

Quanex Building Products CORP
Form 10-K
December 12, 2014

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, 2014

or

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

Commission file number 1-33913

QUANEX BUILDING PRODUCTS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

26-1561397

(State or other jurisdiction of incorporation or organization)

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

1800 West Loop South, Suite 1500, Houston, Texas

77027

(Address of principal executive offices)

(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, \$0.01 par value

New York Stock Exchange, Inc.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

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

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

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

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Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of April 30, 2014, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was \$701,075,652. Such calculation assumes only the registrant's officers and directors at such date were affiliates of the registrant.

At December 8, 2014 there were outstanding 36,137,647 shares of the registrant's Common Stock, \$0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed with the Commission within 120 days of October 31, 2014 are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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Unless the context indicates otherwise, references to "Quanex", the "Company", "we", "us" and "our" refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" are "forward-looking" statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words "expect," "believe," "intend," "estimate," "anticipate," "project," "will" and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward looking statements are (1) all statements which address future operating performance, (2) events or developments that we expect or anticipate will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and (3) statements expressing general outlook about future operating results. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations. As and when made, we believe 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. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- changes in market conditions, particularly in the new home construction, and residential remodeling and replacement (R&R) activity markets;
- changes in prevailing prices of resin and other raw material costs;
- changes in domestic and international economic conditions;
- changes in purchases by our principal customers;
- fluctuations in foreign currency exchange rates;
- our ability to maintain an effective system of internal controls;
- our ability to successfully implement our internal operating plans and acquisition strategies;
- our ability to successfully implement our plans with respect to information technology (IT) systems and processes;
- our ability to control costs and increase profitability;
- changes in environmental laws and regulations;
- changes in warranty obligations;
- changes in energy costs;
- changes in tax laws, and interpretations thereof;
- changes in interest rates;
- our ability to maintain a good relationship with our suppliers, subcontractors, and key customers; and
- the resolution of litigation and other legal proceedings.

Additional factors that could cause actual results to differ materially are discussed under Item 1A, "Risk Factors" included elsewhere in this Annual Report on Form 10-K.

About Third-Party Information

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, United States government sources and other third parties. Although we believe this information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

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PART I

Item 1. Business (Continuing Operations).

Our Company

Quanex was incorporated in Delaware on December 12, 2007 as Quanex Building Products Corporation. We manufacture energy efficient window components that include (1) flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, (4) solar panel sealants and (5) precision-formed metal and wood products for original equipment manufacturers (OEMs) in the residential and commercial window and door industries. We use low-cost production processes and engineering expertise to provide our customers with specialized products for their specific window and door applications. We believe these capabilities provide us with unique competitive advantages. We serve a primary customer base in North America, and also serve customers in international markets through our operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

Our History

Our predecessor company, Quanex Corporation, was organized in Michigan in 1927 as Michigan Seamless Tube Company, and was later reincorporated in Delaware in 1968. In 1977, Michigan Seamless Tube Company changed its name to Quanex Corporation. On December 12, 2007, Quanex Building Products Corporation was incorporated as a wholly-owned subsidiary in the state of Delaware, in order to facilitate the separation of Quanex Corporation's vehicular products and building products businesses. This separation became effective on April 23, 2008, through a spin-off of the building products business to Quanex Corporation's then-existing shareholders. Immediately following the spin-off, our former parent company, consisting principally of the vehicular products business and all non-building products related corporate accounts, merged with a wholly-owned subsidiary of Gerda S.A.

Since the spin-off in 2008, we have expanded our business by making investments in organic growth initiatives and taking a disciplined approach to new business and strategic acquisition opportunities, while seeking to provide superior value to our customers.

Notable developments and transactions which occurred since the spin-off include the following:

in 2010, we evaluated our market and decided to close our start-up facility in China, as we determined that we could serve the international thin-film solar panel markets through our operations in the United States. Therefore, the assets and liabilities, results of operations and cash flows associated with this start-up facility in China were reported as discontinued operations in 2010, and for the applicable prior periods presented in this Annual Report on Form 10-K;

in February 2010, we bought the production assets of an engineered-wood flooring business located in Shawano, Wisconsin;

in January 2011, we closed a finished window screen facility in The Dalles, Oregon;

in March 2011, we acquired certain vinyl extrusion assets in Yakima, Washington from a customer of our vinyl extrusion business;

in March 2011, we acquired Edgetech, I.G. Inc. and its German subsidiary, which provided us with three manufacturing facilities, one each in the United States, United Kingdom and Germany, that produce and market a full line of flexible insulating glass spacer systems for window and door customers in North America and abroad. This acquisition complemented our insulating glass products business line in the United States and, as a result, we committed to a plan to consolidate these facilities in November 2011. This consolidation plan, in part, resulted in the closure of a plant in Barbourville, Kentucky, and the relocation of equipment that was used to manufacture the single seal, warm-edge spacer system to our facility in Cambridge, Ohio. We sold the facility in Barbourville in May 2014. This consolidation was substantially completed by August 2012, with minor residual cash payments and program costs incurred during fiscal 2013;

in December 2012, we acquired substantially all of the assets of Alumco Inc. and its subsidiaries (Alumco), an aluminum screen manufacturer, which we believe allowed us to expand the scope of our fenestration business to include screens for vinyl window and door manufacturers and to expand our geographic reach throughout the United States; and

in April 2014, we sold our interest in a limited liability company which held the net assets of our Nichols Aluminum business (Nichols), the sole operating segment included in our Aluminum Sheet Products reportable segment, to

Aleris International, Inc. (Aleris), a privately held company which provides aluminum rolled products and extrusions, aluminum recycling and specification aluminum alloy production.

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Currently, we operate 23 manufacturing facilities located in 13 states in the United States, one facility in the United Kingdom, and another in Germany. These facilities feature efficient plant design and flexible manufacturing processes, enabling us to produce a wide variety of custom engineered products and components primarily focused on the window and door segment of the residential building products markets. We are able to maintain minimal levels of finished goods inventories at most locations because we typically manufacture products upon order to customer specifications. We believe the primary drivers of our operating results are new home construction and residential remodeling and replacement activity.

Our Industry

Our business is largely North American based and dependent upon the spending and growth activity levels of our customers which include national and regional residential window and door manufacturers. We use data related to United States housing starts and window shipments, as published by or derived from third-party sources, to evaluate the market, as we believe these are indicators of activity levels in the home building industry and more specifically the window industry.

The following table presents calendar-year annual and quarterly housing starts information, as published by the United States Census Bureau based on data collected from the National Association of Home Builders (NAHB), (units in thousands):

Period	Single-family Units		Multi-family Units		Manufactured Units		Total Units
	Units	% Change	Units	% Change	Units	% Change	
Annual Data							
2008	615	N/A	284	N/A	82	N/A	981
2009	444	(28)%	111	(61)%	49	(40)%	604
2010	471	6%	116	5%	50	2%	637
2011	434	(8)%	178	53%	51	2%	663
2012	537	24%	247	39%	55	8%	839
2013	621	16%	309	25%	60	9%	990
Annual Data - Forecast							
2014	641	3%	352	14%	62	3%	1,055
2015	804	25%	358	2%	56	(10)%	1,218
2016	1,102	37%	361	1%	77	38%	1,540
Quarterly Data - Forecast							
2014: 1st quarter	134	N/A	72	N/A	No Data Available		206
2nd quarter	183	37%	92	28%	No Data Available		275
3rd quarter ⁽¹⁾	178	(3)%	104	13%	No Data Available		282

⁽¹⁾ Derived from IHS Global Insight's forecast report based on United States Census Data.

The following table presents calendar-year annual and quarterly window shipments information, derived from reports published by Ducker Worldwide LLC, a consulting and research firm, (units in thousands):

Period	New Construction						Remodeling & Replacement					
	Wood	Aluminum	Vinyl	Fiberglass	Other	Total	Wood	Aluminum	Vinyl	Fiberglass	Other	Total
Annual Data												
2009	2,480	1,940	6,343	458	140	11,361	6,139	963	19,146	738	523	27,509
2010	2,778	1,746	6,729	526	167	11,946	6,139	1,012	21,079	840	573	29,643
2011	2,601	1,820	6,623	514	182	11,740	5,071	717	19,086	730	516	26,120
2012	2,736	2,516	8,625	592	237	14,706	4,566	696	18,902	657	594	25,415
2013	2,989	3,077	10,585	668	264	17,583	4,739	658	19,588	685	658	26,328
Quarterly Data												
2014: 1st quarter	669	702	2,457	162	65	4,055	1,067	136	4,411	160	154	5,928

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2nd quarter	755	791	2,772	183	73	4,574	1,280	164	5,293	192	185	7,114
Quarterly Data - Forecast												
3rd quarter	879	922	3,229	213	85	5,328	1,370	175	5,663	206	198	7,612
4th quarter	804	843	2,953	195	78	4,873	1,261	161	5,210	189	182	7,003

We have noted the following trends which we believe affect our industry:

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the number of housing starts and window shipments in the United States has increased in recent years following a dramatic decline from 2007 through 2011. The NAHB expects this trend to continue for the next several years, which should result in higher demand for our fenestration products;

- the recent growth in the housing market has been predominately in new construction which has outpaced the growth in the residential remodeling and replacement sector; the recent recovery in new home construction in the United States has been led by multi-family homes for which window to unit ratios are lower compared to mid- and higher priced homes; the current growth in single-family homes has seen the share of the large tract builders increase and the smaller custom builders decrease; and multi-family and tract homes typically employ lower cost, less energy efficient windows;

programs in the United States such as Energy Star have improved customer awareness of the technological advances in window and door energy-efficiency, but the government has been reluctant to enforce stricter energy standards; higher energy efficiency standards in Europe should favorably impact sales of our insulating glass spacer products in the short- to mid-term; and

commodity prices have fluctuated, including resin, which has negatively impacted the margins of our vinyl extrusion products, and butyl which has favorably impacted our insulating glass products.

Strategy

Our vision is to be the preferred supplier to our customers in each market we serve. Our strategy to achieve this vision includes the following:

focus on organic growth with our current customer base and expand our market share with national and regional customers by providing: (1) a quality product; (2) a high level of customer service; (3) product choices at different price points; and (4) new products or enhancements to existing product offerings. These enhancements may include higher thermal efficiency, enhanced functionality, improved weatherability, better appearance and best-in-class quality for our fenestration products;

realize favorable profitability in our manufacturing processes through: (1) ongoing preventive maintenance programs; (2) better utilization of our capacity by focusing on operational efficiencies and reducing scrap; (3) marketing our value added products; and (4) focusing on employee safety;

offer logistic solutions that provide our customers with just-in-time service which can reduce their processing costs; and

pursue targeted business acquisitions which may include vertically integrated vinyl extrusion businesses or screen manufacturers, that allow us to expand our existing fenestration footprint, enhance our existing product offerings, acquire complementary technology, enhance our leadership position within the markets we serve, and expand into adjacent markets or service lines.

Business Segments

We have four operating segments which we aggregate into one reportable business segment. Prior to April 1, 2014, we presented two reportable operating segments: (1) Engineered Products and (2) Aluminum Sheet Products. In addition, we recorded LIFO inventory adjustments, corporate office charges and inter-segment eliminations as Corporate & Other. On April 1, 2014, we sold Nichols, the sole operating segment included in our Aluminum Sheet Products reportable segment. To account for Nichols as a discontinued operation, we reclassified certain costs from Corporate & Other to Nichols, including a portion of the LIFO reserve, as well as insurance accruals related to workers compensation claims, to properly reflect these direct expenses as a component of the disposal group. The accounting policies of our operating segments are the same as those used to prepare our accompanying consolidated financial statements.

We produce window and door components for original equipment manufacturers that primarily serve the residential new construction, and residential remodeling and replacement markets. We manufacture insulating glass (IG) spacer systems, window and door profiles, window and patio door screens, aluminum cladding and other roll formed metal window components, door components such as thresholds and astragals, patio screen doors and custom window grilles, trim and architectural moldings in a variety of woods, thin film solar panel sealants, and engineered wood flooring. We operate three flexible IG spacer facilities, five polyvinyl chloride (PVC) extrusion facilities, four fabricated metal components operations, nine facilities producing window and door screens, two facilities producing

wood fenestration (door and window) components, and one facility producing engineered wood flooring. The insulating glass products use compound-extrusion and laminating technology to produce highly engineered insulating glass spacer products that are produced from butyl, ethylene propylene diene terpolymer (EPDM), composite and silicone-based raw materials. These window spacer products separate two or three panes of glass in an IG unit to improve its thermal

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performance. Our vinyl extrusion facilities use automated production processes to manufacture vinyl and composite profiles which constitute the framing material used in the assembly of vinyl windows and patio doors.

We believe our strengths include design expertise, new technology development capability, customer service, just-in-time delivery systems, high quality manufacturing ability to generate unique patented products and industry and governmental advocacy.

Raw Materials and Supplies

We purchase a diverse range of raw materials, which include PVC, epoxy resin, butyl, titanium dioxide (TiO₂) desiccant powder, silicone and EPDM rubber compounds, coated and uncoated aluminum sheet and wood (both hardwood and softwood). These raw materials are generally available from several suppliers at market prices. We may enter into sole sourcing arrangements with our suppliers from time to time if we believe we can realize beneficial savings, but only after we have determined that the vendor can reliably supply our raw material requirements.

Although we utilize certain material sole sourcing arrangements, these agreements have termination clauses, and we believe there are other qualified suppliers from which we could purchase raw materials and supplies.

Competition

Our products are sold under highly competitive conditions. We compete with a number of companies, some of which have greater financial resources than us. We believe the primary competitive factors in the markets we serve include price, product quality, delivery and the ability to manufacture to customer specifications. The volume of engineered building products that we manufacture represents a small percentage of annual domestic consumption.

We compete against a range of small and midsize metal, vinyl and wood products suppliers, wood molding companies, and the in-house operations of customers who have vertically integrated fenestration operations. We also compete against IG spacer manufacturing firms. IG systems are used in numerous end markets including residential housing, commercial construction, appliances and transportation vehicles, but we primarily serve the residential housing market. Competition is largely based on regional presence, custom engineering, product development, quality, service and price. Primary competitors include, but are not limited to, Axiall, Veka, Deceuninck, Vision Extrusions, GED Integrated Solutions, Technoform, Swiss Spacer, Thermix, Rite Screen, Allmetal and Endura.

Sales, Marketing, and Distribution

We sell our products to customers in various countries. Therefore, we have sales representatives whose territories essentially cover the United States, Canada, Europe, and to a lesser extent, the Middle East, Latin and South America, Australia and Asia. Our sales force is tasked with selling and marketing our complete range of components, products and systems to national and regional OEMs through a direct sales force in North America and the United Kingdom, supplemented with the limited use of distributors and independent sales agents.

Customers

Certain of our businesses or product lines are largely dependent on a relatively few large customers. See page 56 for related disclosure.

Sales Backlog

We have outstanding sales orders of approximately \$14.0 million which are considered to be firm, but have not been fulfilled as of 10/31/2014. The criteria for revenue recognition has not been met, and therefore, we have not recorded revenue or deferred revenue with regard to these sales orders. If these sales orders result in a sale, we will record as revenue during Fiscal 2015.

Seasonal Nature of Business

Our business is impacted by seasonality. We have historically experienced lower sales for our products during the first half of our fiscal year as winter weather reduces homebuilding and home improvement activity. Our operating income tends to decline during this period of lower sales because a high percentage of our operating expenses are fixed overhead. We typically experience more favorable results in the third and fourth quarters of the fiscal year. Expenses for labor and other costs are generally semi-variable throughout the year.

Working Capital

We fund operations through a combination of available cash and cash equivalents, short-term investments, and cash flow generated from our operations. In addition, our revolving credit facility is available for working capital needs.

We extend credit

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to our domestic customers in the ordinary course of business generally for a term of 30 days, while the terms for our international customers vary from cash advances to 90 days. Inventory of raw materials are carried in quantities deemed necessary to ensure a smooth production process, some of which are governed by consignment agreements with suppliers. We strive to maintain minimal finished goods inventories, while ensuring an adequate supply on hand to service customer needs.

Service Marks, Trademarks, Trade Names, and Patents

Our federally registered trademarks or service marks include QUANEX, QUANEX and design, "Q" design, TRUSEAL TECHNOLOGIES, DURASEAL, DURALITE, SOLARGAIN EDGE TAPE, ENVIROSEALED WINDOWS, EDGETHERM, COLONIAL CRAFT, EDGETECH, ECOBLEND, SUPER SPACER, TSS, TRUE WARM, E & Design, QUIET EDGE, HEALTH SMART WINDOWS, ENERGY WISE WINDOWS, DESI-ROPE, 360 and design, INTELLICLIP, SUSTAINVIEW, MIKRON, MIKRONWOOD, MIKRONBLEND, MIKRON BLEND and design, ENERGYCORE, FUSION INSULATED SYSTEM, AIRCELL, SUPERCOAT, SUPERCAP, STYLELOCK, STYLELOCK and design, K2 MIKRON and design, HOMESHIELD, HOMESHIELD and design, and STORM SEAL. We consider the following marks, design marks and associated trade names to be valuable in the conduct of our business: HOMESHIELD, COLONIAL CRAFT, TRUSEAL TECHNOLOGIES, EDGETECH, MIKRON and QUANEX. Generally, our business does not depend on patent protection, but patents obtained with regard to our vinyl extrusion products and processes, fabricated metal components and IG spacer products business remain a valuable competitive advantage over other building products manufacturers. We obtain patent protection for various dies and other tooling created in connection with the production of customer-specific vinyl profile designs and vinyl extrusions. Our fabricated metal components business obtains patent protection for its thresholds. Our window sealant business unit relies on patents to protect the design of several of its window spacer products. Although we hold numerous patents, the proprietary process technology that has been developed is also considered a source of competitive advantage.

Research and Development

In general, we expense research and development costs as incurred. We devote time, effort and expense to: (1) custom-engineer products for specific customer applications; (2) develop superior, proprietary process technology; and (3) partner with customers to develop new products. In addition, we may acquire businesses with patented technology in order to expand our product offerings.

Environmental and Employee Safety Matters

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

Safety and Environmental Policies

For many years, we have maintained compliance policies that are designed to help protect our workforce, to identify and reduce the potential for job-related accidents, and to minimize liabilities and other financial impacts related to worker safety and environmental issues. These policies include extensive employee training and education, as well as internal policies embodied in our Code of Conduct. We have a Director of Environmental, Health and Safety and maintain a company-wide Safety Council, comprised of leaders from across the organization, which meets regularly to discuss safety issues and drive safety improvements. We plan to continue to focus on safety in particular as a core strategy to improve our operational efficiency and financial performance.

Remediation

Under applicable state and federal laws, we may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations we, or our predecessors, have owned or operated. From time to time, we also have been alleged to be liable for all or part of the costs incurred to clean up third-party sites where there might have been an alleged improper disposal of hazardous substances. At present, we are not involved in any such matters.

Environmental Compliance Costs

We have incurred expenses to comply with existing environmental regulations which total approximately \$0.4 million, \$0.3 million and \$0.2 million for the years ended October 31, 2014, 2013 and 2012, respectively. We have not incurred capital expenditures related to environmental matters during these years and we do not expect to incur such costs for fiscal 2015. However, future expenditures relating to environmental matters may result from the identification of new environmental issues, changes in

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regulations or environmental laws, or governmental actions with regards to existing sites. We will continue to have expenditures beyond fiscal 2014 in connection with environmental matters, including control of air emissions, control of water discharges and plant decommissioning costs. It is not possible at this time to reasonably estimate the amount of those expenditures, except as discussed above, due to uncertainties about emission levels, control technologies, the positions of governmental authorities and the application of requirements to us. Based upon our experience to date, we do not believe that our compliance with environmental requirements will have a material adverse effect on our operations, financial condition or cash flows.

Employees

As of October 31, 2014, we had 2,206 employees. Of these employees, 2,075 were domiciled in the United States, 64 in the United Kingdom, and 67 in Germany.

Geographic Information

Our manufacturing facilities and all long-lived assets are located in the United States, United Kingdom and Germany. Financial information specific to each geographic area is located in note 18 of the accompanying financial statements.

For Investors

We periodically file or furnish documents to the Securities and Exchange Commission (SEC), including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports as required. These reports are also available free of charge from the Investor Relations Section of our website at <http://www.quanex.com>, as soon as reasonably practicable after we file such material, or furnish it to the SEC. As permitted by the SEC rules, we post relevant information on our website. However, the information contained on our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this report.

Item 1A. Risk Factors.

The following risk factors, along with other information contained elsewhere in this Annual Report on Form 10-K and our other public filings with the SEC, should be carefully considered before deciding to invest in our securities. Additional risks and uncertainties that are not currently known to us or that we may view as immaterial could impair our business if such risks were to develop into actual events. Therefore, any of these risks could have a material adverse effect on our financial condition, results of operations and cash flows. This listing of risk factors is not all-inclusive and is not necessarily presented in order of importance.

We are subject to business risks and general economic factors that are largely out of our control, including primary drivers of our business which are residential remodeling, replacement activities, and housing starts, any of which could have a material adverse effect on our business, financial condition and results of operations.

The primary drivers of our business are residential remodeling and replacement activities and housing starts. The home building and residential 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 the number of housing starts and remodeling expenditures resulting from such factors could have a material adverse effect on our business, results of operations and financial condition. The downturn in the housing market which occurred from 2007 through 2011 had an adverse effect on our operating results. A prolonged decline in activity levels in the homebuilding industry or in the broader economic conditions of the markets where we operate could decrease demand and pricing for our products and have adverse effects on our operations and financial results.

Our business is subject to a number of general economic factors that may adversely affect our business, financial condition and results of operations, many of which are largely out of our control. These factors include domestic and international recessionary economic cycles, changes in foreign currency exchange rates and overall volatility in our customers' business cycles which may result in changes to their business practices, particularly in market segments and industries where we have a significant concentration of customers. These conditions could affect our business through the insolvency of key suppliers resulting in product delays, the inability of customers to obtain credit to finance purchases of our products, an inability of customers to pay accounts receivable owed to us, or delays in the payment of such receivables. Additionally, in a period of generally poor economic conditions, our assets may become impaired.

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