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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 31, 2008

OR

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

26-1561397
(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 No

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

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

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

<u>Class</u>	<u>Outstanding at August 22, 2008</u>
Common Stock, par value \$0.01 per share	37,657,891

QUANEX BUILDING PRODUCTS CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX BUILDING PRODUCTS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 31, 2008	October 31, 2007
ASSETS		
Current assets:		
Cash and equivalents	\$ 53,932	\$ 1,778
Accounts and notes receivable, net of allowance of \$1,848 and \$2,058	99,077	80,095
Inventories, net	59,851	53,556
Deferred income taxes	1,899	5,370
Prepaid and other current assets	5,116	4,372
Current assets of discontinued operations	—	431,326
Total current assets	<u>219,875</u>	<u>576,497</u>
Property, plant and equipment, net	163,142	173,590
Deferred income taxes	12,697	—
Goodwill	196,368	196,385
Intangible assets, net	63,550	68,199
Other assets	8,859	9,225
Assets of discontinued operations	—	310,926
Total assets	<u>\$ 664,491</u>	<u>\$ 1,334,822</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 71,121	\$ 68,167
Accrued liabilities	33,217	37,102
Income taxes payable	4,415	—
Current maturities of long-term debt	363	1,464
Current liabilities of discontinued operations	—	242,570
Total current liabilities	<u>109,116</u>	<u>349,303</u>
Long-term debt	2,188	2,551
Deferred income taxes	—	34,457
Non-current environmental reserves	2,979	4,239
Other liabilities	11,675	13,889
Liabilities of discontinued operations	—	47,234
Total liabilities	<u>125,958</u>	<u>451,673</u>
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding none	—	—
Common stock, \$0.01 and \$0.50 par value, shares authorized 125,000,000 and 100,000,000; issued 37,730,016 and 38,301,033	378	19,151
Additional paid-in-capital	229,539	214,239
Retained earnings	309,697	690,328
Accumulated other comprehensive income (loss)	289	(1,534)
	<u>539,903</u>	<u>922,184</u>
Less treasury stock at cost, 981,117 shares at October 31, 2007	—	(37,287)
Less common stock held by rabbi trust, 102,125 and 130,329 shares	(1,370)	(1,748)
Total stockholders' equity	<u>538,533</u>	<u>883,149</u>
Total liabilities and stockholders' equity	<u>\$ 664,491</u>	<u>\$ 1,334,822</u>

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

QUANEX BUILDING PRODUCTS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
	(In thousands, except per share amounts)			
Net sales	\$ 240,338	\$ 269,506	\$ 622,588	\$ 708,448
Cost and expenses:				
Cost of sales (exclusive of items shown separately below)	200,443	210,602	518,296	565,749
Selling, general and administrative expense	17,002	17,952	80,682	54,351
Depreciation and amortization	8,521	8,680	26,627	27,577
Operating income (loss)	14,372	32,272	(3,017)	60,771
Interest expense	(118)	(140)	(356)	(452)
Other, net	326	99	4,876	259
Income (loss) from continuing operations before income taxes	14,580	32,231	1,503	60,578
Income tax expense	(5,762)	(10,575)	(609)	(21,056)
Income (loss) from continuing operations	8,818	21,656	894	39,522
Income (loss) from discontinued operations, net of tax	—	16,991	5,675	53,022
Net income (loss)	<u>\$ 8,818</u>	<u>\$ 38,647</u>	<u>\$ 6,569</u>	<u>\$ 92,544</u>
Basic earnings per common share:				
Earnings (loss) from continuing operations	\$ 0.24	\$ 0.59	\$ 0.02	\$ 1.07
Income (loss) from discontinued operations	—	0.45	0.16	1.43
Basic earnings (loss) per share	<u>\$ 0.24</u>	<u>\$ 1.04</u>	<u>\$ 0.18</u>	<u>\$ 2.50</u>
Diluted earnings per common share:				
Earnings (loss) from continuing operations	\$ 0.24	\$ 0.54	\$ 0.02	\$ 1.00
Income (loss) from discontinued operations	—	0.44	0.15	1.38
Diluted earnings (loss) per share	<u>\$ 0.24</u>	<u>\$ 0.98</u>	<u>\$ 0.17</u>	<u>\$ 2.38</u>
Weighted-average common shares outstanding:				
Basic	37,333	37,012	37,255	36,951
Diluted	37,509	39,992	38,896	39,449

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

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

	Nine Months Ended	
	July 31,	
	2008	2007
	(In thousands)	
Operating activities:		
Net income (loss)	\$ 6,569	\$ 92,544
(Income) loss from discontinued operations	(5,675)	(53,022)
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	26,648	27,584
Deferred income taxes	2,891	81
Stock-based compensation	25,504	3,829
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable	(19,147)	(10,212)
Decrease (increase) in inventory	(6,337)	(1,402)
Decrease (increase) in other current assets	820	601
Increase (decrease) in accounts payable	3,461	1,821
Increase (decrease) in accrued liabilities	(1,840)	(2,906)
Increase (decrease) in income taxes payable	3,774	(10)
Other, net	(2,741)	5,555
Cash provided by (used for) operating activities from continuing operations	33,927	64,463
Cash provided by (used for) operating activities from discontinued operations	25,127	69,879
Cash provided by (used for) operating activities	<u>59,054</u>	<u>134,342</u>
Investing activities:		
Capital expenditures, net of retirements	(11,529)	(11,512)
Other, net	(23)	—
Cash provided by (used for) investing activities from continuing operations	(11,552)	(11,512)
Cash provided by (used for) investing activities from discontinued operations	34,113	(111,681)
Cash provided by (used for) investing activities	<u>22,561</u>	<u>(123,193)</u>
Financing activities:		
Repayments of long-term debt	(1,464)	(2,721)
Common stock dividends paid	(1,128)	—
Funding from Separation	32,735	—
Transfers to Quanex Corporation	—	(49,559)
Other, net	(293)	—
Cash provided by (used for) financing activities from continuing operations	29,850	(52,280)
Cash provided by (used for) financing activities from discontinued operations	(46,183)	39,051
Cash provided by (used for) financing activities	<u>(16,333)</u>	<u>(13,229)</u>
Effect of exchange rate changes on cash equivalents	(71)	44
Less: (Increase) decrease in cash and equivalents from discontinued operations	(13,057)	2,751
Increase (decrease) in cash and equivalents from continuing operations	52,154	715
Cash and equivalents at beginning of period	1,778	2,247
Cash and equivalents at end of period	<u>\$ 53,932</u>	<u>\$ 2,962</u>

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 recreational vehicles and capital equipment. The primary market drivers of the building and construction focused business are residential housing starts and remodeling expenditures. Quanex believes it is a technological leader in the production of aluminum flat-rolled products, flexible insulating glass spacer systems, extruded 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 Gerda S.A. (Gerda). This is hereafter referred to as the "Separation" and is more fully described in Note 3.

Notwithstanding the legal form of the Separation, because Gerda 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, we consider Quanex Building Products Corporation as divesting the Quanex Corporation vehicular products segment and non-building products related corporate items and have treated it as the "accounting successor" to Quanex Corporation for financial reporting purposes in accordance with 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. In addition, the assets and liabilities of the vehicular products business and non-building products related corporate items have been segregated from the assets and liabilities related to the Company's continuing operations and presented separately on the Company's comparative balance sheet as of October 31, 2007. 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 "Index to Consolidated Financial Statements of Quanex Corporation (Accounting Predecessor to Quanex Building Products Corporation)" of the Company's Information Statement attached as Exhibit 99.1 to the Company's Registration Statement on Form 10, filed April 4, 2008 and effective April 9, 2008 (the Company's 2008 Form 10).

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

2. New Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board (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. This statement will be effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, “*The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.*” The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 162 on its 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 is currently evaluating the potential impact, if any, of FSP SFAS 142-3 on its consolidated financial statements.

In December 2007, the FASB issued SFAS 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 Company has not yet determined the impact, if any, that SFAS 160 will have on its 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 is currently assessing the impact of applying SFAS 159’s elective fair value option on the Company’s financial statements.

In September 2006, the FASB issued SFAS No. 158, “*Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*” (SFAS 158), which prescribes recognition of the funded status of a benefit plan in the balance sheet and additional disclosure requirements. The funded status is measured as the difference between the fair market value of the plan assets and the benefit obligation. The recognition of the funded status and disclosure elements of SFAS 158 were effective for fiscal years ending after December 15, 2006 and, accordingly, were adopted by the Company as of October 31, 2007. SFAS 158 also requires the consistent measurement of plan assets and benefit obligations as of the date of the fiscal year-end. This measurement date element will be effective for fiscal years ending after December 15, 2008 (as of October 31, 2009 for the Company), but will not have an impact on the Company as the Company already measures the plan assets and obligations as of the end of its fiscal year.

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.

In September 2006, the FASB ratified the EITF Issue No. 06-5, “*Accounting for Purchases of Life Insurance — Determining the Amount that Could be Realized in Accordance with FASB Technical Bulletin 85-4*” (EITF 06-5). The EITF concluded that a policyholder should consider any additional amounts included in the contractual terms of the life insurance policy in determining the “amount that could be realized under the insurance contract”. For group policies with multiple certificates or multiple policies with a group rider, the EITF also tentatively concluded that the amount that could be realized should be determined at the individual policy or certificate level (i.e., amounts that would be realized only upon surrendering all of the policies or certificates would not be included when measuring the assets). The provisions of EITF 06-5 were effective for fiscal years beginning after December 15, 2006 (as of November 1, 2007 for the Company). The adoption of EITF 06-5 did not have a material impact on the Company’s consolidated financial statements.

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

In September 2006, the FASB issued FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities" (FSP AUG AIR-1) which is effective for fiscal years beginning after December 15, 2006 (as of November 1, 2007 for the Company). FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The Company has adopted the direct expensing method, under which the costs of planned major maintenance activities are expensed in the period in which the costs are incurred. The application of FSP AUG AIR-1 only impacted the Company's former Vehicular Products Segment, which is reported in discontinued operations. The application of FSP AUG AIR-1 affects the Company's fiscal 2007 interim period reporting but does not result in a cumulative effect adjustment to the annual consolidated financial statements. The following table illustrates the effect in fiscal 2007 of retroactively applying the direct expensing method on individual line items in the consolidated financial statements.

Condensed Consolidated Statement of Income	Three Months Ended July 31, 2007			Nine Months Ended July 31, 2007		
	Before Application of FSP AUG AIR-1	Adjustment	After Application of FSP AUG AIR-1	Before Application of FSP AUG AIR-1	Adjustment	After Application of FSP AUG AIR-1
	(In thousands, except per share data)					
Net sales	\$ 269,506	\$ —	\$ 269,506	\$ 708,448	\$ —	\$ 708,448
Income from continuing operations	21,656	—	21,656	39,522	—	39,522
Income from discontinued operations, net of tax	18,563	(1,572)	16,991	53,542	(520)	53,022
Net income	\$ 40,219	\$ (1,572)	\$ 38,647	\$ 93,064	\$ (520)	\$ 92,544
Basic earnings per common share:						
Earnings from continuing operations	\$ 0.59	\$ —	\$ 0.59	\$ 1.07	\$ —	\$ 1.07
Income from discontinued operations	0.50	(0.05)	0.45	1.45	(0.02)	1.43
Basic earnings per share	\$ 1.09	\$ (0.05)	\$ 1.04	\$ 2.52	\$ (0.02)	\$ 2.50
Diluted earnings per common share:						
Earnings from continuing operations	\$ 0.54	\$ —	\$ 0.54	\$ 1.00	\$ —	\$ 1.00
Income from discontinued operations	0.48	(0.04)	0.44	1.40	(0.02)	1.38
Diluted earnings per share	\$ 1.02	\$ (0.04)	\$ 0.98	\$ 2.40	\$ (0.02)	\$ 2.38

The effect of applying the direct expensing method retrospectively resulted in a decrease in net income of \$1.6 million, or \$0.05 per basic and \$0.04 per diluted share, for the three months ended July 31, 2007. For the nine months ended July 31, 2007, the effect of applying the direct expensing method retrospectively resulted in a decrease in net income of \$0.5 million, or \$0.02 per basic and \$0.02 per diluted share. The adoption of FSP AUG AIR-1 did not have an impact on full year net income or full year earnings per share for fiscal year 2007.

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48) which is an interpretation of FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 provides guidance for the recognition, derecognition and measurement in financial statements of tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance for classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 permits an entity to recognize interest related to tax uncertainties as either income taxes or interest expense. FIN 48 also permits an entity to recognize penalties related to tax uncertainties as either income tax expense or within other expense classifications. FIN 48 was effective for annual periods beginning after December 15, 2006, and the Company adopted FIN 48 effective November 1, 2007. Consistent with its past practice, the Company continues to recognize interest and penalties as income tax expense. Upon adoption, the Company recorded the cumulative effect of the change in accounting principle of \$1.9 million as an increase to retained earnings. The impact of the adoption is more fully disclosed in Note 13.

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

3. Discontinued Operations

As discussed in Note 1, the Company's vehicular products business and non-building products related corporate accounts were separated from the Company's 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. In addition, the assets and liabilities of the vehicular products business and non-building products related corporate items have been segregated from the assets and liabilities related to the Company's continuing operations and presented separately on the Company's comparative balance sheet as of October 31, 2007.

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 the Company 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 July 31, 2008, the Company incurred a \$341.9 million reduction in stockholders' equity from the Separation. This reduction will be refined in future reporting periods as the calculation of such reduction is preliminary pending finalization of various items including the final determination of the transaction tax liabilities, the settlement of the remaining true-up item with Gerdau, and the allocation of pension plan assets. 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 July 31, 2008 and, accordingly are reflected in the \$341.9 million; the Company received a net \$6.9 million from Gerdau for the Quanex Corporation stock option true-up and the change of control agreement true-up and a true-up receipt of \$5.0 million related to Quanex Corporation's convertible debentures. The one outstanding true-up as of July 31, 2008 pertains to the settlement of transaction taxes (as the Separation was a taxable spin). As these true-ups are settled pursuant to the transaction agreements, the Company records an adjustment to its cash balance with an offsetting amount to stockholders' equity. Additionally, as the Separation was a taxable spin, the \$341.9 million reflects an estimate for taxes on the Separation transaction based on preliminary tax valuations of the Company's businesses. As these tax valuations are completed and the estimates are refined and finalized, the Separation's impact on stockholders' equity will be adjusted with a corresponding adjustment to the Company's ongoing non-current deferred tax asset and related uncertain tax positions reported in the Company's balance sheet. For additional discussion of transaction taxes related to the Company's ongoing tax balances, see Note 13.

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

The components of the assets and liabilities of discontinued operations as of October 31, 2007 were as follows (in thousands):

Current assets:	
Cash and equivalents	\$ 171,061
Short-term investments	44,750
Accounts and notes receivable, net of allowance	109,658
Inventories, net	98,630
Deferred income taxes	6,534
Prepaid and other current assets	693
Total current assets	<u>431,326</u>
Property, plant and equipment, net	252,442
Goodwill	6,680
Cash surrender value insurance policies	29,424
Intangible assets, net	17,315
Other assets	5,065
Total assets	<u>\$ 742,252</u>
Current liabilities:	
Accounts payable	\$ 81,345
Accrued liabilities	21,794
Income taxes payable	14,431
Current maturities of long-term debt	125,000
Total current liabilities	<u>242,570</u>
Deferred pension obligation	3,750
Deferred postretirement welfare benefits	6,189
Deferred income taxes	25,776
Non-current environmental reserves	8,499
Other liabilities	3,020
Total liabilities	<u>\$ 289,804</u>

As reflected above, the following are notable non-building product corporate items that were retained by Quanex Corporation and thus reported in discontinued operations in the historical balance sheets. Additionally, as a result of Quanex Corporation retaining these liabilities, Gerdau is responsible for any future settlement of these items. For additional detail on these items, see the notes to consolidated financial statements in the Company's 2008 Form 10.

- *Convertible Debentures* — Quanex Corporation's \$125.0 million of Convertible Senior Debentures (the Debentures) were retained by Quanex Corporation and reported above in current maturities of long-term debt of discontinued operations. The outstanding principal of the Debentures was reduced from \$125.0 million as of October 31, 2007 to \$115.6 million as of the Separation as certain holders elected to convert \$9.4 million of principal of Debentures during the first fiscal quarter of 2008; the \$9.4 million of principal was settled for \$18.8 million during the first quarter as the premium (stock price in excess of conversion price) was settled in cash. The conversion obligation of the \$115.6 million principal to be settled by Gerdau is approximately \$251 million, including the premium.
- *Environmental Reserves* — Quanex Corporation retained the environmental contingencies related to the MACSTEEL plant in Jackson, Michigan, the environmental contingency related to Piper Impact and various other legacy environmental matters. For October 31, 2007, the \$1.4 million current portion of these reserves is reported in Accrued liabilities and the \$8.5 million non-current portion is reported as Non-current environmental reserves in the previous table of discontinued operations.
- *Other Contingencies* — Quanex Corporation (and thus Gerdau) retained the putative stockholder derivative and class action lawsuit filed in state district court in Harris County, Texas relating to the spin-off of Quanex Building Products and Quanex's merger with a subsidiary of Gerdau: *Momentum Partners v. Raymond A. Jean, et al*, Cause No. 2008-01592 (125th State District Court).

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

- *Tax Contingency* — Quanex Corporation retained the current Tax Court case regarding the disallowance by the IRS of a capital loss deduction taken and the imposition of penalties and interest on the deficiency for the tax years 1997 and 1998. As of October 31, 2007, a reserve of \$16.1 million was reported in income taxes payable. Upon adoption of FIN 48 on November 1, 2007, this reserve became part of the uncertain tax benefit of \$17.7 million. Since this tax contingency has been assumed by Gerdau, the related contingency amounts are reported in discontinued operations.

The results of discontinued operations for the three and nine months ended July 31, 2008 and 2007 were as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
	(In thousands)			
Net sales	\$ —	\$ 284,578	\$ 571,578	\$ 782,715
Transaction expenses and other related Separation costs, before tax	\$ —	\$ (191)	\$ (19,205)	\$ (2,014)
Income from discontinued operations before tax	\$ —	\$ 25,143	\$ 18,745	\$ 81,010
Income tax expense	—	(8,152)	(13,070)	(27,988)
Income from discontinued operations, net of tax	\$ —	\$ 16,991	\$ 5,675	\$ 53,022

Net sales of discontinued operations represent net sales of the Company's former vehicular products segment.

Income from discontinued operations before tax declined primarily due to six months of activity for the nine months ended July 31, 2008 compared to nine months of activity for the period ended July 31, 2007. In addition, period over period income declined due to transaction related costs, LIFO charge related to the vehicular products LIFO inventories and the loss on early extinguishment of debentures for the nine month period. There was no activity for the three month period ended July 31, 2008 due to the Separation.

- Transaction expenses and other related Separation costs for the nine months ended July 31, 2008 include \$13.9 million of transaction costs (primarily investment banking fees, legal fees and accounting fees for the merger and discontinued operations' portion of spin costs) and \$4.9 million of expense related to the modification of Quanex Corporation's stock based-compensation awards. The 2007 amounts relate to transaction related deal costs. See Note 12 for additional discussion of the modification of Quanex Corporation's stock-based compensation awards in connection with the Separation.
- With respect to inventories valued using the LIFO method, the vehicular products business (i.e. discontinued operations) recognized no LIFO expense during the three months ended July 31, 2008 compared to \$3.4 million during the same period in 2007. The vehicular products business recognized \$15.3 million during the nine months ended July 31, 2008 compared to \$6.8 million of LIFO expense during the same period of 2007.
- 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.

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

Discontinued operations' effective tax rate for the nine months ended 2008 increased to 69.7% from 34.6% during the same period of 2007 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. Intangible Assets

Intangible assets consist of the following (in thousands):

	As of July 31, 2008		As of October 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$ 23,691	\$ 6,198	\$ 23,691	\$ 5,014
Trademarks and trade names	37,930	6,666	37,930	5,397
Patents	25,877	13,284	25,877	11,088
Total	\$ 87,498	\$ 26,148	\$ 87,498	\$ 21,499
Unamortized intangible assets:				
Trade name	\$ 2,200		\$ 2,200	

The aggregate amortization expense for the three and nine month periods ended July 31, 2008 was \$1.3 million and \$4.7 million, respectively. The aggregate amortization expense for the three and nine month periods ended July 31, 2007 was \$1.7 million and \$5.1 million, respectively.

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
2008 (remaining three months)	\$ 1,073
2009	\$ 3,865
2010	\$ 3,792
2011	\$ 3,792
2012	\$ 3,792

5. Inventories

Inventories consist of the following:

	July 31, 2008	October 31, 2007
	(In thousands)	
Raw materials	\$ 28,002	\$ 24,109
Finished goods and work in process	28,959	26,613
	56,961	50,722
Supplies and other	2,890	2,834
Total	\$ 59,851	\$ 53,556

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

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

	<u>July 31, 2008</u>	<u>October 31, 2007</u>
	<u>(In thousands)</u>	
LIFO	\$ 29,535	\$ 24,784
FIFO	30,316	28,772
Total	<u>\$ 59,851</u>	<u>\$ 53,556</u>

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, replacement cost exceeded the LIFO value by approximately \$19.1 million and \$13.6 million as of July 31, 2008 and October 31, 2007, respectively.

6. Earnings Per Share

The computational components of basic and diluted earnings per share from continuing operations are as follows (shares and dollars in thousands except per share amounts):

	<u>For the Three Months Ended</u>					
	<u>July 31, 2008</u>			<u>July 31, 2007</u>		
	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per- Share Amount</u>	<u>Income (Numerator)</u>	<u>Shares (Denominator)</u>	<u>Per- Share Amount</u>
Basic earnings and earnings per share	<u>\$ 8,818</u>	<u>37,333</u>	\$ 0.24	<u>\$ 21,656</u>	<u>37,012</u>	\$ 0.59
Effect of dilutive securities						
Common stock equivalents arising from settlement of contingent convertible debentures	—	—		—	2,332	
Common stock equivalents arising from stock options	—	29		—	452	
Restricted stock	—	45		—	66	
Common stock held by rabbi trust	—	102		—	130	
Diluted earnings and earnings per share	<u>\$ 8,818</u>	<u>37,509</u>	\$ 0.24	<u>\$ 21,656</u>	<u>39,992</u>	\$ 0.54

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

	For the Nine Months Ended					
	July 31, 2008			July 31, 2007		
	Income (Numerator)	Shares (Denominator)	Per- Share Amount	Income (Numerator)	Shares (Denominator)	Per- Share Amount
Basic earnings and earnings per share	\$ 894	37,255	\$ 0.02	\$ 39,522	36,951	\$ 1.07
Effect of dilutive securities						
Common stock equivalents arising from settlement of contingent convertible debentures	—	1,514		—	1,933	
Common stock equivalents arising from stock options	—	9		—	380	
Restricted stock	—	16		—	55	
Common stock held by rabbi trust	—	102		—	130	
Diluted earnings and earnings per share	\$ 894	38,896	\$ 0.02	\$ 39,522	39,449	\$ 1.00

The Company's former 2.50% Convertible Senior Debentures due 2034 are reported in discontinued operations for historical periods as a result of the Separation. In 2005, the Company irrevocably elected to settle the principal amount of its former Debentures in cash when they became convertible and were surrendered by the holders thereof. The Company retained its option to satisfy any excess conversion obligation (stock price in excess of conversion price) with either shares, cash or a combination of shares and cash. As a result of the Company's election, if dilutive, diluted earnings per share up through the Separation 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.

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. The Debentures will have a potential dilutive impact for year-to-date earnings per share for the remainder of fiscal 2008; however, the Debentures did not have a potential dilutive impact for the quarter-to-date earnings per share calculations for the third fiscal quarter of 2008 and will not have a dilutive effect thereafter. For the three and nine months ended July 31, 2008, 0.1 million stock options were excluded from the computation of diluted earnings per share as the options' exercise price was greater than the average market price of the common stock during the period. All stock options were dilutive for the 2007 periods presented.

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 and nine months ended July 31, 2008 and 2007 was as follows:

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2008	2007	2008	2007
	(In thousands)			
Comprehensive income:				
Net income (loss)	\$ 8,818	\$ 38,647	\$ 6,569	\$ 92,544
Foreign currency translation adjustment	(26)	57	(133)	75
Total comprehensive income, net of taxes	\$ 8,792	\$ 38,704	\$ 6,436	\$ 92,619

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

8. Long-term Debt

Long-term debt consists of the following:

	<u>July 31,</u> <u>2008</u>	<u>October 31,</u> <u>2007</u>
	(In thousands)	
Revolving Credit Facility	\$ —	\$ —
City of Richmond, Kentucky Industrial Building Revenue Bonds	1,250	2,500
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	1,200	1,400
Capital lease obligations and other	101	115
Total debt	<u>\$ 2,551</u>	<u>\$ 4,015</u>
Less maturities due within one year included in current liabilities	363	1,464
Long-term debt	<u>\$ 2,188</u>	<u>\$ 2,551</u>

Approximately 96% and 97% of the total debt had a variable interest rate at July 31, 2008 and October 31, 2007, 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 and replaced Quanex Corporation's \$350.0 million revolving credit facility. 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 LIBOR based on a combined leverage and ratings grid. The Credit Facility may be increased by an additional \$80.0 million in the aggregate prior to maturity, subject to the receipt of additional commitments and the absence of any continuing defaults. Proceeds from the Credit Facility may be used to provide availability for acquisitions, working capital, capital expenditures and general corporate purposes.

The Credit Facility includes two primary financial covenants including a maximum leverage test and minimum interest coverage test. Additionally, there are certain limitations on additional indebtedness, asset or equity sales, and acquisitions. Dividends and other distributions are permitted so long as after giving effect to such dividend or stock repurchase, there is no event of default. As of July 31, 2008, the Company was in compliance with all current Credit Facility covenants. The Company had no borrowings under the Credit Facility as of July 31, 2008. The aggregate availability under the Credit Facility was \$267.6 million at July 31, 2008, which is net of \$2.4 million of outstanding letters of credit.

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. Benefits for participants in this plan prior to January 1, 2007 continue to be based on a more traditional formula for retirement benefits.

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

The components of net pension cost are as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
	(In thousands)			
Pension Benefits:				
Service cost	\$ 1,142	\$ 1,221	\$ 3,435	\$ 2,731
Interest cost	595	678	1,788	1,517
Expected return on plan assets	(772)	(880)	(2,322)	(1,968)
Amortization of unrecognized prior service cost	—	30	—	68
Amortization of unrecognized net loss	—	54	—	121
Net periodic pension cost	<u>\$ 965</u>	<u>\$ 1,103</u>	<u>\$ 2,901</u>	<u>\$ 2,469</u>

The increase in net pension cost for the nine months ended July 31, 2008 compared to the same 2007 period is primarily attributable to the additional participants in the defined benefit pension plan since January 1, 2007.

Prior to the Separation, the Company's pension plan included participants from the vehicular products business, the building products businesses and corporate. Upon the Separation, Gerdau assumed the pension benefit liabilities for the vehicular products and corporate retiree participants (reported in discontinued operations) while the Company retained the pension benefit liabilities for the building products and active corporate participants. Accordingly, the plan assets will be allocated based on benefit priority categories of the respective participants between Gerdau and the Company. Calculations and distribution of pension assets will not be finalized until later in the year. During the three and nine months ended July 31, 2008, the Company contributed \$675 thousand to its defined benefit plan. Based on initial valuations and preliminary distribution of assets, the Company estimates that it may contribute up to an additional \$3.5 million to its pension plan during the fourth fiscal quarter of 2008, representing minimum pension contributions required.

Net periodic postretirement benefit cost for the three and nine months ended July 31, 2008 was \$7 thousand and \$20 thousand, respectively. Net periodic postretirement benefit cost for the three and nine months ended July 31, 2007 was \$6 thousand and \$19 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 the building products focused segments are residential housing starts and residential remodeling expenditures.

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.

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

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
(In thousands)				
Net Sales:				
Engineered Products	\$ 115,261	\$ 131,445	\$ 295,031	\$ 333,898
Aluminum Sheet Products	130,540	143,667	340,889	388,092
Intersegment Eliminations	(5,463)	(5,606)	(13,332)	(13,542)
Consolidated	<u>\$ 240,338</u>	<u>\$ 269,506</u>	<u>\$ 622,588</u>	<u>\$ 708,448</u>

Operating Income (Loss):				
Engineered Products	\$ 12,590	\$ 17,657	\$ 19,781	\$ 30,595
Aluminum Sheet Products	12,110	19,985	27,695	47,401
Corporate & Other ¹	(10,328)	(5,370)	(50,493)	(17,225)
Consolidated	<u>\$ 14,372</u>	<u>\$ 32,272</u>	<u>\$ (3,017)</u>	<u>\$ 60,771</u>

	July 31,	October 31,
	2008	2007
(In thousands)		
Identifiable Assets:		
Engineered Products	\$ 445,802	\$ 444,677
Aluminum Sheet Products	176,167	162,139
Corporate, LIFO reserve, Intersegment Eliminations & Other	42,522	(14,246)
Discontinued Operations ²	—	742,252
Consolidated	<u>\$ 664,491</u>	<u>\$ 1,334,822</u>

Goodwill:		
Engineered Products	\$ 175,979	\$ 175,996
Aluminum Sheet Products	20,389	20,389
Consolidated	<u>\$ 196,368</u>	<u>\$ 196,385</u>

¹ Corporate & Other includes transaction-related expenditures of \$26.5 million during the nine months ended July 31, 2008 compared to none in the corresponding period of 2007. These 2008 transaction related expenses represent \$2.9 million of spin-off transaction costs, \$22.8 million non-cash expense related to the modification of stock-based compensation awards and \$0.8 million related to the acceleration of executive incentive and other benefits. For additional discussion of the stock-based compensation modification impact, see Note 12.

² As more fully described in Notes 1 and 3, the Company's former Vehicular Products segment and non-building products related corporate accounts are reported in discontinued operations for all periods presented.

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

11. Stockholders' Equity, Stock Repurchase Program and Treasury Stock

The Company's authorized capital stock consists of 125,000,000 shares of Common Stock, par value \$0.01 per share, and 1,000,000 shares of Preferred Stock, no par value. As of July 31, 2008, there were no shares of Preferred Stock issued or outstanding.

As disclosed in Note 13 of Quanex Corporation's Form 10-K for the year ended October 31, 2007, Quanex Corporation had Preferred Stock Purchase Rights (the Rights) pursuant to the Third Amended and Restated Rights Agreement (the Rights Agreement) effective October 18, 2004. The Rights Agreement terminated and the rights expired immediately before the closing of the Separation. Quanex Building Products Corporation does not currently have a similar rights agreement.

On August 26, 2004, Quanex Corporation's Board of Directors approved an increase in the number of authorized shares in the Company's existing stock buyback program, up to 2.25 million shares; and on August 24, 2006 the Board of Directors approved an additional increase of 2.0 million shares to the existing program. As of October 31, 2007, the remaining shares authorized for repurchase in the program was 2,676,050. This program was particular to Quanex Corporation, and Quanex Building Products Corporation's Board of Directors has not currently established a similar program for the Company.

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The Company uses a moving average method on the subsequent reissuance of shares, and any resulting proceeds in excess of cost are credited to additional paid-in-capital while any deficiency is charged to retained earnings. As of October 31, 2007, the number of shares of treasury stock was 981,117. The number of shares of treasury stock was reduced to zero by April 23, 2008 due primarily to the Separation and to a lesser extent stock option exercises and restricted stock issuances.

The Company's rabbi trust held Quanex Corporation common stock which was recorded as a contra-equity at historical cost prior to the Separation. Upon completion of the Separation, the rabbi trust was separated between Quanex Building Products Corporation and Gerdau. For each share held in the Quanex Building Products rabbi trust, merger proceeds of \$39.20 per share and 1 share of Quanex Building Products common stock were received. The shares of Quanex Building Products common stock are recorded at the same historical cost as the Quanex Corporation common stock and are reported as contra-equity. The merger proceeds equated to \$4.0 million to the rabbi trust, which was recorded as income in Other, net during the second fiscal quarter of 2008. During the third fiscal quarter, Quanex Building Products received \$3.6 million of cash from the rabbi trust as reimbursement for deferred compensation payments made by Quanex Building Products. The rabbi trust's remaining merger proceeds of \$0.4 million as of July 31, 2008 are consolidated in Other current assets.

12. 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.

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

The 2008 Plan provides for the granting of stock options, common shares or RSUs to key employees and non-employee directors. The Company's practice is to grant options and restricted stock or RSUs to 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 timing of grants for fiscal 2008 was unique due to the Separation; instead of Quanex Corporation granting awards in December 2007, the typical December grant was deferred until the Separation date of April 23, 2008. The exercise price of the option awards is equal to the closing market price on these pre-determined dates. The Company generally issues shares from treasury stock, if available, to satisfy stock option exercises. If there are no shares in treasury stock (as is the case post Separation) the Company issues additional shares of common stock.

The Company's stock-based compensation expense prior to the Separation on April 23, 2008 was driven by stock awards issued by the Company's predecessor, Quanex Corporation. The Company's stock-based compensation following the Separation is related to the Company's stock awards only. 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 and nine months ended July 31, 2008 and 2007 for the Company's continuing operations was as follows:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2008	2007	2008	2007
	(In thousands)			
Modification — stock options	\$ —	\$ —	\$ 21,696	\$ —
Modification — restricted stock	—	—	1,061	—
Modification — subtotal	—	—	22,757	—
Stock option expense	285	405	2,068	2,602
Restricted stock amortization	213	412	529	1,185
Restricted stock units	70	6	150	42
Stock-based compensation expense	<u>\$ 568</u>	<u>\$ 823</u>	<u>\$ 25,504</u>	<u>\$ 3,829</u>

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

The Company has not capitalized any stock-based compensation cost as part of inventory or fixed assets during the nine months ended July 31, 2008 and 2007. 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.

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

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. The summary below reflects all restricted stock awards, including those awarded to former vehicular products employees whose expense is reported in discontinued operations. However, just prior to the Separation, restrictions on all outstanding restricted stock awards lapsed. Therefore, all activity post Separation would relate to the Company's continuing operations. A summary of non-vested restricted shares changes during the nine months ended July 31, 2008 follows.

	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value Per Share</u>
Non-vested at October 31, 2007	113,410	\$ 34.33
Vested prior to the Separation	(72,625)	31.98
Vested in connection with the Separation	<u>(40,785)</u>	38.51
Subtotal at Separation	—	—
Granted following the Separation	347,985	15.15
Forfeited following the Separation	<u>(53,062)</u>	15.02
Non-vested at July 31, 2008	<u>294,923</u>	\$ 15.17

The weighted-average grant-date fair value of restricted stock granted during the nine months ended July 31, 2008 and 2007 was \$15.15 and \$37.55, respectively. The total fair value of restricted stock vested in 2008 prior to the Separation and in connection with the Separation was \$2.3 million and \$2.2 million, respectively. Total unrecognized compensation cost related to unamortized restricted stock awards was \$4.2 million as of July 31, 2008. That cost is expected to be recognized over a weighted-average period of 2.8 years.

Stock Options

As described in the Company's 2008 Form 10, 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 Quanex Building Products Corporation subsequent to the Separation on April 23, 2008. The 2007 valuation assumptions pertain to Quanex Corporation stock options but are applicable to the Company as those 2007 valuation assumptions were the basis for stock-based compensation for building products employees (reported in continuing operations) during the periods prior to the Separation. A description of the methodology for the valuation assumption follows:

- *Expected Volatility* — For 2007, expected volatility was determined using historical volatilities based on historical Quanex Corporation stock prices for a period that matched the expected term. For the 2008 grants following the Separation, expected volatility was determined based on the historical data available for peer companies as Quanex Building Products Corporation is a new company with no historical price data available. The expected volatility assumption is adjusted if future volatility is expected to vary from historical experience.
- *Expected Term* — The expected term of options represents the period of time that options granted are expected to be outstanding and falls between the option's vesting and contractual expiration dates. For 2007, the expected term assumption was developed by using historical exercise data of Quanex Corporation adjusted as appropriate for future expectations. Quanex Building Products Corporation is a new company with no company specific exercise behavior available. Accordingly, for the 2008 grants following the Separation, expected term was determined based on historical data from Quanex Corporation considering that Quanex Corporation's employee group was the most similar to Quanex Building Products Corporation's employee group. Separate groups of employees that have similar historical exercise behavior are considered separately. Accordingly, the expected term range given below results from certain groups of employees exhibiting different behavior.

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

- *Risk-Free Rate* — The risk-free rate is based on the yield at the date of grant of a zero-coupon U.S. Treasury bond whose maturity period equals the option's expected term.
- *Expected Dividend Yield* — For the 2007 grants, the expected dividend yield over the expected term was based on the expected dividend yield of Quanex Corporation prior to the Separation. For the 2008 grants following the Separation, this valuation assumption was based on the expected dividend yield of Quanex Building Products Corporation following the Separation.

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

	Nine Months Ended July 31,	
	2008	2007
	(Quanex Building Products)	(Quanex Corporation)
Weighted-average expected volatility	39.0%	36.5%
Expected term (in years)	4.9-5.1	4.9-5.1
Risk-free interest rate	3.0%	4.4%
Expected dividend yield over expected term	1.0%	1.8%
Weighted-average grant-date fair value per share	\$ 5.32	\$ 12.48

The decrease in the weighted average grant-date fair value is primarily related to the Company's stock price; in 2008, for Quanex Building Products Corporation, the weighted-average market price on the date of grant was \$15.11 in 2008 compared to \$37.55 in 2007 for Quanex Corporation.

Below is a table summarizing the stock option activity for the 2008 Plan (applicable to periods subsequent to the Separation) and in all former Quanex Corporation plans (applicable to periods prior to the Separation) since October 31, 2007. The summary below reflects all stock option awards of the Company and its accounting predecessor, including those awarded to former vehicular products employees and corporate retirees whose expense is reported in discontinued operations. However, all activity post Separation relates to the Company's continuing operations.

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at October 31, 2007	1,427,275	\$ 27.57		
Granted	5,000	52.31		
Exercised	(155,057)	25.69		
Outstanding just prior to the Separation	1,277,218	27.89		
Modified to liability awards just prior to the Separation	(1,277,218)	27.89		
Outstanding at the Separation	—	—		
Granted following the Separation	1,245,461	15.11		
Forfeited following the Separation	(181,227)	15.02		
Outstanding at July 31, 2008	1,064,234	15.12	9.8	\$ 350
Vested or expected to vest at July 31, 2008	814,623	15.15	9.8	\$ 255
Exercisable at July 31, 2008	50,000	\$ 15.02	9.7	\$ 19

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 nine months ended July 31, 2008 and 2007 was \$4.0 million and \$4.6 million, respectively. For 2008, all stock option exercises were prior to the Separation.

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

A summary of the non-vested stock option shares during the nine months ended July 31, 2008 is presented below:

	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value Per Share</u>
Non-vested at October 31, 2007	577,580	\$ 11.55
Granted	5,000	16.31
Vested prior to the Separation	(309,447)	10.78
Vested in connection with the Separation	(273,133)	12.51
Non-vested at the Separation	—	—
Granted following the Separation	1,245,461	5.32
Forfeited following the Separation	(181,227)	5.24
Vested following the Separation	(50,000)	5.24
Non-vested at July 31, 2008	<u>1,014,234</u>	\$ 5.33

The total fair value of shares vested from November 1, 2007 to the Separation was \$3.4 million, while the total fair value of shares vested in connection with the Separation (reflecting the modification) was \$14.8 million. The total fair value of shares vested following the Separation through July 31, 2008 was \$0.3 million. Total unrecognized compensation cost related to stock options granted under the 2008 Plan was \$3.3 million as of July 31, 2008. That cost is expected to be recognized over a weighted-average period of 2.8 years.

13. 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 for the nine months ended July 31, 2008 is 40.5% compared to 34.8% for the nine months ended July 31, 2007. This increase is primarily related to transaction costs incurred which are largely nondeductible for tax purposes, and from a lower effective tax rate in 2007 which is primarily attributable to an update of the rate on deferred balances.

The nature of the Separation described in Notes 1 and 3 created an estimated current income tax payable reflected in discontinued operations of approximately \$65.1 million and a corresponding non-current deferred income tax asset reflected in continuing operations. The non-current deferred income tax asset amount reflected in the balance sheet as of July 31, 2008 of \$12.7 million includes this \$65.1 million non-current deferred income tax asset partially offset by non-current deferred income tax liabilities of \$36.1 million and a liability for unrecognized tax benefit of \$16.3 million. Management determined it was appropriate to establish this liability for unrecognized tax benefit associated with the Separation. The non-current deferred income tax asset and related liability for unrecognized tax benefit are estimates based on the information available at this time. These amounts will be further refined as more information becomes available.

As disclosed in Note 2, the Company adopted FIN 48 effective November 1, 2007. Upon adoption, the Company recorded the cumulative effect of the change in accounting principle of \$1.9 million as an increase to retained earnings. Of this amount, \$2.2 million related to discontinued operations and (\$0.3) million related to continuing operations. As a result, for continuing operations, the Company recognized a \$0.4 million increase in the liability for unrecognized tax benefits, and a \$0.1 million net reduction in deferred tax liabilities. Upon adoption on November 1, 2007, the Company's unrecognized tax benefits related to continuing operations totaled \$0.4 million, of which \$37 thousand related to interest and penalties. The liabilities for unrecognized tax benefits at November 1, 2007, included \$0.1 million for which the disallowance of such items would not affect the annual effective tax rate. Non-current unrecognized tax benefits not associated with the Separation 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.

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

The Company and its subsidiaries file income tax returns in the U.S. federal and various state jurisdictions as well as in Canada. The Company is not currently under a tax examination, but in certain jurisdictions the statute of limitations has not yet expired. The Company generally remains subject to examination of its U.S. federal income tax returns for 2005 and subsequent years. The Company generally remains subject to examination of its various state income tax returns for a period of four to five years from the date the return was filed. The state impact of any federal changes remains subject to examination by various states for a period of up to one year after formal notification to the state of the federal change.

Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's financial statements or income tax returns. The final outcome of the future tax consequences of legal proceedings, if any, as well as the outcome of competent authority proceedings, changes in regulatory tax laws, or interpretation of those tax laws could impact the Company's financial statements. The Company is subject to the effects of these matters occurring in various jurisdictions. Accordingly, the Company has unrecognized tax benefits recorded for which it is reasonably possible that the amount of the unrecognized tax benefits will increase or decrease within the next twelve months. Any such increase or decrease could have a material effect on the financial results for any particular fiscal quarter or year. However, based on the uncertainties associated with these matters, it is not possible to estimate the impact of any such change.

The unrecognized tax benefits at July 31, 2008 of \$16.7 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. All other previously recorded unrecognized tax benefit is associated with discontinued operations as discussed in Note 3. For the nine months ended July 31, 2008, the Company recognized \$6 thousand in interest and penalties, which are reported as income tax expense in the Consolidated Statement of Income consistent with past practice.

14. Commitments

The Company has operating leases for certain real estate and equipment. Rental expense for the nine months ended July 31, 2008 and 2007 was \$3.7 million and \$3.4 million, respectively.

The Company is a party to non-cancelable purchase obligations for aluminum scrap used in the manufacturing process. Expected delivery under this contract begins in December 2008, therefore, there were no amounts purchased under these obligations during 2008 or 2007.

Future minimum payments as of July 31, 2008, by year and in the aggregate under operating leases having original non-cancelable lease terms in excess of one year and estimated non-cancelable purchase obligations with remaining terms in excess of a year as of July 31, 2008, by year and in the aggregate were as follows (in thousands):

Fiscal Years Ending October 31,	Operating Leases	Purchase Obligations
2008 (remaining three months)	\$ 1,242	—
2009	\$ 4,867	\$ 5,770
2010	\$ 3,618	\$ 366
2011	\$ 2,097	—
2012	\$ 1,655	—
Thereafter	\$ 5,430	—

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

15. 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.

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

	<u>July 31,</u> <u>2008</u>	<u>October 31,</u> <u>2007</u>
	(In thousands)	
Current ¹	\$ 1,600	\$ 1,500
Non-current	2,979	4,239
Total environmental reserves	<u>4,579</u>	<u>5,739</u>
Receivable for recovery of remediation costs ²	<u>\$ 5,007</u>	<u>\$ 5,591</u>

Approximately \$0.7 million of the July 31, 2008 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 \$5.0 million and \$5.6 million undiscounted recovery from indemnitors of remediation costs at one plant site is recorded as of July 31, 2008 and October 31, 2007, respectively. The change in the environmental reserve during the first nine months of fiscal 2008 primarily consisted of cash payments of 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 to soil and groundwater. Based on its studies to date, which remain ongoing, the Company's remediation reserve at NAA's Decatur plant is \$4.6 million. NAA was acquired through a stock purchase in which the sellers agreed to indemnify Quanex and NAA for environmental matters related to the business and based on conditions initially created or events initially occurring prior to the acquisition. Environmental conditions are presumed to relate to the period prior to the acquisition unless proved to relate to releases occurring entirely after closing. The limit on indemnification is \$21.5 million excluding legal fees. In accordance with the indemnification, the indemnitors paid the first \$1.5 million of response costs and have been paying 90% of ongoing costs. Based on its experience to date, its estimated cleanup costs going forward, and costs incurred to date as of July 31, 2008, the Company expects to recover from the sellers' shareholders an additional \$5.0 million. Of that, \$4.1 million is recorded in Other assets, and the balance is reflected in Prepaid and other current assets.

¹ Reported in Accrued liabilities on the Consolidated Balance Sheets.

² Reported in Prepaid and other current assets and Other assets on the Consolidated Balance Sheets.

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

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.

16. Transition Services Agreement

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

The fees to be paid for the services are determined by the parties based on market rates for such services. Additional services may be added upon agreement of the parties, and any service may be terminated without impacting the provision of any other services. Unless terminated sooner, the agreement will terminate during third quarter 2009. For the three and nine months ended July 31, 2008, Quanex Building Products Corporation recorded \$0.8 million and \$0.9 million of income, respectively, related to the transition services agreement. Certain services under the agreement have been terminated as of August 2008, and services will continue to diminish through 2009.

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 July 31, 2008 Consolidated Financial Statements of the Company and the accompanying notes and in conjunction with the Consolidated Financial Statements and notes thereto included in the "Index to Consolidated Financial Statements of Quanex Corporation (Accounting Predecessor to Quanex Building Products Corporation)" of the Company's Information Statement attached as Exhibit 99.1 to the Company's Registration Statement on Form 10, filed April 4, 2008 and effective April 9, 2008 (the Company's 2008 Form 10). 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 expressions identify forward-looking statements, which generally are not historical in nature. All statements which address future operating performance, 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 statements expressing general optimism 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 our Company's historical experience and our 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, except as required by federal securities laws.

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 a more complete discussion of factors that may affect the Company's future performance, please refer to the Company's Information Statement attached as Exhibit 99.1 to the Company's Registration Statement on the Company's 2008 Form 10, in particular the sections titled "Risk Factors" and "Special Note About Forward-Looking Statements" contained therein.

Separation and Merger

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

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

As more fully described in Notes 1 and 3 of the consolidated financial statements in Item 1, on April 23, 2008, Quanex Corporation spun off its building products businesses in a taxable spin and merged its vehicular products business with a wholly-owned subsidiary of Gerdau S.A. (Gerdau). Notwithstanding the legal form of the transactions, because of the substance of the transactions, Quanex Building Products Corporation was the divesting entity and treated as the “accounting successor,” and Quanex Corporation was the “accounting spinnee” for financial reporting purposes in accordance with Emerging Issues Task Force Issue (EITF) No. 02-11, “*Accounting for Reverse Spinoffs*” (EITF 02-11).

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

In accordance with the provisions of 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 accounts are reported as discontinued operations for all periods presented. In addition, the assets and liabilities of the Company’s vehicular products and non-building products related corporate accounts have been segregated from the assets and liabilities related to the Company’s continuing operations and presented separately on the Company’s comparative balance sheet as of October 31, 2007. Unless otherwise noted, all disclosures in the notes accompanying the consolidated financial statements as well as all discussion in Management’s Discussion and Analysis of Financial Condition and Results of Operations reflects only continuing operations.

Transaction Expenditures

In connection with the Separation, the Company recognized \$16.8 million of transaction expenses during the nine months ended July 31, 2008 that were expensed as incurred. Of the transaction expenses recognized for the year, \$2.9 million is included in Selling, general and administrative expenses and \$13.9 million is included in discontinued operations. In accordance with the Separation related agreements, transaction costs related to the merger were to be paid entirely by Gerdau, whereas the transaction costs related to the spin-off of Quanex Building Products were to be split 50/50 between Gerdau and Quanex Building Products Corporation. As such, Quanex Building Products’ portion of the spin-off transaction costs is presented in Selling, general and administrative expenses and all merger related transaction costs and the remaining spin-off costs are presented in discontinued operations. Further details of the spin-off and merger transaction costs are presented in the Corporate & Other Results of Operations section below and in Notes 1 and 3 of Item 1. The decline in year over year net income is directly impacted by the above transaction costs coupled with other transaction related expenses recognized for the year, with the vast majority recognized as of the date of the Separation on April 23, 2008.

Consolidated Results of Operations

Summary Information

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2008	2007	Change	%	2008	2007	Change	%
	(Dollars in millions)							
Net sales	\$ 240.3	\$ 269.5	\$ (29.2)	(10.8)%	\$ 622.6	\$ 708.4	\$ (85.8)	(12.1)%
Cost of sales ¹	200.4	210.6	(10.2)	(4.8)	518.3	565.7	(47.4)	(8.4)
Selling, general and administrative	17.0	18.0	(1.0)	(5.6)	80.7	54.3	26.4	48.6
Depreciation and amortization	8.5	8.6	(0.1)	(1.2)	26.6	27.6	(1.0)	(3.6)
Operating income	<u>14.4</u>	<u>32.3</u>	<u>(17.9)</u>	<u>(55.4)</u>	<u>(3.0)</u>	<u>60.8</u>	<u>(63.8)</u>	<u>(104.9)</u>
Operating income margin	6.0%	12.0%	(6.0)%		(0.5)%	8.6%	(9.1)%	
Interest expense	(0.1)	(0.1)	—	0.0	(0.4)	(0.5)	0.1	(20.0)
Other, net	0.3	0.1	0.2	200.0	4.9	0.3	4.6	1,533.3
Income tax expense	<u>(5.8)</u>	<u>(10.6)</u>	<u>4.8</u>	<u>(45.3)</u>	<u>(0.6)</u>	<u>(21.1)</u>	<u>20.5</u>	<u>(97.2)</u>
Income from continuing operations	<u>\$ 8.8</u>	<u>\$ 21.7</u>	<u>\$ (12.9)</u>	<u>(59.4)%</u>	<u>\$ 0.9</u>	<u>\$ 39.5</u>	<u>\$ (38.6)</u>	<u>(97.7)%</u>

Overview

The Company continues to find itself in a very difficult housing market, with new home starts down 31% compared to the third quarter last year combined with remodeling activity that is estimated to be down approximately 10%. Net sales for the third quarter outperformed the market, down only 10.8% versus the third quarter of last year, due to new product and customer initiatives and bolstered by the strength of the Company's larger customers which have shown an ability to weather the storm better than their competitors. Engineered Products' new product and customer initiatives continue to help mitigate the impacts of the deteriorating markets; however, the financial results of these efforts are impacted by a \$5.5 million non-cash LIFO charge in the third quarter. The new product and customer initiatives continue to mature and are expected to increase further over the final quarter of the year even in light of the tough market conditions. These initiatives are also expected to further increase next year and beyond as the Company is committed to accelerating development of new products that improve thermal efficiency and by capturing new programs.

The Company experienced seasonality consistent with historical trends for the third quarter as it experienced a 16% increase in net sales over the second fiscal quarter of 2008. The second fiscal quarter includes the start to the spring building season whereas the third fiscal quarter benefits from a full three months of the building season. In light of the lower year-over-year operating levels, management remains focused on costs and continues to reduce fixed and semi-variable expenses where it makes sense to do so.

Business Segments

Business segments are reported in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131). SFAS 131 requires that the Company disclose certain information about its operating segments, where operating segments are defined as "components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance". Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Quanex has two building products customer-focused reportable segments. The Company's reportable segments are Engineered Products and Aluminum Sheet Products. The Engineered Products segment primarily produces engineered 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 primary market drivers of both segments are residential housing starts and remodeling expenditures.

¹ Exclusive of items shown separately below.

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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, is reported as a separate, reportable segment. Additionally, Corporate & Other is comprised of corporate office expenses, LIFO, and certain inter-division eliminations. The sale of products between segments is recognized at market prices. Operating income is a primary determinant in assessing performance. The segments follow the accounting principles described in Item 1, Note 1 to the consolidated financial statements of the Company's 2008 Form 10. The two reportable segments value inventory on a FIFO basis, and 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 expense.

Three and Nine Months Ended July 31, 2008 Compared to Three and Nine Months Ended July 31, 2007*Engineered Products*

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2008	2007	Change	%	2008	2007	Change	%
	(Dollars in millions)							
Net sales	\$ 115.3	\$ 131.4	\$ (16.1)	(12.3)%	\$ 295.0	\$ 333.9	\$ (38.9)	(11.7)%
Cost of sales ¹	86.1	97.4	(11.3)	(11.6)	225.6	253.6	(28.0)	(11.0)
Selling, general and administrative	10.2	9.9	0.3	3.0	29.8	30.0	(0.2)	(0.7)
Depreciation and amortization	6.4	6.4	—	—	19.8	19.8	—	—
Operating income	<u>\$ 12.6</u>	<u>\$ 17.7</u>	<u>\$ (5.1)</u>	<u>(28.8)%</u>	<u>\$ 19.8</u>	<u>\$ 30.5</u>	<u>\$ (10.7)</u>	<u>(35.1)%</u>
Operating income margin	10.9%	13.5%	(2.5)%		6.7%	9.1%	(2.4)%	

The primary market drivers for the Engineered Products segment are North American housing starts and residential remodeling activity. The primary drivers were down for the three and nine month periods ended July 31, 2008 compared to the same periods of 2007, with housing starts estimated to be down approximately 31% and 30%, respectively. The Engineered Products operations continued to outperform the market with sales decreasing far less compared to the market declines due to new product and customer initiatives and bolstered by the strength of the Company's larger customers which have shown an ability to weather the storm better than their competitors.

The decrease in net sales at the Engineered Products segment for the three and nine months ended July 31, 2008 is entirely due to reduced volumes attributable to the continued falloff of housing starts and lower expenditures for remodeling and repair of the housing stock. Offsetting the market falloff was the continued growth of the new programs started in fiscal 2007 and 2008 that are expected to contribute more over the final quarter of fiscal 2008. The Engineered Products segment continues to develop and is currently producing and selling products that position it very well for the anticipated increase in "Green Building" as the Company's thermal-efficient products weigh more favorably with consumers at high energy cost levels.

Operating income and the corresponding margin decreased at Engineered Products for the three and nine months ended July 31, 2008 driven entirely by reduced volumes from the depressed building products market. The third fiscal quarter typically increases over the second quarter as it benefits from a full three months of the building season, and this year was no different. However, the lower volumes in the current year resulted in fixed cost de-leveraging that are visible in the lower operating income and operating income margins. The segment continues to focus on controllable costs. Recurring selling, general and administrative costs have been reduced, but the ramp-up of costs attributable to new product efforts have offset the reductions. Both cost savings and product growth efforts are expected to benefit the remainder of the fiscal year and beyond.

¹ Exclusive of items shown separately below.

Aluminum Sheet Products

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2008	2007	Change	%	2008	2007	Change	%
	(Dollars in millions)							
Net sales	\$ 130.5	\$ 143.7	\$ (13.2)	(9.2)%	\$ 340.9	\$ 388.1	\$ (47.2)	(12.2)%
Cost of sales ¹	114.2	119.0	(4.8)	(4.0)	300.4	326.3	(25.9)	(7.9)
Selling, general and administrative	2.1	2.5	(0.4)	(16.0)	6.1	6.8	(0.7)	(10.3)
Depreciation and amortization	2.1	2.2	(0.1)	(4.5)	6.6	7.6	(1.0)	(13.2)
Operating income	\$ 12.1	\$ 20.0	\$ (7.9)	(39.5)%	\$ 27.8	\$ 47.4	\$ (19.6)	(41.4)%
Operating income margin	9.3%	13.9%	(4.6)%		8.2%	12.2%	(4.0)%	

The primary market drivers for the Aluminum Sheet Products segment are North American housing starts and residential remodeling activity. The primary drivers were down for the three and nine month periods ended July 31, 2008 compared to the same periods of 2007, with housing starts estimated to be down approximately 31% and 30%, respectively.

The decrease in net sales at the Aluminum Sheet Products segment for the third quarter of fiscal 2008 was the result of an 11.4% volume decrease due to the very soft primary and secondary markets partially offset by a 2.6% increase in average selling price. The decrease in net sales at the Aluminum Sheet Products segment for the nine months ended July 31, 2008 was the result of a 9.9% volume decrease coupled with a 2.6% decrease in average selling price. London Metals Exchange (LME) aluminum ingot pricing trended upward throughout the early part of the third quarter before settling lower towards the end of the quarter. This trend resulted in higher average selling prices for the quarter and is expected to result in increased spreads for at least the first part of the fourth quarter.

Similar to the Engineered Products segment, operating income and the corresponding margin decreased at the Aluminum Sheet Products segment for the three and nine months ended July 31, 2008 as a direct result of reduced volumes from the depressed residential construction market. The quarter over quarter seasonal increase did take place, even though at a much lower annualized rate. The problem of fixed expense de-leveraging at these lower volume levels carried over from the second quarter. Also contributing to the year-over-year decline are the compressed spreads being realized due to a poorer mix (less painted sheet). Material spreads are highly correlated with aluminum ingot prices over time, though short-term spreads are impacted by timing of LME swings and aluminum scrap purchases. Sharp increases in LME result in short-term spread compression followed by longer-term increases in spread. The inverse is true with LME decreases.

¹ Exclusive of items shown separately below.

Corporate and Other

	Three Months Ended July 31,				Nine Months Ended July 31,			
	2008	2007	Change	%	2008	2007	Change	%
	(Dollars in millions)							
Net sales	\$ (5.5)	\$ (5.6)	\$ 0.1	(1.8)%	\$ (13.3)	\$ (13.6)	\$ 0.3	(2.2)%
Cost of sales ¹	0.1	(5.8)	5.9	(101.7)	(7.7)	(14.2)	6.5	(45.8)
Selling, general and administrative	4.7	5.6	(0.9)	(16.1)	44.8	17.5	27.3	156.0
Depreciation and amortization	—	—	—	—	0.2	0.2	—	—
Operating income	\$ (10.3)	\$ (5.4)	\$ (4.9)	90.7%	\$ (50.6)	\$ (17.1)	\$ (33.5)	195.9%

Corporate and other operating expenses, which are not in the segments mentioned above, include inter-segment eliminations, the consolidated LIFO inventory adjustments (calculated on a combined pool basis) corporate office expenses and Quanex Building Products Corporation's portion of transaction-related costs. Net sales amounts represent inter-segment eliminations between the Engineered Products segment and the Aluminum Sheet Products segment with an equal and offsetting elimination in Cost of sales. Included in Cost of sales for the three and nine months ended July 31, 2008 was \$5.5 million of expense related to the estimated year-end LIFO inventory adjustment. The comparative quarter and year to date 2007 periods include \$0.4 million and \$0.8 million of LIFO income, respectively. LIFO related expense/income is derived from management's estimate of the year-end inventory volume and pricing. Management is currently estimating that aluminum scrap will be higher at October 31, 2008 than at October 31, 2007. Accordingly, 75% of the projected 2008 year-end LIFO adjustment was recorded during the quarter ended July 31, 2008. Management updates this estimate each quarter in an effort to ascertain what amount, if any, should be recorded in the period. The actual adjustment is trueed-up in the fourth quarter once the year-end volume levels and pricing are known.

Selling, general and administrative costs were lower during the three months ended July 31, 2008 compared to the same 2007 period due to reimbursement from Gerdau for transition services provided by Quanex Building Products since the Separation, lower stock-based compensation costs and other corporate overhead costs. This benefit was partially offset by certain transition expenses to launch Quanex Building Products Corporation. Selling, general and administrative costs were higher during the nine months ended July 31, 2008 compared to the same 2007 period as a direct result of transaction related expenses. Following is the breakdown of year-to-date July 31, 2008 transaction-related expenses that contributed to the increased year-over-year Selling, general and administrative costs:

	(Dollars in millions)
Quanex Building Product's share of spin-off transaction costs	\$ 2.9
Stock-based compensation expense — modification impact	22.8
Acceleration of executive incentives and other benefits	0.8
Total transaction related expense	\$ 26.5

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

¹ Exclusive of items shown separately below.

Other items

Other, net for the nine months ended July 31, 2008 reflects the positive impact of the Separation on the Company's rabbi trust. Prior to the Separation, the rabbi trust held Quanex Corporation common stock which was recorded as contra-equity at historical cost. Upon completion of the Separation the rabbi trust was separated between Quanex Building Products Corporation and Gerdau. For each share held in the Quanex Building Products rabbi trust, it received the merger proceeds of \$39.20 per share and 1 share of Quanex Building Products common stock. The shares of Quanex Building Products common stock are recorded at the same historical cost as before as a contra-equity, whereas any cash held by the rabbi trust is consolidated in Other current assets. The merger proceeds equated to \$4.0 million to the rabbi trust, which was recorded as income in Other, net in the second fiscal quarter of 2008.

The Company's effective tax rate increased from the prior year of 34.8% to 40.5% for the nine months ended July 31, 2008. The higher effective rate in 2008 is primarily attributable to the largely nondeductible transaction costs, and from a lower effective tax rate in 2007 which is primarily attributable to an update of the rate on deferred balances.

Outlook

The Company does not expect any near term improvement in the housing market. Housing starts in fiscal 2008 are now expected to lag fiscal 2007 starts by 31% as the market struggles with the high inventory overhang and tougher credit requirements sought by lenders. However, the Company does expect to see higher demand from its Engineered Products customers in the fourth quarter compared to the third quarter based on seasonal improvements in the market, the growth of new programs and the uptick in remodeling activity on the part of customers. At Nichols Aluminum, fourth quarter volumes are expected to lag the year ago quarter by 10%. Spread per pound at Nichols in the fourth quarter is expected to be in line with third quarter spreads.

Forecasting the Company's financial results remains difficult given the current housing environment. The roll-up of income expectations by business indicates the Company will generate around \$75 million of operating income before taking into account approximately \$20 million of corporate expenses (excluding LIFO) in a normalized run rate. The current outlook for operating income is down \$5 million from the previous guidance due primarily to lower spread and volume expectations at Nichols Aluminum. The Company does expect to continue to outperform the market and generate significant cash flow, and is well positioned to experience significant operating leverage when the market improves.

Liquidity and Capital Resources

Sources of Funds

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its \$270.0 million Senior Unsecured Revolving Credit Facility (the Credit Facility). The Credit Facility was executed on April 23, 2008 and has a five-year term. Proceeds from the Credit Facility may be used to provide availability for acquisitions, working capital, capital expenditures, and general corporate purposes. The Credit Facility may be increased by an additional \$80.0 million in the aggregate prior to maturity, subject to the receipt of additional commitments and the absence of any continuing defaults.

At July 31, 2008, the Company had no borrowings under the Credit Facility. The aggregate availability under the Credit Facility was \$267.6 million at July 31, 2008, which is net of \$2.4 million of outstanding letters of credit.

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

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The Company's working capital was \$110.8 million on July 31, 2008 compared to \$227.2 million on October 31, 2007. Working capital declined by \$188.8 million due to the Separation whereby the Company's former vehicular products business and non-building products related corporate items reported in discontinued operations accounted for \$188.8 million of the October 31, 2007 working capital amount. This decline was partially offset by a \$72.3 million increase in working capital from the Company's continuing building products businesses, primarily due to a \$32.7 million increase in cash and equivalents as a result of the funding from the Separation. In fiscal 2008, pursuant to the terms of the Separation related agreements, the Company received \$20.9 million initial funding from Quanex Corporation (the Company's predecessor), a net \$6.9 million in true-up receipts from Gerdau for the settlement of stock options and change of control and a true-up receipt of \$5.0 million related to Quanex Corporation's convertible debentures. The Company's cash and equivalents increased by another \$22.4 million from continuing operations operating cash flows, net of capital expenditures. Additionally, conversion capital (accounts receivable plus inventory less accounts payable) from continuing operations increased by \$22.3 million from October 31, 2007 to July 31, 2008.

The following table summarizes the Company's cash flow results from continuing operations for the nine months ended July 31, 2008 and 2007:

	Nine Months Ending July 31,	
	2008	2007
	(In millions)	
Cash flows from operating activities	\$ 33.9	\$ 64.5
Cash flows from investing activities	\$ (11.6)	\$ (11.5)
Cash flows from financing activities	\$ 29.9	\$ (52.3)

Highlights from the Company's cash flow results for the nine months ended July 31, 2008 and 2007 are as follows:

Operating Activities — Continuing Operations

The decrease of \$30.6 million in cash provided by operating activities from continuing operations for the first nine months of fiscal 2008 compared to the same period last year is primarily related to the decline in year over year operating income from its businesses as a direct result of the depressed housing market. Despite this market slowdown, the Company generated \$33.9 million in operating cash flow from continuing operations for the nine months ended July 31, 2008. Additionally, conversion capital (accounts receivable plus inventory less accounts payable) contributed to the year over year decline in operating cash flow.

Investing Activities — Continuing Operations

Cash spending from investing activities from continuing operations during the nine months ended July 31, 2008 approximates spending during the same period of fiscal 2007 as capital expenditure spending levels are the same. The Company estimates that fiscal 2008 capital expenditures will range from \$15.0 million to \$20.0 million which approximates the Company's building products 2007 spending. At July 31, 2008, the Company had commitments of approximately \$5.7 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures with cash flow from operations.

The Company is evaluating various building products companies both in the residential and commercial space; however, the Company is experiencing trepidation on the part of acquisition candidates to sell at what appears to be the low point in the cycle.

Financing Activities — Continuing Operations

The Company received \$82.2 million more for financing activities during the nine months ended July 31, 2008 compared to the same prior year period primarily due to items related to the Separation. In 2008, the Company received \$32.7 million of funding from the Separation pursuant to the terms of the transaction related agreements; this consisted of a \$20.9 million initial funding from Quanex Corporation (the Company's predecessor), a net \$6.9 million in true-up payments from Gerdau for the settlement of stock options and change of control agreements and a true-up receipt of \$5.0 million from Gerdau related to Quanex Corporation's convertible debentures. In contrast, during fiscal 2007 cash generated from the Company's building products divisions was swept and transferred to Quanex Corporation. As a result, year to date 2007 financing activities from continuing operations reports a disbursement of \$49.6 million to Quanex Corporation; the equal and offsetting receipt of cash is reported in financing activities from discontinued operations as discussed below.

One true-up item from the Separation remains outstanding to be settled with Gerdau. Based on current estimates and preliminary tax valuations, the Company expects to receive approximately \$20.0 million from the settlement of taxes by early 2009. All in, the Company expects to receive \$52.8 million in funding from the Separation; this represents \$20.9 million of initial funding and \$11.9 million of cash true-ups received through July 31, 2008 and the estimated \$20.0 million expected from the tax true-up in 2009.

In June 2008, the Company paid a quarterly dividend of \$0.03 per common share, which amounted to \$1.1 million. The Company expects to continue to pay quarterly cash dividends thereafter although payment of future cash dividends will be at the discretion of the board of directors after taking into account various factors, including the Company's financial condition, operating results, current and anticipated cash needs and plans for expansion.

Discontinued Operations

The Company has a centralized cash management function whereby cash flows generated by its businesses are swept to corporate. All net cash flows through October 31, 2007 from the Company's building products businesses were swept to corporate of Quanex Corporation; as a result of the legal structure of the Separation and this centralized cash management function, predominately all cash balances prior to November 1, 2007 are reported in discontinued operations. In accordance with the various Separation agreements, beginning on November 1, 2007, net cash flows from the Company's building products businesses were accumulated separately to the benefit of Quanex Building Products and thus reported in continuing operations. This structure and division of economic interests between the Company's building products businesses and its former vehicular products business/legacy corporate drives the various historical items reported in cash flows from discontinued operations.

Cash flows from discontinued operations in fiscal 2008 represent approximately six months of activity as the Separation occurred on April 23, 2008. In contrast, cash flows from discontinued operations for 2007 represent nine months of activity. This shorter 2008 period results in lower discontinued operation cash flows from operating activities, less cash spent on discontinued capital expenditures and less cash spent on certain financing activities such as dividends.

The decline in cash provided by operating activities from discontinued operations is predominately driven by 2007 including nine months of operations for the vehicular products business compared to approximately six months in 2008. Additionally, cash provided by operations activities from discontinued operations declined due to cash spent on transaction related deal costs.

Discontinued operations' cash flows from investing activities were \$34.1 million for the nine months ended July 31, 2008 compared to a use of cash of \$111.7 million for the same period of 2007. In 2008, discontinued operations received \$40.0 million from the liquidation of its remaining auction rate securities and spent \$6.2 million on capital expenditures for the vehicular products business. In 2007, discontinued operations spent \$40.0 million for purchases of auction rate securities, \$58.5 million for an acquisition and \$13.5 million in capital expenditures.

Discontinued operations used \$46.2 million in cash from financing activities for the nine months ended July 31, 2008 and received \$39.1 million in cash for the same period of 2007. In 2008, discontinued operations provided initial funding of \$20.9 million to Quanex Building Products (see corresponding receipt in continuing operations' financing activities), paid \$10.4 million in Quanex Corporation dividends for quarterly dividends prior to the Separation and paid \$18.8 million for the conversion of a portion of its convertible debentures; this use of cash in 2008 was partially offset by proceeds from stock option exercises. In 2007, discontinued operations received \$49.6 million from cash swept from the building products businesses (see corresponding use of cash in continuing operations' financing activities) and \$5.1 million in stock option proceeds. This was partially offset by a use of cash of \$15.6 million for the payment of Quanex Corporation dividends for the first three quarters of fiscal 2007.

Other Commercial Commitments

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

<u>Other Commercial Commitments</u>	<u>Total Amounts Committed</u>	<u>Less than 3 Months</u>	<u>Fiscal 2009 & 2010</u>	<u>Fiscal 2011 & 2012</u>	<u>After Fiscal 2012</u>
Standby letters of credit	\$ 3,639	\$ 1,218	\$ 1,153	\$ —	\$ 1,268

Critical Accounting Estimates

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the Company's management must make decisions which impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and assumptions on which to base estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to revenue recognition, allowances for doubtful accounts, inventory, long-lived assets, environmental contingencies, insurance, U.S. pension and other post-employment benefits, litigation and contingent liabilities, and income taxes. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company's management believes the critical accounting estimates listed and described in "Management's Discussion and Analysis of Financial Condition and Results of Operations of Quanex Corporation (Accounting Predecessor to Quanex Building Products Corporation)" of the Company's Information Statement attached as Exhibit 99.1 to the Company's Registration Statement on Form 10, filed April 4, 2008 and effective April 9, 2008 are the most important to the fair presentation of the Company's financial condition and results. These policies require management's significant judgments and estimates in the preparation of the Company's consolidated financial statements. There have been no significant changes to the Company's critical accounting estimates since October 31, 2007.

New Accounting Pronouncements

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.

In September 2006, the FASB issued FSP No. AUG AIR-1, “Accounting for Planned Major Maintenance Activities” (FSP AUG AIR-1) which is effective for fiscal years beginning after December 15, 2006 (as of November 1, 2007 for the Company). FSP AUG AIR-1 prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. The Company has adopted the direct expensing method, under which the costs of planned major maintenance activities are expensed in the period in which the costs are incurred. The application of FSP AUG AIR-1 only impacted the Company’s former Vehicular Products Segment, which is reported in discontinued operations. The application of FSP AUG AIR-1 affects the Company’s fiscal 2007 interim period reporting but does not result in a cumulative effect adjustment to the annual consolidated financial statements. The following table illustrates the effect in fiscal 2007 of retroactively applying the direct expensing method on individual line items in the consolidated financial statements.

Condensed Consolidated Statement of Income	Three Months Ended July 31, 2007			Nine Months Ended July 31, 2007		
	Before Application of FSP AUG AIR-1	Adjustment	After Application of FSP AUG AIR-1 (In thousands, except per share data)	Before Application of FSP AUG AIR-1	Adjustment	After Application of FSP AUG AIR-1
Net sales	\$ 269,506	\$ —	\$ 269,506	\$ 708,448	\$ —	\$ 708,448
Income from continuing operations	21,656	—	21,656	39,522	—	39,522
Income from discontinued operations, net of tax	18,563	(1,572)	16,991	53,542	(520)	53,022
Net income	\$ 40,219	\$ (1,572)	\$ 38,647	\$ 93,064	\$ (520)	\$ 92,544
Basic earnings per common share:						
Earnings from continuing operations	\$ 0.59	\$ —	\$ 0.59	\$ 1.07	\$ —	\$ 1.07
Income from discontinued operations	0.50	(0.05)	0.45	1.45	(0.02)	1.43
Basic earnings per share	\$ 1.09	\$ (0.05)	\$ 1.04	\$ 2.52	\$ (0.02)	\$ 2.50
Diluted earnings per common share:						
Earnings from continuing operations	\$ 0.54	\$ —	\$ 0.54	\$ 1.00	\$ —	\$ 1.00
Income from discontinued operations	0.48	(0.04)	0.44	1.40	(0.02)	1.38
Diluted earnings per share	\$ 1.02	\$ (0.04)	\$ 0.98	\$ 2.40	\$ (0.02)	\$ 2.38

The effect of applying the direct expensing method retrospectively resulted in a decrease in net income of \$1.6 million, or \$0.05 per basic and \$0.04 per diluted share, for the three months ended July 31, 2007. For the nine months ended July 31, 2007, the effect of applying the direct expensing method retrospectively resulted in a decrease in net income of \$0.5 million, or \$0.02 per basic and \$0.02 per diluted share. The adoption of FSP AUG AIR-1 did not have an impact on full year net income or full year earnings per share for fiscal year 2007.

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (FIN 48) which is an interpretation of FASB Statement No. 109, “Accounting for Income Taxes”. FIN 48 provides guidance for the recognition, derecognition and measurement in financial statements of tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that is greater than fifty percent likely of being realized upon ultimate settlement. FIN 48 also provides guidance for classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 requires that a liability created for unrecognized tax benefits shall be presented as a liability and not combined with deferred tax liabilities or assets. FIN 48 permits an entity to recognize interest related to tax uncertainties as either income taxes or interest expense. FIN 48 also permits an entity to recognize penalties related to tax uncertainties as either income tax expense or within other expense classifications. FIN 48 was effective for annual periods beginning after December 15, 2006, and the Company adopted FIN 48 effective November 1, 2007. Consistent with its past practice, the Company continues to recognize interest and penalties as income tax expense. Upon adoption, the Company recorded the cumulative effect of the change in accounting principle of \$1.9 million as an increase to retained earnings. The impact of the adoption is more fully disclosed in Note 13 of Item 1.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. This discussion has been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates, foreign currency rates and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward looking information. The Company does not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

The Company and its subsidiaries have a Credit Facility and other long-term debt which subject the Company to the risk of loss associated with movements in market interest rates.

At July 31, 2008, the Company had fixed-rate debt totaling \$0.1 million or 4% of total debt, which does not expose the Company to the risk of earnings loss due to changes in market interest rates. The Company and certain of its subsidiaries' floating-rate obligations totaled \$2.4 million, or 96% of total debt at July 31, 2008. Based on the floating-rate obligations outstanding at July 31, 2008, a one percent increase or decrease in the average interest rate would result in a change to pre-tax interest expense of approximately \$25 thousand.

Commodity Price Risk

Within the Aluminum Sheet Products segment, the Company uses various grades of aluminum scrap as well as minimal amounts of prime aluminum ingot as raw materials for its manufacturing processes. The price of this aluminum raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, Nichols Aluminum enters into firm price raw material purchase commitments (which are designated as "normal purchases" under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities") as well as option contracts on the LME. The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders, to the extent not covered by fixed price purchase commitments.

Through the use of firm price raw material purchase commitments and LME contracts, the Company intends to protect cost of sales from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect. During fiscal 2008 and 2007, the Company primarily relied upon firm price raw material purchase commitments to protect cost of sales tied to firm price sales commitments. At July 31, 2008, there were no open LME forward contracts associated with metal exchange derivatives. At October 31, 2007 there were 14 open LME forward contracts associated with metal exchange derivatives covering notional volumes of 2.8 million pounds with a fair value mark-to-market net loss of approximately \$49 thousand. These contracts were not designated as hedging instruments, and any mark-to-market net gain or loss was recorded in cost of sales with the offsetting amount reflected as a current asset or liability on the balance sheet.

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

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (1934 Act) as of July 31, 2008. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of July 31, 2008, the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes in the Company's Risk Factors as set forth in the section "Risk Factors" in the Company's Information Statement attached as Exhibit 99.1 to the Company's Registration Statement on Form 10, filed April 4, 2008 and effective April 9, 2008.

Item 5. Other Information

Effective August 28, 2008, the Company's Board of Directors approved an amendment and restatement of the Company's Bylaws. The full text of the Amended and Restated Bylaws are attached hereto as Exhibit 3.2 and incorporated herein by reference. The Company's amendment and restatement of its Bylaws changed the procedures by which stockholders may recommend nominees to the Company's Board of Directors, by changing the time period in which a stockholder may submit such nominees for consideration.

Item 6. Exhibits

Exhibit Number	Description of Exhibits
3.1	Certificate of Incorporation of the Registrant dated as of December 12, 2007, filed as Exhibit 3.1 of the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on January 11, 2008, and incorporated herein by reference.
* 3.2	Amended and Restated Bylaws of the Registrant dated as of August 28, 2008.
4.1	Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of Amendment No. 1 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.
4.2	Credit Agreement dated as of April 23, 2008, among the Company, certain of its subsidiaries as guarantors, Wells Fargo Bank, National Association, in its capacity as administrative agent, and certain lender parties, filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) dated April 23, 2008, and incorporated herein by reference.
* 31.1	Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
* 31.2	Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).
* 32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

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

SIGNATURES

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

QUANEX BUILDING PRODUCTS CORPORATION

/s/ Brent L. Korb
Brent L. Korb
Senior Vice President — Finance and Chief Financial Officer
(Principal Financial Officer)

Date: August 28, 2008

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
3.1	Certificate of Incorporation of the Registrant dated as of December 12, 2007, filed as Exhibit 3.1 of the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on January 11, 2008, and incorporated herein by reference.
* 3.2	Amended and Restated Bylaws of the Registrant dated as of August 28, 2008.
4.1	Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of Amendment No. 1 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.
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* Filed herewith

Effective as of August 28, 2008

AMENDED AND RESTATED BY-LAWS
of
QUANEX BUILDING PRODUCTS CORPORATION
(a Delaware Corporation)

ARTICLE I
Offices

1.1. Registered Office. The Corporation shall at all times maintain a registered office in the State of Delaware.

1.2. Other Offices. The Corporation may also have offices at such other places within or outside of the State of Delaware as the Board of Directors shall from time to time appoint or the business of the Corporation require.

ARTICLE II
Capital Stock

2.1. Issuance of Stock. The Board of Directors may authorize the issuance of the capital stock of the Corporation at such times, for such consideration, and on such terms and conditions as the Board may deem advisable, subject to any restrictions and provisions of law, the Certificate of Incorporation of the Corporation (as amended and restated from time to time (the "Certificate of Incorporation") or any other provisions of these By-laws.

2.2. Certificates for Shares. The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Notwithstanding the adoption of such a resolution by the Board of Directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the Corporation by, the chairman or vice-chairman of the board of directors, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the Corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. The certificates shall otherwise be in such form as may be determined by the Board of Directors, shall be issued in numerical order, shall be entered in the books of the Corporation as they are issued and shall exhibit the holder's name and number of shares.

2.3. Transfer of Shares. The shares of the capital stock of the Corporation are transferable only on the books of the Corporation upon surrender, in the case of certificated shares, of the certificates therefor properly endorsed for transfer, or otherwise properly assigned, and upon the presentation of such evidences of ownership of the shares and validity of the assignment as the Corporation may require.

2.4. Registered Stockholders. The Corporation shall be entitled to treat the person in whose name any share of stock is registered as the owner thereof for purposes of dividends and other distributions in the course of business or in the course of recapitalization, consolidation, merger, reorganization, liquidation, or otherwise, and for the purpose of votes, approvals and consents by stockholders, and for the purpose of notices to stockholders, and for all other purposes whatsoever, and shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not the Corporation shall have notice thereof, save as expressly required by the laws of the State of Delaware.

2.5. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and registrars, and may require certificates for shares to bear the signature of such transfer agent(s) and registrar(s).

2.6. Replacement Certificates. Upon the presentation to the Corporation of a proper affidavit attesting the loss, destruction or mutilation of any certificate for shares of stock of the Corporation, the Board of Directors may direct the issuance of a new certificate or uncertificated shares in lieu of and to replace the certificate so alleged to be lost, destroyed or mutilated. The Board of Directors may require as a condition precedent to the issuance of a new certificate or uncertificated shares any or all of the following: (a) additional evidence of the loss, destruction or mutilation claimed; (b) advertisement of the loss in such manner as the Board of Directors may direct or approve; (c) a bond or agreement of indemnity, in such form and amount and with such surety (or without surety) as the Board of Directors may direct or approve; and (d) the order of approval of a court.

ARTICLE III Stockholders and Meetings of Stockholders

3.1. Places of Meetings. All meetings of stockholders shall be held at such place within or outside of the State of Delaware, including by means of remote communication, as shall be fixed by the Board of Directors and stated in the notice of meeting.

3.2. Annual Meeting. The Annual Meeting of Stockholders of the Corporation shall be held on such date and at such time as is fixed by the Board of Directors and stated in the notice of meeting. Directors shall be elected in accordance with the provisions of the Certificate of Incorporation and these By-laws and such other business shall be transacted as may properly come before the meeting.

3.3. Adjournment of Annual Meeting. The Annual Meeting of Stockholders may be adjourned by the presiding officer of the meeting for any reason (including, if the presiding officer determines that it would be in the best interests of the Corporation to extend the period of time for the solicitation of proxies) from time to time and place to place until the presiding officer shall determine that the business to be conducted at the meeting is completed, which determination shall be conclusive.

3.4. Conduct of Business at Annual Meeting.

(a) At an Annual Meeting of the Stockholders, only such business, including without limitation, nominations of persons for election to the board of directors, shall be conducted as shall have been properly brought before the meeting. To be properly brought before an Annual Meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (iii) otherwise properly brought before the meeting by a stockholder of the Corporation who (A) was a stockholder of record of the Corporation at the time the notice provided for in this Section 3.4 is delivered to the Secretary of the Corporation and at the time of the Annual Meeting, (B) shall be entitled to vote at such meeting, and (C) complies with the notice procedures set forth in this Section 3.4 as to such business or nomination. Clause (C) shall be the exclusive means for a stockholder to make nominations or submit business (other than matters properly brought under Rule 14a-8 (or any successor thereto) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations), and indicated in the Corporation's notice of meeting) at an Annual Meeting.

(b) Without qualification, for business to be properly brought before an Annual Meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation and any such business must constitute a proper matter for stockholder action. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not later than the close of business on the 90th day nor earlier than 150 days prior to the first anniversary date of the immediately preceding Annual Meeting; provided, however, that in the event that the date of the Annual Meeting is more than 60 days later than the anniversary date of the immediately preceding Annual Meeting, notice by the stockholder to be timely must be received not later than the close of business on the 10th day following the earlier of the date on which a written statement setting forth the date of the Annual Meeting was mailed to stockholders or the date on which it is first disclosed to the public. In no event shall the public announcement of an adjournment or postponement of the Annual Meeting of stockholders commence a new time period (or extend the time period) for the giving of a stockholder's notice as described above. To be in proper form, a stockholder's notice to the Secretary of the Corporation shall set forth:

(i) as to each person, if any, whom the stockholder proposes to nominate for election as a director (A) all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to and in accordance with Section 14 of the Exchange Act and the rules and regulations promulgated thereunder (or any subsequent provisions replacing such Act, rules or regulations), (B) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected, and (C) include a completed and signed questionnaire, representation and agreement required by paragraph (e) of this Section 3.4;

(ii) as to each matter the stockholder proposes to bring before the Annual Meeting (other than the nomination of persons for election as directors), (A) a brief description of the business desired to be brought before the Annual Meeting, (B) the reasons for conducting such business at the Annual Meeting, (C) the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the by-laws of the Corporation, the language of the proposed amendment), (D) any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made, and (E) a description of all agreements, arrangements and understandings between such stockholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such stockholder; and

(iii) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made, (A) the name and address, as they appear on the Corporation's books, of such stockholder proposing such proposal, and of such beneficial owner, if any, (B)(1) the class and number of shares of the Corporation which are directly or indirectly owned beneficially or of record by such stockholder and by such beneficial owner, (2) the existence and material terms of any proxy, contract, arrangement, understanding, or relationship pursuant to which such stockholder or beneficial owner, if any, has a right to vote any shares of any security of the Corporation (including, if applicable, any contract, arrangement, understanding or relationship pursuant to which any economic interest in the capital stock to be voted is beneficially owned by a person or persons other than the stockholder of record as of the record date), (3) any short interest in any security of the Corporation (for purposes of this Section 3.4, a person shall be deemed to have a short interest in a security if such person directly or indirectly, through a contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), in each case with respect to the information required to be included in the notice pursuant to (1) through (3) above, as of the date of such notice and including, without limitation, any such interests held by members of such stockholder's or such beneficial owner's immediate family sharing the same household, (D) any other

information relating to such stockholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations), (E) a representation that the person is a holder of record or otherwise has the right to vote shares of stock of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business or nomination, (F) if the person does not own any stock of record, a representation as to who owns the shares of stock the person intends to vote of record and the basis upon which the person has the right to vote the shares of stock, and (G) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group that intends (1) to deliver a proxy statement or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or elect the nominees or (2) otherwise to solicit proxies from stockholders in support of such proposal or nomination.

(c) The Corporation may require any proposed nominee to furnish such other information as it may reasonably require (i) to determine the eligibility of such proposed nominee to serve as a director of the Corporation, (ii) to determine whether such nominee qualifies as an "independent director" or "audit committee financial expert" under applicable law, securities exchange rule or regulation, or any publicly-disclosed corporate governance guideline or committee charter of the Corporation; and (iii) that could be material to a reasonable stockholder's understanding of the independence and qualifications, or lack thereof, of such nominee. In addition, if the stockholder's ownership of shares of the Corporation, as set forth in the notice, is solely beneficial, documentary evidence of such ownership must accompany the notice. Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at an Annual Meeting except in accordance with the procedures set forth in this Section 3.4. The presiding officer of an Annual Meeting shall, if the facts warrant, determine and declare to the meeting that any business which was not properly brought before the meeting is out of order and shall not be transacted at the meeting.

(d) Notwithstanding anything in the second sentence of paragraph (b) of this Section 3.4 to the contrary, in the event that the number of directors to be elected to the board of directors of the Corporation at an Annual Meeting is increased and there is no public announcement by the Corporation naming all of the nominees for director or specifying the size of the increased board of directors at least one hundred (100) days prior to the first anniversary of the preceding year's Annual Meeting, a stockholder's notice required by this Section 3.4 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(e) To be eligible to be a nominee for election or reelection as a director of the Corporation (other than a nominee nominated pursuant to Section 3.4(a)(i) or (ii) or Section 3.5(b)(i)), a person must deliver (in accordance with the time periods prescribed for delivery of notice under Sections 3.4 and 3.5 hereof, as applicable) to the Secretary at the principal executive offices of the Corporation a written questionnaire with respect to the background and qualification of such person and the background of any other person or entity on whose behalf the nomination is being made (which questionnaire shall be provided by the Secretary upon written request) and a written representation and agreement (in the form provided by the Secretary upon written request) that such person (i) is not and will not become a party to (A) any agreement, arrangement or understanding with,

and has not given any commitment or assurance to, any person or entity as to how such person, if elected as a director of the Corporation, will act or vote on any issue or question (a “Voting Commitment”) that has not been disclosed to the Corporation or (B) any Voting Commitment that could limit or interfere with such person’s ability to comply, if elected as a director of the Corporation, with such person’s fiduciary duties under applicable law, (ii) is not and will not become a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a director that has not been disclosed therein, and (iii) in such person’s individual capacity and on behalf of any person or entity on whose behalf the nomination is being made, would be in compliance, if elected as a director of the Corporation, and will comply with all applicable publicly disclosed corporate governance, conflict of interest, confidentiality and stock trading policies and guidelines of the Corporation.

3.5. Special Meetings.

(a) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation’s notice of meeting. Nominations of persons for election to the board of directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation’s notice of meeting (i) by the Board of Directors or a committee appointed by the Board of Directors or (ii) provided that the Board of Directors has determined that the directors shall be elected at such meeting, by any stockholder of the Corporation who (A) was a stockholder of record at the time the notice provided for in Section 3.4 hereof is delivered to the Secretary of the Corporation and at the time of the special meeting, (B) shall be entitled to vote at the meeting and upon such election, and (C) complies with the notice procedures set forth in this Article III. In the event the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, any such stockholder entitled to vote in such election of directors may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Corporation’s notice of meeting, if the stockholder’s notice in the same form as required by paragraph (b) of Section 3.4 hereof with respect to any nomination (including the completed and signed questionnaire, representation and agreement required by Section 3.4(e)) shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the board of directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a stockholder’s notice as described above.

(b) Only such business shall have been conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Article III and only such persons who are nominated in accordance with the procedures set forth in this Article III shall be eligible to be elected at an annual or special meeting of the stockholders of the Corporation. Except as otherwise required by law and subject to the rights of the holders of any claim or series of stock having a preference over the common stock of the Corporation (the “Common Stock”) as to dividends or on liquidation, a special meeting of stockholders may be called only by the Chairman of the Board or the President or by the Secretary at the written request of a majority of the directors. The request shall state the purpose or purposes for which the meeting is to be called. The notice of every special meeting of stockholders shall state the purpose for which it is called.

(c) Except as otherwise required by law and subject to the rights of the holders of any claim or series of stock having a preference over the Common Stock as to dividends or on liquidation, the Chairman of the meeting shall have the power and duty (a) to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this Article III and (b) if any proposed nomination or business was not made or proposed in compliance with this Article III, in the reasonable judgment of the presiding officer of the meeting under the circumstances existing at the time and given the information available to such officer, to declare that such nomination shall be disregarded or that such proposed business shall not be transacted. Notwithstanding the foregoing provisions of this Section 3.5, unless otherwise required by law, if the stockholder (or a qualified representative of the stockholder) does not appear at the annual or special meeting of stockholders of the Corporation to present a nomination or proposed business, such nomination shall be disregarded and such proposed business shall not be transacted, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Section 3.5, to be considered a qualified representative of the stockholder, a person must be authorized by a writing executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction of the writing or electronic transmission, at the meeting of the stockholders.

(d) For purpose of this Article III, “public announcement” shall include disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Exchange Act and the rules and regulations promulgated thereunder.

(e) Nothing in this Article III, shall be deemed to affect any rights (a) of stockholders to request inclusion of proposals or nominations in the Corporation’s proxy statement pursuant to Rule 14a-8 (or any successor thereto) promulgated under the Exchange Act or (b) of the holders of any series of preferred stock to nominate and elect directors pursuant to and to the extent provided in any applicable provisions of the Articles of Incorporation.

(f) Any special meeting of stockholders may be adjourned by the presiding officer of the meeting for any reason (including, if the presiding officer determines that it would be in the best interests of the Corporation to extend the period of time for the solicitation of proxies) from time to time and from place to place until the presiding officer shall determine that the business to be conducted at the meeting is completed, which determination shall be conclusive.

3.6. Notice of Meetings. Written notice of each meeting of stockholders shall be mailed to each stockholder of record at his last address as it appears on the books of the Corporation at least ten days, but no more than 60 days prior to the date of the meeting.

3.7. Record Date. The Board of Directors shall have power to close the stock transfer books of the Corporation for a period not more than sixty nor less than ten days preceding the date of any meeting of stockholders, or the date for payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect; provided, however, that in lieu of closing the stock transfer books as aforesaid, the Board of Directors may fix in advance a date not more than sixty nor less than ten days preceding the date of any meeting of stockholders, or the date for any payment of dividends, or the date for allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the stockholders entitled to vote at any such meeting or entitled to receive payment of any such dividend or to any such allotment of rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such cases only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to vote at such meeting, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid. This By-law shall in no way affect the rights of a stockholder and his transferee or transferor as between themselves.

3.8. Stockholder List. The officer who has charge of the stock ledger of the Corporation shall make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information received to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

3.9. Quorum. The holders of a majority of the outstanding shares of stock of the Corporation having voting power with respect to a subject matter (excluding shares held by the Corporation for its own account) present or represented by proxy shall constitute a quorum at the meeting of stockholders for the transaction of business with respect to such subject matter; provided, however, that if the subject matter is one as to which a higher vote is required (as contemplated by the Certificate of Incorporation or the laws of the State of Delaware, then the holders of that number of shares equal to at least that higher number of outstanding shares of stock of the Corporation having voting power with respect to such subject matter (excluding shares held by the Corporation for its own account) present or represented by proxy shall constitute a quorum at the meeting of stockholders solely for the transaction of business with respect to such subject matter. In the absence of a quorum with respect to a particular subject, the presiding officer of the meeting shall have power to adjourn the meeting from time to time, without notice other than an announcement at the meeting stating the time, place, if any, thereof, and the means of remote communication if any, until a quorum is present with respect to that subject matter. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting, any business may be transacted which might have been transacted at the meeting as originally notified.

3.10. Majority Vote. When a quorum is present or represented at any meeting of stockholders, the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the meeting and entitled to vote on the subject matter shall be the act of the stockholders in all matters, unless the matter is one upon which, by express provision of the corporation laws of the State of Delaware, of the Certificate of Incorporation or of these By-laws, a different vote is required, in which case such express provision shall govern and control the decision of that matter. Directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote on the election of directors.

3.11. Proxies. Every stockholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder (which for purposes of this Section may include a signature and form of proxy pursuant to a facsimile or telegraphic form of proxy or any other instruments acceptable to the Judge of Election), bearing a date not more than three years prior to voting, unless such instrument provides for a longer period, and filed with the Secretary of the Corporation before, or at the time of, the meeting. If such instrument shall designate two or more persons to act as proxies, unless such instrument shall provide to the contrary, a majority of such persons present at any meeting at which their powers thereunder are to be exercised shall have and may exercise all the powers of voting thereby conferred, or if only one be present, then such powers may be exercised by that one; or, if an even number attend and a majority do not agree on any particular issue, each proxy so attending shall be entitled to exercise such powers in respect of the same portion of the shares as he is of the proxies representing such shares.

3.12. One Vote Per Share. Unless otherwise provided by the Certificate of Incorporation or by the corporation laws of the State of Delaware, each stockholder of the Corporation shall, at every meeting of stockholders, be entitled to one vote in person or by proxy for each share of capital stock of the Corporation registered in his name.

3.13. Shares Held by Certain Holders. Any other corporation owning voting shares in this Corporation may vote the same by its President or by proxy appointed by him, unless some other person shall be appointed to vote such shares by resolution of the Board of Directors of such stockholder corporation. A partnership holding shares of this Corporation may vote such shares by any general partner or by proxy appointed by any general partner. Shares standing in the name of a deceased person may be voted by the executor or administrator of such deceased person, either in person or by proxy. Shares standing in the name of a guardian, conservator or trustee may be voted by such fiduciary, either in person or by proxy, but no such fiduciary shall be entitled to vote shares held in such fiduciary capacity without a transfer of such shares into the name of such fiduciary. Shares standing in the name of a receiver may be voted by such receiver. A stockholder whose shares are pledged shall be entitled to vote such shares, unless in the transfer by the pledgor on the books of the Corporation, he has expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent the stock and vote thereon.

3.14. Conduct of Business. The order of business and all other matters of procedure at every meeting of the stockholders may be determined by the presiding officer of the meeting, who shall be the Chairman of the Board of Directors, the President or such other officer of the Corporation as designated by the Board. The presiding officer of the meeting shall have all the powers and authority vested in a presiding officer by law or practice without restriction, including, without limitation, the authority, in order to conduct an orderly meeting, to impose reasonable limits on the amount of time at the meeting taken up in remarks by any one stockholder and to declare any business not properly brought before the meeting to be out of order.

3.15. Judge of Election. The Board shall appoint one or more Judges of Election to serve at every meeting of the stockholders.

ARTICLE IV Directors and Meetings of Directors

4.1. General Powers. The business and affairs of the Corporation shall be managed by a Board of Directors (herein the "Board of Directors" or the "Board") who may exercise all the powers of the Corporation not reserved to or conferred on the stockholders by statute, the Certificate of Incorporation or the By-laws of the Corporation.

4.2. Number of Directors. Except as otherwise fixed pursuant to the provisions of the Certificate of Incorporation relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of directors shall be as fixed from time to time by resolution of the Board, provided the number shall be not less than three. The directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be divided into three classes as nearly equal in number as possible, with the term of office of one class expiring each year. The term of office of each director shall expire at the third Annual Meeting after election of the class to which he belongs. During the intervals between Annual Meetings of Stockholders, any vacancy occurring in the Board of Directors caused by resignation, removal, death or other incapacity, and any newly-created directorships resulting from an increase in the number of directors, shall be filled by a majority vote of the directors then in office, whether or not a quorum. Each director chosen to fill a vacancy shall hold office for the unexpired term in respect of which such vacancy occurs. Each director chosen to fill a newly-created directorship shall hold office until the next election of the class for which such director shall have been chosen. Directors are not required to be residents of Delaware or stockholders of the Corporation.

4.3. Maximum Age of Directors. No person may be elected or re-elected a director of the Corporation if at the time of his election or reelection he shall have attained the age of 70 years, provided however, that a director who shall attain the age of 70 years while serving as a director shall continue in office until the expiration of the term for which he was elected.

4.4. Removal. Any director may be removed from office as a director at any time, but only for cause, by the affirmative vote of stockholders of record holding a majority of the outstanding shares of stock of the Corporation entitled to vote in elections of directors at a meeting of the stockholders called for that purpose.

4.5. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and at such place or places as the directors shall, from time to time, determine at a prior meeting. Special meetings of the Board may be called by the Chairman of the Board or President of the Corporation and shall be called by either of said officers upon the written request of any two directors. Special meetings shall be held at the office of the Corporation or at such place as is stated in the notice of the meeting. No notice shall be required for regular meetings of the Board. Notices of special meetings shall be given by mail at least five days before the meeting or by telephone, telecopy or telegram at least 24 hours before the meeting. Notices may be waived. Notices need not include any statement of the purpose of the meeting.

4.6. Unanimous Action; Telephonic and Other Participation. When all of the directors shall be present at any meeting, however called or notified, they may act upon any business that might lawfully be transacted at regular meetings of the Board, or at special meetings duly called, and action taken at such meetings shall be as valid and binding as if legally called and notified. Members of the Board of Directors may participate in a meeting of the Board by means of conference telephone or similar communications equipment to the full extent and with the same effect as authorized and permitted by the laws of the State of Delaware.

4.7. Quorum. One-third of the total number of the members of the Board of Directors shall constitute a quorum for the transaction of business, and the acts of a majority of the directors present at any meeting at which there is a quorum present shall be the acts of the Board; provided, however, that the directors may act in such other manner, with or without a meeting, as may be permitted by the laws of the State of Delaware and provided further, that if all of the directors shall consent in writing to any action taken by the Corporation, such action shall be as valid as though it had been authorized at a meeting of the Board.

4.8. Compensation. Directors shall receive such compensation and such fees for attendance at meetings of the Board or of committees thereof and such other compensation as shall be fixed by a majority of the entire Board.

ARTICLE V
Committees of Directors

5.1. Designation. The Board of Directors may designate from among its members an executive committee and/or one or more other committees, each consisting of one or more directors. The designation of a committee, and the delegation of authority to it, shall not operate to relieve the Board of Directors, or any member thereof, of any responsibility imposed by law. No member of any committee shall continue to be a member thereof after ceasing to be a director of the Corporation. The Board of Directors shall have the power at any time to increase or decrease the number of members of any committee, to fill vacancies thereon, to change any member thereof and to change the functions or terminate the existence thereof.

5.2. Powers. Any such committee, to the extent provided by resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation; adopting an agreement of merger or consolidation; recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets; recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution; or amending the By-laws of the Corporation; and, unless the resolution expressly so provides, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger with respect to the merger into the Corporation of a subsidiary of which at least 90 percent of the outstanding shares of each class are owned by the Corporation.

5.3. Procedures; Meetings; Quorum.

(a) The Board of Directors shall appoint a chairman from among the members of the committee and shall appoint a secretary who may, but need not, be a member of the committee. The chairman shall preside at all committee meetings and the secretary of the committee shall keep a record of its acts and proceedings.

(b) Regular meetings of a committee, of which no notice shall be necessary, shall be held on such days and at such places as shall be fixed by resolution adopted by the committee. Special meetings of a committee shall be called at the request of the Chief Executive Officer or of any member of the committee, and shall be held upon such notice as is required by these By-laws for special meetings of the Board of Directors, provided that notice by word of mouth or telephone shall be sufficient if received in the city where the meeting is to be held not later than the day immediately preceding the day of the meeting. A waiver of notice of a meeting, signed by the person or persons entitled to such notice, whether before or after the event stated therein, shall be deemed equivalent to the giving of such notice.

(c) Attendance of any member of a committee at a meeting shall constitute a waiver of notice of the meeting. A majority of a committee, from time to time, shall be necessary to constitute a quorum for the transaction of any business, and the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the committee. Members of a committee may hold a meeting of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at the meeting.

(d) Any action which may be taken at a meeting of a committee may be taken without a meeting if a consent in writing, setting forth the actions so taken shall be signed by all members of the committee entitled to vote with respect to the subject matter thereof. The consent shall have the same effect as a unanimous vote of the committee.

(e) The Board of Directors may vote to the members of any committee a reasonable fee as compensation for attendance at meetings of the committee.

ARTICLE VI
Officers

6.1. Number. The Board of Directors shall elect a Chief Executive Officer, a President, who may also be the Chief Executive Officer, and a Secretary, and may elect a Chairman, a Treasurer, one or more vice presidents, including an Executive or Senior Vice President and a Vice President-Finance, a Controller, a Controller-Operations, and one or more assistant secretaries and assistant treasurers. The Chief Executive Officer of the Corporation and the Chairman shall be directors of the Corporation; other officers need not be directors. Any two of the above offices, except those of President and Vice President, may be held by the same person but no officers shall execute, acknowledge or verify any instrument in more than one capacity.

6.2. Election and Term of Office. Officers of the Corporation shall hold office until their death or resignation or until their successors are duly chosen and qualified. Any officer, agent or employee may be removed at any time, with or without cause, by the Board but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer or agent shall not of itself create contract rights. Vacancy occurring in any office or position at any time may be filled by the Board. All officers, agents and employees of the Corporation shall respectively have such authority and perform such duties in the conduct and management of the Corporation as may be delegated by the Board of Directors or by these By-laws.

6.3. Compensation. Officers shall receive such compensation as may from time to time be determined by the Board of Directors, and no officer shall be prevented from receiving such compensation by reason of such officer also being a director. Agents and employees shall receive such compensation as may from time to time be determined by the President of the Corporation or, if the Board of Directors has elected a Chairman of the Board and has designated such Chairman of the Board to be the Chief Executive Officer of the Corporation, by the Chairman of the Board.

6.4. Chairman of the Board. The Chairman of the Board shall preside at all meetings of the stockholders and at all meetings of the directors. In the absence of the Chairman of the Board, the Chairman of the Nominating and Corporate Governance Committee shall so preside.

6.5. Chief Executive Officer and President. The Board of Directors shall designate either the Chairman of the Board or the President as the Chief Executive Officer of the Corporation. The Chief Executive Officer of the Corporation shall supervise and direct the operations of the business in accordance with the policies determined by the Board of Directors. If the President is not designated the Chief Executive Officer, the President shall be the Chief Operating Officer of the Corporation and shall be responsible for the general supervision and control of the business and the affairs of the Corporation subject to the directions of the Chairman of the Board and the Board of Directors. The Chief Operating Officer, in the absence or incapacity of the Chief Executive Officer, shall perform the duties of that office.

6.6. Vice President. In the absence or incapacity of the President, the Board of Directors shall designate a Vice President, Senior or Executive Vice President to perform the duties of the President during such absence or incapacity." Each Vice President shall have such other duties and authority as shall be assigned by the President or may be delegated by the Board of Directors. The Vice President-Finance shall be responsible for and direct the Treasurer and Controller of the Corporation in all treasury, accounting, cost and budgeting, and data collection functions. He will report directly to the President with a report and policy relationship to the Chairman of the Board and the Board of Directors.

6.7. Chief Financial Officer. The Chief Financial Officer shall be the principal financial and accounting officer of the Corporation. He shall have general direction of and supervision over the financial and accounting affairs of the Corporation. He shall render to the Chief Executive Officer, the President and the Board of Directors, at regular meetings of the Board of Directors, or whenever they may require it, an account of the financial condition of the Corporation. He shall have such other powers and perform such other duties as may be prescribed from time to time by the Board of Directors, the Chief Executive Officer or the President.

6.8. General Counsel. The General Counsel shall be the principal legal officer of the Corporation. He shall have general direction of and supervision over the legal affairs of the Corporation and shall advise the Board of Directors and officers of the Corporation on all legal matters. He shall have such other powers and perform such other duties as may be prescribed from time to time by the Board of Directors, the Chief Executive Officer or the President.

6.9. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and shall record all votes and minutes from all proceedings in a book to be kept for that purpose. He shall keep in safe custody the seal of the Corporation and, when authorized by the Board, affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of the Treasurer or an Assistant Secretary; provided, however, that the affixing of the seal of the Corporation to any document or instrument specifically shall not be required in order for such document or instrument to be binding on or the official act of the Corporation, and the signature of any authorized officer, without the seal of the Corporation, shall be sufficient for such purposes. The Secretary shall perform such other duties and have such other authorities as are delegated to him by the Board of Directors.

6.10. Treasurer. The Treasurer shall be responsible for the care and custody of all funds and other financial assets, taxes, corporate debt, order entry and sales invoicing including credit memos, credit and collection of accounts receivable, cash receipts, and the banking and insurance functions of the Corporation. He shall report directly to and perform such other duties as shall be assigned by the Vice President-Finance.

6.11. Controller. The Controller shall be responsible for the installation and supervision of all general accounting records of the Corporation, preparation of financial statements and the annual and operating budgets and profit plans, continuous audit of accounts and records of the Corporation, preparation and interpretation of statistical records and reports, taking and costing of all physical inventories and administering the inventory levels, supervision of accounts payable and cash disbursements function and hourly and salary payrolls. He shall report directly to and perform such other functions as shall be assigned him by the Vice President-Finance.

ARTICLE VII

Notice

7.1. Methods of Giving Notice. Whenever, under the provisions of applicable statutes, the Certificate of Incorporation or these By-laws, notice is required to be given to any director, member of any committee or stockholder, such notice may be given in writing and delivered personally or mailed to such director, member or stockholder; provided that in the case of a director or a member of any committee such notice may be given orally or by telephone. If mailed, notice to a director, member of a committee or stockholder shall be deemed to be given when deposited in the United States mail first class in a sealed envelope, with postage thereon prepaid, addressed, in the case of a stockholder, to the stockholder at the stockholder's address as it appears on the records of the Corporation or, in the case of a director or member of a committee, to such a persons at his business address. Notice to directors and stockholders may also be given by facsimile telecommunication. Notice may also be given to any director, member of any committee or stockholder by a form of electronic transmission as that term is defined in Section 232 of the Delaware General Corporation Law.

7.2. Written Waiver. Whenever any notice is required to be given under the provisions of an applicable statute, the Certificate of Incorporation or these By-laws, a waiver thereof in writing signed by the person or persons entitled to such notice, or a waiver by electronic transmission by the person or persons entitled to such notice, in each case either before or after the time stated therein, shall be deemed equivalent to the required notice.

ARTICLE VIII
Banking, Checks and Other Instruments

8.1. Banks. The Board of Directors shall by resolution designate the bank or banks in which the funds of the Corporation shall be deposited, and such funds shall be deposited in the name of the Corporation and shall be subject to checks drawn as authorized by resolution of the Board of Directors.

8.2. Contracts and Other Instruments. The Board of Directors may in any instance designate the officers and agents who shall have authority to execute any contract, conveyance, or other instrument on behalf of the Corporation; or may ratify or confirm any execution. When the execution of any instrument has been authorized without specification of the executing officer or agents, the Chairman of the Board, if designated as the Chief Executive Officer of the Corporation, President or any Vice President, and the Secretary or Assistant Secretary or Treasurer or Assistant Treasurer may execute the same in the name and on behalf of the Corporation and may affix the corporate seal thereto.

ARTICLE IX
Fiscal Year

The fiscal year of the Corporation shall begin on the first day of November and end on the thirty-first day of October.

ARTICLE X
Books and Records

The proper officers and agents of the Corporation shall keep and maintain such books, records and accounts of the Corporation's business and affairs and such stock ledgers and lists of stockholders as the Board of Directors shall deem advisable and as shall be required by the laws of the State of Delaware or other states or jurisdictions empowered to impose such requirements.

ARTICLE XI Indemnification

11.1. Indemnification and Advancement of Expenses. Each director or officer of the Corporation or a subsidiary of the Corporation (an "Article XI Person") who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, (i) is or was a director or officer of the Corporation or a subsidiary of the Corporation, or (ii) is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, in each case whether or not serving in such capacity at the time any claim is asserted or any liability or expense is incurred, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the laws of the State of Delaware (but, in the case of any amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), against all expenses, (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any pending, threatened or completed proceeding in advance of its final disposition; provided, however, that, if the laws of the State of Delaware require, the payment of such expenses incurred by an Article XI Person in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such Article XI Person, to repay all amounts so advanced if it shall ultimately be determined that such Article XI Person is not entitled to be indemnified under the applicable provisions of the laws of the State of Delaware. The Corporation may, by action of its Board of Directors, provide indemnification to employees and agents of the Corporation or a subsidiary of the Corporation with the same scope and effect as the foregoing indemnification of directors and officers.

11.2. Claims. If a claim for indemnification or advancement of expenses under this Article XI is not paid in full within thirty days after a written claim therefor by the Article XI Person has been received by the Corporation, the Article XI Person may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim. In any such action the Corporation shall have the burden of proving that the Article XI Person is not entitled to the requested indemnification or advancement of expenses under applicable law.

11.3. Other Sources. The Corporation's obligation, if any, to indemnify or to advance expenses to any Article XI Person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or nonprofit entity shall be reduced by any amount such Article XI Person actually collects as indemnification or advancement of expenses from such other corporation, partnership, joint venture, trust, enterprise or non-profit enterprise; *provided* that the person shall not be under any obligation to bring any action or otherwise pursue recovery of any such other right to indemnification or advancement of expenses.

11.4. Amendment or Repeal. Any repeal or modification of the foregoing provisions of this Article XI shall not adversely affect any right or protection hereunder of any person in respect of any proceeding (regardless of when such proceeding is first threatened, commenced or completed and even if such proceeding is not commenced or completed until after such repeal or modification) arising out of, or related to, any act or omission occurring prior to the time of such repeal or modification.

11.5. Other Indemnification and Advancement of Expenses. This Article XI shall not limit the right of the Corporation, to the extent and in the manner permitted by law, to indemnify and to advance expenses to persons other than Article XI Persons when and as authorized by appropriate corporate action.

11.6. Non-Exclusivity. The indemnification and advancement of expenses provided in Section 11.1 of these By-laws shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, vote of stockholders, vote of disinterested directors, insurance arrangement or otherwise, both as to action in his or her official capacity and as to action in another capacity.

ARTICLE XII
Other Matters

12.1. Severability. Any determination that any provision of these By-laws is for any reason inapplicable, invalid, illegal or otherwise ineffective shall not affect or invalidate any other provision of these By-laws.

12.2. Evidence of Authority. A certificate by the Secretary or an Assistant Secretary as to any action taken by the stockholders, directors, any committee or any officer or representative of the Corporation shall as to all persons who rely on the certificate in good faith be conclusive evidence of such action.

ARTICLE XIII
Amendments

These By-laws may be altered, amended or repealed and new by-laws may be adopted at any regular meeting of the stockholders or Board of Directors; or at any special meeting of the stockholders or Board of Directors; provided that notice of such proposed making, alteration or repeal be included in the notice of such special meeting. The Board of Directors may take such action by the vote of a majority of those Directors present and voting at a meeting where a quorum is present. In accordance with the provisions of the Certificate of Incorporation, the stockholders may make new by-laws, or adopt, alter, amend, or repeal by-laws adopted by either the stockholders or the Board of Directors by the affirmative vote of the holders of not less than four-fifths of the voting power of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally for the election of directors. The power of the stockholders and the Board shall include the fixing and appointing of the number of directors in accordance with the provisions of the Certificate of Incorporation.

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, David D. Petratis, certify that:

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

August 28, 2008

/s/ David D. Petratis

David D. Petratis
President and Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Brent L. Korb, certify that:

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

August 28, 2008

/s/ Brent L. Korb

Brent L. Korb
Senior Vice President — Finance and Chief Financial Officer
(Principal Financial Officer)

**Certification Pursuant To Section 906
of the Sarbanes-Oxley Act of 2002**

We hereby certify that the accompanying Quarterly Report of Quanex Building Products Corporation on Form 10-Q for the quarter ended July 31, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Quanex Building Products Corporation.

August 28, 2008

/s/ David D. Petratis

David D. Petratis

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Brent L. Korb

Brent L. Korb

Senior Vice President—Finance and Chief Financial Officer

(Principal Financial Officer)