

Quanex Building Products CORP  
Form 10-Q  
September 04, 2013  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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(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, 2013

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

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

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DELAWARE 26-1561397  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
1800 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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

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Non-accelerated filer  (Do not check if a smaller reporting company)  Smaller 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.

Class	Outstanding at August 29, 2013
Common Stock, par value \$0.01 per share	37,064,965

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

QUANEX BUILDING PRODUCTS CORPORATION  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

	July 31, 2013	October 31, 2012
	(In thousands, except share amounts)	
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 16,073	\$ 71,255
Accounts receivable, net of allowance of \$795 and \$1,026	99,051	85,644
Inventories, net (Note 3)	67,839	65,904
Deferred income taxes	24,497	20,439
Prepaid and other current assets	6,592	7,628
Total current assets	214,052	250,870
Property, plant and equipment, net of accumulated depreciation of \$346,135 and \$333,898	176,033	168,877
Deferred income taxes	12,381	8,911
Goodwill (Note 4)	71,302	68,331
Intangible assets, net (Note 4)	80,757	78,380
Other assets	17,036	14,169
Total assets	\$ 571,561	\$ 589,538
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 78,479	\$ 80,985
Accrued liabilities	45,357	46,459
Current maturities of long-term debt (Note 5)	375	368
Total current liabilities	124,211	127,812
Long-term debt (Note 5)	753	1,033
Deferred pension and postretirement benefits (Note 6)	5,862	6,873
Liability for uncertain tax positions (Note 8)	5,416	6,736
Non-current environmental reserves (Note 9)	9,037	9,827
Other liabilities	13,008	15,430
Total liabilities	158,287	167,711
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding - none	—	—
Common stock, \$0.01 par value, shares authorized 125,000,000; issued 37,653,639 and 37,788,804, respectively	377	378
Additional paid-in-capital	246,631	245,144

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Retained earnings	180,147		193,105	
Accumulated other comprehensive loss	(5,370	)	(5,299	)
Less treasury stock at cost, 604,088 and 816,302 shares, respectively	(8,511	)	(11,501	)
Total stockholders' equity	413,274		421,827	
Total liabilities and stockholders' equity	\$571,561		\$589,538	

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

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QUANEX BUILDING PRODUCTS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	July 31,	2012	July 31,	2012
	2013		2013	
	(In thousands, except per share amounts)			
Net sales	\$259,174	\$237,905	\$677,345	\$593,928
Cost and expenses:				
Cost of sales	215,182	200,663	576,835	510,542
Selling, general and administrative	24,683	26,659	83,063	80,936
Depreciation and amortization	12,193	9,131	33,389	28,381
Operating income (loss)	7,116	1,452	(15,942)	(25,931)
Non-operating income (expense):				
Interest expense	(182)	(108)	(495)	(348)
Other, net	(46)	21	(128)	199
Income (loss) before income taxes	6,888	1,365	(16,565)	(26,080)
Income tax expense (benefit)	1,919	(166)	(6,068)	(8,578)
Net income (loss)	\$4,969	\$1,531	\$(10,497)	\$(17,502)
Earnings (loss) per common share:				
Basic	\$0.13	\$0.04	\$(0.28)	\$(0.48)
Diluted	\$0.13	\$0.04	\$(0.28)	\$(0.48)
Weighted-average common shares outstanding:				
Basic	36,856	36,637	36,838	36,584
Diluted	37,413	37,163	36,838	36,584
Cash dividends per share	\$0.04	\$0.04	\$0.12	\$0.12

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

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QUANEX BUILDING PRODUCTS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2013	2012	2013	2012
	(In thousands)			
Net income (loss)	\$4,969	\$1,531	\$(10,497 )	\$(17,502 )
Other comprehensive loss - foreign currency translation adjustments (pretax)	(168 )	(2,526 )	(494 )	(3,621 )
Other comprehensive loss - foreign currency translation adjustments tax benefit	150	242	423	176
Other comprehensive loss, net of tax	(18 )	(2,284 )	(71 )	(3,445 )
Comprehensive income (loss)	\$4,951	\$(753 )	\$(10,568 )	\$(20,947 )

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

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

	Nine Months Ended July 31,	
	2013	2012
	(In thousands)	
Operating activities:		
Net loss	\$(10,497 )	\$(17,502 )
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	33,389	28,381
Stock-based compensation	3,856	3,180
Deferred income tax benefit	(6,862 )	(9,437 )
Excess tax benefit from share-based compensation	(172 )	(413 )
Restructuring charges	—	1,206
Other, net	698	2,133
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Increase in accounts receivable	(9,642 )	(7,114 )
Decrease (increase) in inventory	3,095	(7,515 )
Decrease (increase) in other current assets	241	(757 )
Increase (decrease) in accounts payable	(2,990 )	10,242
Increase (decrease) in accrued liabilities	(6,883 )	5,789
Increase (decrease) in income taxes	1,622	(771 )
Decrease in deferred pension and postretirement benefits	(1,011 )	(1,572 )
Increase in other long-term liabilities	1,229	488
Other, net	504	(351 )
Cash provided by operating activities	6,577	5,987
Investing activities:		
Acquisitions, net of cash acquired	(22,096 )	—
Capital expenditures	(34,517 )	(31,710 )
Proceeds from disposition of capital assets	335	36
Proceeds from property insurance claim	—	479
Cash used for investing activities	(56,278 )	(31,195 )
Financing activities:		
Borrowings under credit facility	23,500	—
Repayments of credit facility borrowings	(23,500 )	—
Repayments of other long-term debt	(364 )	(339 )
Common stock dividends paid	(4,446 )	(4,413 )
Issuance of common stock	909	2,501
Excess tax benefit from share-based compensation	172	413
Debt issuance costs	(1,163 )	—
Purchase of treasury stock	—	(1,284 )
Cash used for financing activities	(4,892 )	(3,122 )



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Effect of exchange rate changes on cash and equivalents	(589	)	1,003	
Decrease in cash and equivalents	(55,182	)	(27,327	)
Cash and equivalents at beginning of period	71,255		89,619	
Cash and equivalents at end of period	\$16,073		\$62,292	

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

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

Nine Months Ended July 31, 2013	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
(In thousands, no per share amounts shown except in verbiage)						
Balance at October 31, 2012	\$378	\$245,144	\$193,105	\$ (5,299 )	\$(11,501 )	\$ 421,827
Net loss	—	—	(10,497 )	—	—	(10,497 )
Foreign currency translation adjustment (net of tax benefit of \$423)	—	—	—	(71 )	—	(71 )
Common dividends (\$0.12 per share)	—	—	(4,446 )	—	—	(4,446 )
Stock-based compensation activity:						
Expense related to stock-based compensation	—	3,856	—	—	—	3,856
Stock options exercised	—	10	—	—	899	909
Tax benefit from share-based compensation	—	113	—	—	—	113
Restricted stock awards granted	—	(2,091 )	—	—	2,091	—
Recognition of unrecognized tax benefit (Note 8)	—	—	2,102	—	—	2,102
Other	(1 )	(401 )	(117 )	—	—	(519 )
Balance at July 31, 2013	\$377	\$246,631	\$180,147	\$ (5,370 )	\$(8,511 )	\$ 413,274

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

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QUANEX BUILDING PRODUCTS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Basis of Presentation

Quanex Building Products Corporation is a technological leader in the production of engineered materials and aluminum sheet products for original equipment manufacturers (OEMs) through two business segments: (1) Engineered Products and (2) Aluminum Sheet Products. Quanex Building Products Corporation produces energy efficient engineered products that include flexible insulating glass spacers, extruded vinyl profiles, and thin film solar panel sealants, as well as window and door screens and precision-formed metal and wood products. Aluminum sheet products include high quality mill finished and coated aluminum sheet that is tailored toward customers' specifications. Quanex Building Products Corporation serves a primary customer base in North America and also serves customers in international markets through operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

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

The accompanying interim condensed consolidated financial statements include the accounts of Quanex Building Products Corporation. All intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of October 31, 2012 was derived from audited financial information, but does not include all disclosures required by U.S. GAAP. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2012. In our opinion, the accompanying financial statements contain all adjustments (which consist of normal recurring adjustments, except as disclosed herein) necessary to fairly present our financial position, results of operations and cash flows for the interim periods. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or for any future periods. In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. We review our estimates on an on-going basis, including those related to impairment of long lived assets and goodwill, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

2. Acquisitions

On December 31, 2012, we acquired substantially all of the assets of Alumco, Inc. and its subsidiaries (Alumco), including its aluminum screen business, for \$22.4 million in cash. The purchase agreement contains (1) a working capital clause that provides for an adjustment to the purchase price based on the working capital balance as of the acquisition date and (2) an earn-out clause that provides for the payment of an additional \$0.5 million to Alumco contingent upon the achievement of certain financial targets. We received \$0.4 million from the prior owner of Alumco pursuant to the working capital clause. We recorded contingent consideration of \$0.3 million as the fair value of the earn-out included in the purchase price.

The purchase price has been allocated to the fair value of the assets acquired and liabilities assumed, as indicated in the table below. This allocation is preliminary and based on estimates and assumptions that are subject to change within the purchase price allocation period (generally one year from the acquisition date). During the period from the acquisition date to July 31, 2013, we recorded an adjustment to goodwill of \$0.1 million to recognize a derivative liability and \$0.2 million for obsolete inventory reserve write-off, that existed as of the opening balance sheet date.

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## QUANEX BUILDING PRODUCTS CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	As of Date of Opening Balance Sheet (In thousands)
Net assets acquired:	
Accounts receivable	\$ 3,638
Inventories	5,062
Prepaid and other current assets	140
Property, plant and equipment	4,702
Intangible assets	8,939
Accounts payable	(2,066 )
Accrued liabilities	(993 )
Current maturities of long-term debt	(14 )
Long-term debt	(77 )
Goodwill	2,765
Net assets acquired	\$ 22,096
Consideration:	
Cash, net of cash and cash equivalents acquired	\$ 22,096

We used recognized valuation techniques to determine the fair value of the assets and liabilities, including the income approach for customer relationships, with a discount rate that reflects the risk of the expected future cash flows. The goodwill balance, which is deductible for tax purposes, was allocated entirely to the Engineered Products business segment. We expect that this acquisition will expand our product portfolio and geographic distribution capabilities particularly in the vinyl window segment in the screen market.

Pro forma results of operations were not presented because the Alumco acquisition was not deemed material to our results of operations.

**3. Inventories**

Inventories consist of the following:

	July 31, 2013	October 31, 2012
	(In thousands)	
Raw materials	\$37,350	\$34,392
Finished goods and work in process	42,412	43,915
Supplies and other	2,462	2,567
Total	82,224	80,874
Less inventory reserves	14,385	14,970
Inventories, net	\$67,839	\$65,904

Fixed costs related to excess manufacturing capacity, if any, have been expensed in the period they were incurred and, therefore, are not capitalized into inventory. The values of inventories are based on the following accounting methods:

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	July 31, 2013 (In thousands)	October 31, 2012
LIFO	\$20,962	\$28,224
FIFO	46,877	37,680
Total	\$67,839	\$65,904

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## QUANEX BUILDING PRODUCTS CORPORATION

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

During interim periods, we estimate a LIFO reserve based on our expectations of year-end inventory levels and costs. If our calculations indicate that an adjustment at year-end will be required, we record a proportionate share of this amount during the period. At year-end, we calculate the actual LIFO reserve and record an adjustment for the difference between the annual calculation and any estimates recognized during the interim periods. Because the interim projections are subject to many factors beyond our control, the results could differ significantly from the year-end LIFO calculation. We recorded no interim LIFO allocation for the nine-month periods ended July 31, 2013 and 2012.

For inventories valued under the LIFO method, replacement cost exceeded the LIFO value by approximately \$10.7 million as of July 31, 2013 and October 31, 2012.

## 4. Goodwill and Intangible Assets

## Goodwill

All of our goodwill is recorded in the Engineered Products business segment. The change in the carrying amount of goodwill was as follows (in thousands):

	Nine Months Ended July 31, 2013	Year Ended October 31, 2012
Beginning balance as of November 1, 2012 and 2011, respectively	\$68,331	\$69,432
Alumco acquisition	2,765	—
Foreign currency translation adjustment	206	(1,101)
Balance as of the end of the period	\$71,302	\$68,331

## Intangible Assets

Intangible assets consisted of the following (in thousands):

	July 31, 2013		October 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$52,525	\$14,552	\$43,737	\$11,675
Trademarks and trade names	44,534	16,704	44,519	14,520
Patents and other technology	25,029	10,794	24,773	9,382
Other	1,392	673	1,392	464
Total	\$123,480	\$42,723	\$114,421	\$36,041

Intangible assets as of July 31, 2013 include customer relationships of \$8.7 million and technology of \$0.2 million related to the Alumco acquisition. These assets have estimated useful lives of 10 and 3 years, respectively. (See Note 2 "Acquisitions").

The aggregate amortization expense for the three and nine months ended July 31, 2013 was \$2.3 million and \$6.6 million, respectively. The aggregate amortization expense for the three and nine months ended July 31, 2012 was \$2.0 million and \$6.2 million, respectively.

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QUANEX BUILDING PRODUCTS CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Estimated remaining amortization expense, assuming current intangible balances and no new acquisitions, for each of the fiscal years ending October 31, was as follows (in thousands):

	Estimated Amortization Expense
2013 (remaining three months)	\$2,272
2014	8,986
2015	8,852
2016	8,581
2017	8,475
Thereafter	43,591
Total	\$80,757

5. Long-Term Debt and Capital Lease Obligations

Long-term debt consisted of the following:

	July 31, 2013	October 31, 2012
Revolving Credit Facility	(In thousands) \$—	