



**EFFICIENT** IN EVERY WAY.

**Quanex**  
*Building Products*

2009 ANNUAL REPORT

NYSE | NX



## Our Company

Quanex Building Products Corporation, based in Houston, Texas, is proud to serve the North American residential building products market as a leading manufacturer of value-added engineered materials and components. The Company's common stock trades on the New York Stock Exchange under the symbol NX.

## Our Mission

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

For further information, visit the Company's website at [www.quanex.com](http://www.quanex.com).

### On the Cover

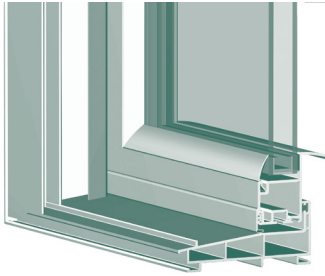
Quanex Building Products made major innovations in vinyl window profiles in the past several years. Window manufacturers in North America will be able to offer the **EnergyCore® Fusion Insulated™ window system** – an innovative, patent-pending energy-saving technology only available from Mikron, a Quanex Building Products business.

The EnergyCore system offers superior performance to meet homeowners' need for more energy-efficient windows and **deliver competitive advantage to window manufacturers**. EnergyCore's Fusion Insulated technology utilizes an innovative, engineered AirCell™ insulating core, designed to create a superior-performing thermal barrier. It also features a thermally-fused tri-extrusion manufacturing process to ensure frame profiles are fully insulated using a weldable, 100% recyclable material. To deliver the ultimate energy-saving performance, the EnergyCore system combines these superior thermal performing frame profiles into a system designed to accept the best-performing triple-pane insulated glazing, such as those that use Duralite® spacers from Truseal, another business in the Quanex Building Products family. The EnergyCore window system offers a complete line of replacement window styles – available with enhanced interior wood-grain finishes, and superior durability SuperCapSR™ exterior color technology – **making it the best and most energy efficient system available on the market today.**

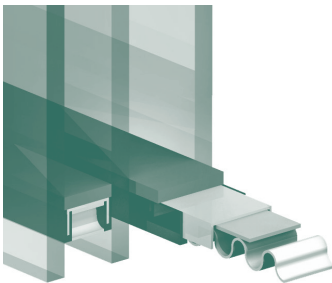


## MIKRON

Quality Extruded Products

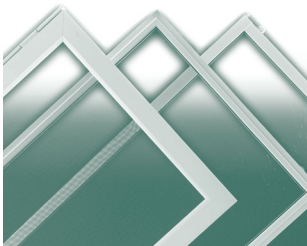


## tru seal technologies

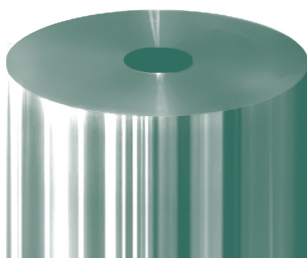


## Homeshield

Fenestration Components



## NA NICHOLS ALUMINUM



### Engineered Products

#### MIKRON VINYL AND COMPOSITE WINDOW AND DOOR PRODUCTS [www.mikronvinyl.com](http://www.mikronvinyl.com)

##### DESCRIPTION

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

##### KEY PRODUCTS

Customer-specific vinyl and composite profiles and impact resistant window and door components.

##### MANUFACTURING CAPABILITIES

In-house design and testing, precision tool design and manufacturing, in-house compound development and blending, and 163 highly automated extrusion lines.

#### TRUSEAL INSULATING GLASS SEALANT SYSTEMS [www.truseal.com](http://www.truseal.com)

##### DESCRIPTION

One facility manufactures composite spacer products and sealants for windows, doors and solar panels. A second facility houses research and development.

##### KEY PRODUCTS

Flexible insulating glass spacer systems, insulating glass window and door accessories, solar panel adhesives, and fully automatic and manual insulating glass fabrication equipment.

##### MANUFACTURING CAPABILITIES

21 extrusion lines, one continuous process mixing system and 10 conventional bulk mixers at a state-of-the-art facility.

#### HOMESHIELD FABRICATED WINDOW AND DOOR COMPONENTS [www.home-shield.com](http://www.home-shield.com)

##### DESCRIPTION

Seven production facilities manufacture screens, architectural wood moldings, grilles, thresholds, astragals and roll formed products for window and door OEMs.

##### KEY PRODUCTS

Window and door screens, divided light grilles, door thresholds and astragals, architectural moldings, cladding, and window muntin.

##### MANUFACTURING CAPABILITIES

Roll forming, slitting, laser welding, stamping, coating, Rolltrusion™, wood moldings, and component assembly.

### Aluminum Sheet Products

#### NICHOLS ALUMINUM [www.nicholsal.com](http://www.nicholsal.com)

##### DESCRIPTION

One scrap-based mini-mill casting facility and three finishing facilities that manufacture coated and mill finished aluminum sheet products.

##### KEY PRODUCTS

Mill finished aluminum sheet, coated aluminum sheet.

##### MANUFACTURING CAPABILITIES

360 million lbs/yr finished capacity, widths to about 50", cold rolling to gauge, annealing to temper, leveling, custom coating and slitting.



## MESSAGE FROM THE CHAIRMAN

### To our Shareholders:

2009 was a year for the history books. Our children's children will study the political changes and global economic forces that were at work throughout the last 15 months. Quanex Building Products (QBP), while facing dramatic declines in our end markets, found ways to improve our financial strength and gain market share across our businesses. Our teams invested significant time to deeply understand our \$35 billion industry, its channels, segmentation and customers. QBP pulled together teams from across our businesses to collaborate and discover growth opportunities.

We ended 2009 with one of the strongest balance sheets in our industry. We improved

from \$67 million to \$124 million by fiscal year end. This was achieved through the application of lean methodologies and by challenging ourselves to justify every dollar in the system. I am proud of our financial performance in a year when demand plummeted to historic lows.

Innovation has been a key driver for our business. Window and door markets will continue to be driven by energy efficiency and durability. We continue to work with our key customers to earn a seat at the design table. Quanex Building Products develops world class fenestration components that make windows and doors more energy efficient, aesthetically appealing and cost

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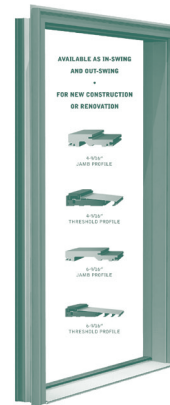
efficiencies at our Engineered Products business, positioned Nichols Aluminum as the strongest player in its niche, reduced injuries in our factories, and deepened our understanding of our existing and potential customers. A recession can be an opportunity and the team at Quanex Building Products took full advantage!

Financially, it was a difficult year. You could call it the tale of two halves. In our first six months we saw huge losses driven by asset impairments totalling \$183 million and severe declines in demand across all product lines, exacerbated by a significant fall-off in aluminum prices, resulting in a first half operating loss of \$213 million. Our team's early response was to size our work forces to the "new normal" and manage the business to improve our cash position. We reviewed our product portfolio for pricing opportunities and we were successful in improving margins at our Engineered Products business. By sizing our business, improving our pricing and productivity, and share gains, we were able to earn over \$33 million in the second half of 2009. Throughout the year we aggressively managed the Company for cash generation and our cash balance grew by \$57 million,

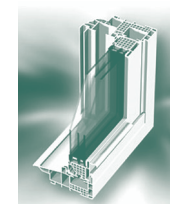
effective. A year ago, I committed to increasing collaboration among our teams at the Engineered Products divisions: Mikron, Truseal and Homeshield. Working together, our teams

are taking a systems view, in addition to the existing component perspective, that has yielded exciting new products. In the spring, we introduced the **ImperiClad™ door system**, which combines MikronWood™ and Homeshield's patented door threshold. The ImperiClad system gives customers a water- rot- and termite-proof door system that is also easier to install.

A second breakthrough was the **EnergyCore™ window system** which combines Mikron's industry-leading vinyl profiles with Truseal's energy efficient insulating glass spacer system. The combination generated the most energy efficient vinyl window system on the market. EnergyCore was recognized by



**IMPERICLAD**  
WATER IMPERVIOUS DOOR SYSTEM



**energycore**  
BY MIKRON

*BUILDERnews*® magazine as a product of the year in 2009. Working together to develop these and other breakthrough products, Quanex Building Products has established a portfolio of window and door components and systems that are better than ever.

In the second half of the year, we focused on gaining a deeper understanding of our customers. Working across the Engineered Products divisions and together with an outside consultant, we interviewed over 100 current and potential customers. We drilled down to understand both how their window and door products

be the safest team in our industry. The health of our teams is also a key priority. In 2009 all employees were incentivized to participate in health risk assessments or physicals. Over 60% of our employees took advantage of these assessments. We believe that assessment, corrective action, prevention and the promotion of health education and lifestyle is our best path to the reduction of rising health care costs. Continuous improvement and efficiency worked in other areas of our business, beyond just safety and health. Mikron implemented SAP during the year, and although the transition was tough, the information system will strengthen and enhance

#### QBP'S BUSINESS PHILOSOPHY

- Do What's Right
- Safety and Healthy Living
- Outstanding Customer Service
- Respect
- Open and Honest Communication
- Continuous Improvement
- Commitment to Quality

bright for Quanex Building Products. We learned through the study of our customers and our markets, there are numerous opportunities for Engineered Products within the 60% of the North American fenestration industry that we currently under-serve. We believe we can continue to outgrow our industry and our end markets by bringing the financial strength of QBP, our innovation and outstanding quality and customer satisfaction to these customers. It's clear that it will be a long road to economic recovery, but we believe our energy efficient window and door components and systems and the American drive toward more energy efficiency will be a great opportunity for QBP. Rest assured that our employees will be focused on making the best of a challenging 2010.

Thanks to all of our team's commitment to driving to be the best in everything we do. Thank you to our Board of Directors for your support and guidance. Thank you to retiring members Richard L. Wellek and Joseph J. Ross for your many years of service on the Board. And thank you to our shareholders for your continued confidence in our Company.

My very best,



**Dave Petratis**  
Chairman, President and  
Chief Executive Officer

**We can continue to outgrow our industry and our end markets by bringing the financial strength of QBP, our innovation and outstanding quality and customer satisfaction to these customers.**

go to market, as well as their value streams. We closed 2009 with a deeper understanding of our markets, channels and customers' needs. We now believe there are excellent opportunities to grow our business organically over the next several years, beyond our traditional customer base. Our commitment is to use the combined knowledge of our Engineered Products businesses to grow our revenues faster than the growth of housing starts and the repair and replacement markets.

We drive continuous improvement and efficiency in everything we do and efficiency starts with the safety and health of our team. In 2009 we made significant strides in making safety an unconscious act, like breathing. All employees, including myself, are required to have three hours of safety training targeted at improving safety, on and off the job. The result of this and other safety programs was a 40% reduction in recordable injuries versus 2008. Safety is one of the "True North" indicators of a World Class Organization and we took a big step in 2009 to raising our safety culture. Our goal is to

their capabilities as the leading producer of vinyl window systems in the fenestration industry. Homeshield completed the consolidation at Chatsworth, IL. The project consolidated two plants into one, reducing costs and driving efficiencies. QBP invested \$16 million in capital expenditures in 2009, with the majority going to Nichols Aluminum where we invested \$7 million to update controls that will further strengthen its low cost processing advantage. In 2010, we will work to sharpen our edges through further investment in the skills of our people, our systems and improving the efficiency of our working capital.

The future is BRIGHT at QBP! We are not forecasting a big turnaround in the primary drivers of our business and have therefore built our 2010 business plans on a basis of 600,000 housing starts and a modest increase in repair and remodeling. To many this looks conservative and we hope they are right. Our philosophy on continuous improvement, and our belief in the collaboration of our business units toward growth, is what makes the future

## Selected Financial Data 2005 – 2009

	FISCAL YEARS ENDED OCTOBER 31,				
	2009	2008 <sup>(1)</sup>	2007 <sup>(1)</sup>	2006 <sup>(1)</sup>	2005 <sup>(1)(2)</sup>
THOUSANDS, EXCEPT PER SHARE DATA AND EMPLOYEES					
<b>Selected Operating Results:</b>					
Net sales	\$ 585,010	\$ 868,933	\$ 963,974	\$ 1,043,773	\$ 952,025
Operating income(loss) <sup>(3)</sup>	(180,081)	20,981	88,169	104,764	103,229
Income (loss) from continuing operations	(137,091)	15,904	57,131	64,956	61,456
Percent of net sales	(23.4)%	1.8%	5.9%	6.2%	6.5%
Income (loss) from discontinued operations, net of tax <sup>(3)</sup>	—	5,675	77,491	95,227	93,704
Net income (loss) <sup>(3)</sup>	\$ (137,091)	\$ 21,579	\$ 134,622	\$ 160,183	\$ 155,160
<b>Diluted Earnings Per Share Data:</b>					
Income (loss) from continuing operations	\$ (3.67)	\$ 0.41	\$ 1.45	\$ 1.64	\$ 1.54
Net income (loss)	\$ (3.67)	\$ 0.56	\$ 3.41	\$ 4.08	\$ 3.95
Cash dividends declared <sup>(4)</sup>	\$ 0.1200	\$ 0.3400	\$ 0.5600	\$ 0.4833	\$ 0.3733
<b>Financial Position—Year End:</b>					
Total assets, including discontinued operations <sup>(5)</sup>	\$ 543,600	\$ 680,847	\$1,334,822	\$ 1,202,151	\$ 1,114,778
Asset turnover (continuing operations)	1.0	1.4	1.6	1.7	1.9
Working capital (continuing operations)	178,543	131,452	38,438	37,457	34,179
Current ratio (continuing operations)	2.8 to 1	2.1 to 1	1.4 to 1	1.3 to 1	1.3 to 1
Total debt	\$ 2,266	\$ 2,551	\$ 4,015	\$ 6,736	\$ 9,256
Stockholders' equity	422,526	547,828	883,149	758,515	656,742
Total capitalization	\$ 424,792	\$ 550,379	\$ 887,164	\$ 765,251	\$ 665,998
Depreciation and amortization	32,715	35,072	37,991	36,999	32,701
Capital expenditures, net	16,153	15,815	15,904	27,072	28,087
<b>Other Data:</b>					
Continuing return on investment—percent	(28.0)%	2.3%	7.0%	9.2%	10.7%
Continuing return on common stockholders' equity—percent	(28.3)%	2.2%	7.0%	9.2%	10.6%
Average number of employees	1,961	2,373	2,744	3,084	2,883
Net sales per average employee	\$ 298	\$ 366	\$ 351	\$ 338	\$ 330

- (1) During the second quarter of 2008, the Company spun off Quanex Corporation's Building Products business immediately followed by the merger of Quanex Corporation (consisting primarily of the Vehicular Products business and all non-Building Products related corporate accounts) with a wholly-owned subsidiary of Gerdau. During the fourth quarter of 2005, the Company sold its Temroc business and in the first quarter of 2005, the Company sold its Piper Impact business. Accordingly, the assets and liabilities of the Vehicular Products business and all non-Building Products related corporate accounts, Temroc, and Piper Impact are reported as discontinued operations in the Consolidated Balance Sheets for all periods presented, and their operating results are reported as discontinued operations in the Consolidated Statements of Income for all periods presented.
- (2) In December 2004, the Company acquired Mikron and accounted for the acquisition under the purchase method of accounting. Accordingly, Mikron's estimated fair value of assets acquired and liabilities assumed in the acquisition and the results of operations are included in the Company's Consolidated Financial Statements as of the effective date of the acquisition.
- (3) Includes effects in fiscal 2009 of the Company's \$182.6 million (pre-tax) and \$141.4 million (after-tax) asset impairment charge in accordance with ASC Topic 350 and ASC Topic 360. Includes effects in fiscal 2005 of Temroc's \$13.1 million (pretax and after-tax) asset impairment charge in accordance with ASC Topic 350 and ASC Topic 360.
- (4) The quarterly common stock cash dividends prior to April 23, 2008 reflect dividends of Quanex Corporation prior to the Separation\*, while dividends after April 23, 2008 reflect dividends of Quanex Building Products, the accounting successor to Quanex Corporation.
- (5) Total assets include assets of discontinued operations of \$742.3 million, \$582.1 million, and \$490.9 million at October 31, 2007, 2006, and 2005, respectively.

\*On April 23, 2008, Quanex Corporation completed the spin-off of its building products business to its shareholders, immediately followed by the merger of what remained of Quanex Corporation with a wholly-owned subsidiary of Gerdau S.A.

In its Annual Report on Form 10-K for the fiscal year ended October 31, 2009, the Company filed as an exhibit the certifications relating to the quality of the Company's public disclosure, as required by Section 302 of the Sarbanes-Oxley Act, and included Management's Report on Internal Control over Financial Reporting, as required by Section 404 of the Sarbanes-Oxley Act.

This annual report to stockholders contains forward-looking statements. These statements involve risks, uncertainties and other important factors that may cause the actual results of Quanex and its operations to be materially different from any future results expressed or implied by such forward-looking statements. Information identifying such risks, uncertainties and other important factors is contained in the section entitled "Risk Factors" in the Quanex Building Products Annual Report on Form 10-K for the fiscal year ended October 31, 2009, as filed with the Securities and Exchange Commission and included as part of this annual report to stockholders.



#### Corporate Information

##### **Corporate Offices:**

Quanex Building Products Corporation  
1900 West Loop South  
Suite 1500  
Houston, Texas 77027

(713) 961-4600  
(800) 231-8176  
inquiry@quanex.com

##### **Company Information on the Web:**

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

##### **Annual Shareholder Meeting:**

8:00 a.m. C.S.T.  
Thursday, February 25, 2010  
Quanex Building Products  
Corporate Offices

#### Shareholder Information

##### **Transfer Agent, Shareholder Records and Dividend Disbursing Agent:**

Wells Fargo Bank N.A.  
Shareowner Services  
161 North Concord Exchange  
South St. Paul, MN 55075-1139  
Phone: (800) 468-9716  
Fax: (651) 450-4085  
[www.wellsfargo.com/shareownerservices](http://www.wellsfargo.com/shareownerservices)

##### **General inquiries should be directed to:**

Wells Fargo Shareowner Services  
P.O. Box 64854  
St. Paul, MN 55164-0856  
(800) 468-9716

An automated voice response system is available 24 hours a day, 7 days a week. Customer Service Representatives are available from 7:00 a.m. to 7:00 p.m., CST, Monday through Friday.

[www.wellsfargo.com/shareownerservices](http://www.wellsfargo.com/shareownerservices)

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