cash balance formula.

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

The components of net pension cost are as follows:

	Three Months Ended January 31, 2009		Three Months Ended January 31, 2008	
	(In thousands)			
Pension Benefits:				
Service cost	$	919	$	1,188
Interest cost		105		618
Expected return on plan assets		(64)		(803)
Amortization of unrecognized prior service cost				
Amortization of unrecognized net loss				
Net periodic pension cost	$	960	$	1,003

During the three months ended January 31, 2009, the Company made no contributions to its defined benefit plan. The Company estimates that it will contribute $5.5 million to its pension plan during the remainder of fiscal 2009.

Net periodic postretirement benefit cost for the three months ended January 31, 2009 and 2008 was $3 thousand and $7 thousand, respectively.

10. Industry Segment Information

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

LIFO inventory adjustments along with corporate office charges and intersegment eliminations are reported as Corporate, Intersegment Eliminations and Other. The Company accounts for intersegment sales and transfers as though the sales or transfers were to third parties, that is, at current market prices. Corporate assets primarily include cash and equivalents partially offset by the Company s consolidated LIFO inventory reserve.

	Three Months Ended January 31, 2009		Three Months Ended January 31, 2008	
	(In thousands)			
Net Sales:				
Engineered Products	$	64,819	$	87,275
Aluminum Sheet Products		50,808		92,068
Intersegment Eliminations		(2,739)		(4,431)
Consolidated	$	112,888	$	174,912
Operating Income (Loss):				
Engineered Products	$	(121,614)	$	1,895
Aluminum Sheet Products		(28,204)		5,602
Corporate & Other[1]		(5,743)		(8,664)

Consolidated	$ (155,561)	$ (1,167)

[1] Corporate & Other includes spin-off transaction costs of $0.8 million during the three months ended January 31, 2008 compared to $0.1 million in the corresponding period of 2009.

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

		January 31, 2009		October 31, 2008
		(In thousands)		
Identifiable Assets:				
Engineered Products	$	324,514	$	440,172
Aluminum Sheet Products		133,993		197,436
Corporate, Intersegment Eliminations & Other		58,059		43,239
Consolidated	$	516,566	$	680,847
Goodwill:[2]				
Engineered Products	$	70,455	$	175,949
Aluminum Sheet Products				20,389
Consolidated	$	70,455	$	196,338

11. Stock Based Compensation

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

The Company s practice is to grant options and restricted stock or RSUs to non-employee directors on October 31st of each year, with an additional grant of options to each director on the date of his or her first anniversary of service. Additionally, the Company s practice is to grant options and restricted stock to employees at the Company s December board meeting and occasionally to key employees on their respective dates of hire.

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

[2] The balance as of January 31, 2009 reflects an estimated goodwill impairment charge of $125.4 million. See Note 4 for additional discussion.

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

	Three Months Ended January 31, 2009	2008
	(In thousands)	
Stock option expense	$ 469	$ 581
Restricted stock amortization	(12)	68
Restricted stock units	361	204
Stock-based compensation expense	$ 818	$ 853

The Company has not capitalized any stock-based compensation cost as part of inventory or fixed assets during the three months ended January 31, 2009 and 2008. Cash received from option exercises and tax benefits from stock option exercises and lapses on restricted stock prior to the Separation is reflected in discontinued operations cash flows from financing activities. Future cash proceeds from stock option exercises and the related tax benefits would be a component of financing cash flows from continuing operations; however, since the Separation on April 23, 2008, there have not been any stock option exercises or lapses on restricted stock.

Restricted Stock Awards

Under the 2008 Plan, common stock may be awarded to key employees, officers and non-employee directors. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The awards vest over a specified time period, but typically either immediately vest or cliff vest over a three-year period with service as the vesting condition. Upon issuance of stock under the plan, fair value is measured by the grant date price of the Company s shares. This fair value is then expensed over the restricted period with a corresponding increase to additional paid-in-capital. A summary of non-vested restricted shares changes during the three months ended January 31, 2009 follows:

	Shares	Weighted-Average Grant-Date Fair Value Per Share
Non-vested at October 31, 2008	324,923	$ 15.18
Granted	124,890	7.82
Forfeited	(112,414)	15.02
Non-vested at January 31, 2009	337,399	$ 12.51

The weighted-average grant-date fair value of restricted stock granted during the three months ended January 31, 2009 was $7.82. There were no restricted stock grants during January 31, 2008. There were no restricted stock shares that vested during the three months ended January 31, 2009. The total fair value of restricted stock vested during January 31, 2008 was $2.3 million. Total unrecognized compensation cost related to unamortized restricted stock awards was $3.3 million as of January 31, 2009. That cost is expected to be recognized over a weighted-average period of 2.5 years.

Stock Options

As described in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2008, the Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of its stock options. The 2008 valuation assumptions pertain to grants made by the Company s predecessor, Quanex Corporation, prior to the Separation on April 23, 2008.

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

The fair value of each option was estimated on the date of grant. The following is a summary of valuation assumptions and resulting grant-date fair values for grants during the following periods.

	Grants during Three Months Ended January 31, 2009 (Quanex Building Products)	Grants during Three Months Ended January 31, 2008 (Quanex Corporation)
Weighted-average expected volatility	47.0%	36.5%
Expected term (in years)	4.9 5.1	4.9
Risk-free interest rate	1.6 1.7%	3.3%
Expected dividend yield over expected term	1.0%	1.8%
Weighted-average grant-date fair value per share	$ 3.03	$ 16.31

The decrease in the weighted average grant-date fair value is primarily related to the Company s stock price; for Quanex Building Products Corporation, the weighted-average market price on the date of grant was $7.82 in 2009 compared to the pre-Separation price of $52.31 for Quanex Corporation in 2008.

Below is a table summarizing the stock option activity for the 2008 Plan since October 31, 2008:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at October 31, 2008	1,214,839	$ 14.88		
Granted	508,175	7.82		
Forfeited	(272,636)	15.01		
Outstanding at January 31, 2009	1,450,378	12.38	9.3	$ 343
Vested or expected to vest at January 31, 2009	1,345,144	12.33	9.3	$ 324
Exercisable at January 31, 2009	102,105	$ 12.03	9.5	$

The total intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the three months ended January 31, 2008 was $3.2 million and includes options awarded prior to the Separation to former vehicular products employees and corporate retirees whose expense is reported in discontinued operations. No stock options were exercised during the three months ended January 31, 2009.

A summary of the non-vested stock option shares during the three months ended January 31, 2009 is presented below:

	Shares		Weighted-Average Grant-Date Fair Value Per Share
Non-vested at October 31, 2008	1,112,734	$	5.34
Granted	508,175		3.03
Forfeited	(272,636)		5.24
Vested			
Non-vested at January 31, 2009	1,348,273	$	4.49

The total fair value of shares vested during the three months ended January 31, 2008 was $3.3 million and includes options awarded prior to the Separation to former vehicular products employees and corporate retirees whose expense is reported in discontinued operations. No stock options vested during the three months ended January 31, 2009. Total unrecognized compensation cost related to stock options granted under the 2008 Plan was $4.0 million as of January 31, 2009. That cost is expected to be recognized over a weighted-average period of 2.5 years.

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

12. Income Taxes

The provision for income taxes is determined by applying an estimated annual effective income tax rate to income from continuing operations before income taxes. The rate is based on the most recent annualized forecast of pretax income, permanent book versus tax differences and tax credits. The Company s estimated annual effective tax rate benefit for the three months ended January 31, 2009 is 22.6% compared to the estimated annual effective tax rate benefit of 38.9% for the three months ended January 31, 2008. This reduction in the tax rate benefit is primarily related to the nondeductible portion of the goodwill impairment charge. Since the goodwill impairment charge is non cash, it does not effect the amount of current taxes paid. For additional information on the goodwill impairment charge, see Note 4.

The nature of the Separation described in Notes 1 and 3 created a non-current deferred income tax asset. The non-current deferred income tax asset amount reflected in the balance sheet as of January 31, 2009 of $39.4 million includes a net non-current deferred income tax asset of $43.3 million, the current year s estimated NOL benefit of $12.7 million and a non-current liability for unrecognized tax benefit of $16.6 million. Management determined it was appropriate to establish this liability for unrecognized tax benefit associated with the Separation.

Non-current unrecognized tax benefits not associated with the Separation of $0.4 million as of January 31, 2009 are related to state tax items regarding the interpretations of tax laws and regulations and are recorded in Other liabilities on the Consolidated Balance Sheet.

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

The unrecognized tax benefits at January 31, 2009 of $16.9 million (including $0.1 million for which the disallowance of such items would not affect the annual effective tax rate) primarily relates to the Separation.

13. Contingencies

Environmental

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

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

Total environmental reserves and corresponding recoveries for Quanex s current plants were as follows:

	January 31, 2009	October 31, 2008
	(In thousands)	
Current	$ 2,200	$ 1,800
Non-current	1,887	2,485
Total environmental reserves	4,087	4,285
Receivable for recovery of remediation costs	$ 4,340	$ 4,671

Approximately $0.6 million of the January 31, 2009 reserve represents administrative costs; the balance represents estimated costs for investigation, studies, cleanup, and treatment. The reserve has not been discounted. As discussed below, an associated $4.3 million and $4.7 million undiscounted recovery from indemnitors of remediation costs at one plant site is recorded as of January 31, 2009 and October 31, 2008, respectively. The change in the environmental reserve during the first three months of fiscal 2009 primarily consisted of cash payments for remediation costs.

The Company s Nichols Aluminum-Alabama, LLC (NAA) subsidiary operates a plant in Decatur, Alabama that is subject to an Alabama Hazardous Wastes Management and Minimization Act Post-Closure Permit. Among other things, the permit requires NAA to remediate, as directed by the state, historical environmental releases of wastes and waste constituents. Consistent with the permit, NAA has undertaken various studies of site conditions and, during the first quarter 2006, started a phased program to treat in-place free product petroleum that had been released underneath the plant. Based on its studies to date, which remain ongoing, the Company s remediation reserve at NAA s Decatur plant is $4.1 million. NAA was acquired through a stock purchase in which the sellers agreed to indemnify Quanex and NAA for identified environmental matters related to the business and based on conditions initially created or events initially occurring prior to the acquisition. Environmental conditions are presumed to relate to the period prior to the acquisition unless proved to relate to releases occurring entirely after closing. The limit on indemnification is $21.5 million excluding legal fees. 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 January 31, 2009, the Company expects to recover from the sellers shareholders an additional $4.3 million. Of that, $3.7 million is recorded in Other assets, and the balance is reflected in Accounts Receivable.

The Company s final remediation costs and the timing of those expenditures will depend upon such factors as the nature and extent of contamination, the cleanup technologies employed, the effectiveness of the cleanup measures that are employed, and regulatory concurrences. While actual remediation costs therefore may be more or less than amounts accrued, the Company believes it has established adequate reserves for all probable and reasonably estimable remediation liabilities. It is not possible at this point to reasonably estimate the amount of any obligation for remediation in excess of current accruals because of uncertainties as to the extent of environmental impact, cleanup technologies, and concurrence of governmental authorities. The Company currently expects to pay the accrued remediation reserve through at least fiscal 2016, although some of the same factors discussed earlier could accelerate or extend the timing.

Other

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

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

General

The discussion and analysis of Quanex Building Products Corporation and its subsidiaries financial condition and results of operations should be read in conjunction with the January 31, 2009 Consolidated Financial Statements of the Company and the accompanying notes and in conjunction with the Consolidated Financial Statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended October 31, 2008. References made to the Company or Quanex include Quanex Building Products Corporation and its subsidiaries and Quanex Corporation (Predecessor to Quanex Building Products Corporation) unless the context indicates otherwise.

Private Securities Litigation Reform Act

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

Factors exist that could cause the Company s actual results to differ materially from the expected results described in or underlying the Company s forward-looking statements. Such factors include domestic and international economic activity, prevailing prices of aluminum scrap and other raw material costs, the rate of change in prices for aluminum scrap, energy costs, interest rates, construction delays, market conditions, particularly in the home building and remodeling markets, any material changes in purchases by the Company s principal customers, labor supply and relations, environmental regulations, changes in estimates of costs for known environmental remediation projects and situations, world-wide political stability and economic growth, the Company s successful implementation of its internal operating plans, acquisition strategies and integration, performance issues with key customers, suppliers and subcontractors, and regulatory changes and legal proceedings. Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved. All written and verbal forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors. For more information, see Part I, Item 1A, Risk Factors in the Company s Annual Report on Form 10-K, for the year ended October 31, 2008.

Description of Business

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

As more fully described in Notes 1 and 3 of the consolidated financial statements in Item 1, on April 23, 2008, notwithstanding the legal form of the transactions, because of the substance of the transactions, Quanex Building Products Corporation was the divesting entity and treated as the accounting successor, and Quanex Corporation was the accounting spinnee for financial reporting purposes in accordance with Emerging Issues Task Force Issue (EITF) No. 02-11, *Accounting for Reverse Spinoffs* (EITF 02-11).

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

In accordance with the provisions of the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), effective with the closing of the Separation on April 23, 2008, the results of operations and cash flows related to the Company s vehicular products and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations as of January 31, 2009 or October 31, 2008. Unless otherwise noted, all discussion in Management s Discussion and Analysis of Financial Condition and Results of Operations reflect only continuing operations.

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Consolidated Results of Operations

Summary Information

	Three Months Ended January 31,			
	2009	2008	Change	%
		(Dollars in millions)		
Net sales	$ 112.9	$ 174.9	$ (62.0)	(35.4)%
Cost of sales[1]	106.6	147.1	(40.5)	(27.5)
Selling, general and administrative	15.8	20.0	(4.2)	(21.0)
Impairment of goodwill and intangibles	137.3		137.3	100.0
Depreciation and amortization	8.7	9.0	(0.3)	(3.3)
Operating income	(155.5)	(1.2)	(154.3)	**
Interest expense	(0.1)	(0.1)		
Other, net	0.1	0.3	(0.2)	(66.7)
Income tax (expense) benefit	35.1	0.4	34.7	**
Income from continuing operations	$ (120.4)	$ (0.6)	$ (119.8)	**

Overview

The Company experienced significant declines in its end markets during its first fiscal quarter of 2009 and continues to find itself in a difficult housing market coupled with recent steep declines in aluminum prices. The United States housing market deteriorated 48% compared to the first fiscal quarter last year while remodeling activity was estimated to be down approximately 15%. This is believed to be the lowest level of housing starts in the United States since 1945. Housing permits, housing starts and consumer confidence continue to plummet, while housing inventories of both new and existing homes remain at high levels. Results were dismal with net sales for the first quarter of 2009 down 35% compared to the first fiscal quarter of last year. There is little doubt that the size and strength of many of the Company s customers served it well. The Company believes that it is benefiting from longstanding relationships with the leading participants in the markets it serves.

In response to the ongoing drop in demand, management remains focused on controlling costs and continues to reduce fixed and semi-variable expenses, which included taking out additional manpower, both hourly and salary. Total headcount was reduced by 26% from October 31, 2008 through January 31, 2009. The Company does not anticipate any significant increase in demand for the remainder of fiscal 2009, and therefore, expects to continue to size both its business and inventories accordingly to maximize cash generation.

During the three months ended January 31, 2009, the Company recorded a $137.3 million non-cash impairment charge, of which $125.4 million relates to goodwill and $11.9 million relates to other identified intangibles. While the portion related to other identified intangibles has been finalized, the portion related to goodwill is an estimate. During the first fiscal quarter of 2009, based on a combination of factors, including additional declines in housing start projections, falling aluminum prices, further deterioration of the overall market conditions in the building products industry, downward revision of earnings guidance, and the continued gap between the Company s market value of equity and book value of equity, the Company concluded that there were sufficient indicators to require it to perform an interim goodwill impairment analysis. As of this filing, the Company has not completed the goodwill impairment analysis, due to the complexities involved in determining the implied fair value of goodwill. However, based on the work performed to date, the Company has concluded that an impairment loss is probable and can be reasonably estimated. Accordingly, during the three months ended January 31, 2009, the Company recorded a $125.4 million non-cash goodwill impairment charge, representing the low end of the range of the estimated impairment loss. After recognizing this $125.4 million estimated impairment charge, $70.4 million of goodwill is reflected on the Company s balance sheet as of January 31, 2009. The Company expects to finalize its goodwill impairment analysis during the second quarter of fiscal 2009, at which time there could be a material upward adjustment to the goodwill impairment charge estimate. Any adjustment to the Company s preliminary estimates will be recorded in its financial statements for the quarter ending April 30, 2009. For additional details regarding this impairment charge, see Note 4, Goodwill and Acquired Intangible Assets, in the Notes to Unaudited Consolidated Financial Statements in this Form 10-Q.

[1] Exclusive of items shown separately below.

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

Business Segments

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

For financial reporting purposes three of the Company s four operating divisions, Homeshield, Truseal and Mikron, have been aggregated into the Engineered Products reportable segment. The remaining division, Nichols Aluminum (Aluminum Sheet Products), is reported as a separate, reportable segment with the Corporate & Other comprised of corporate office expenses and certain inter-division eliminations. The sale of products between segments is recognized at market prices. The financial performance of the operations is based upon operating income. The segments follow the accounting principles described in Item 1, Note 1 to the consolidated financial statements of the Company s 2008 Form 10-K. The two reportable segments value inventory on a FIFO or weighted-average basis while the LIFO reserve relating to those operations accounted for under the LIFO method of inventory valuation is computed on a consolidated basis in a single pool and treated as a corporate item.

Three Months Ended January 31, 2009 Compared to Three Months Ended January 31, 2008

Engineered Products