

QUANEX CORP
Form DEFM14A
March 24, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Quanex Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

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3) Filing Party:

4) Date Filed:

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QUANEX CORPORATION
1900 West Loop South
Suite 1500
Houston, Texas 77027
(713) 961-4600

To Our Stockholders:

Quanex Corporation has entered into an agreement with Gerdau S.A. and Gerdau Delaware, Inc. pursuant to which Gerdau Delaware, Inc. will merge with and into Quanex (we refer to this agreement, as it may be amended from time to time, as the merger agreement, and we refer to Gerdau S.A. as Gerdau and Gerdau Delaware, Inc. as Gerdau Delaware). Immediately prior to and in connection with the merger, Quanex will spin-off to its stockholders a subsidiary containing all of the assets comprising the Building Products Group of Quanex. We are sending this proxy statement to Quanex stockholders to ask for your vote in favor of the approval and adoption of the merger agreement. If Quanex stockholders approve and adopt the merger agreement and the merger is subsequently completed, Quanex stockholders will receive \$39.20 and one share of Quanex Building Products Corporation common stock in connection with the spin-off for each share of Quanex common stock they hold as of the closing date. Quanex stockholder approval is not needed for, and you are not being asked for a proxy in relation to, the proposed spin-off of the Building Products Group of Quanex.

You are cordially invited to attend a special meeting of stockholders of Quanex to be held at 9:00 a.m., Central time, on April 22, 2008, at the Company's principal executive offices at 1900 West Loop South, 15th Floor, Houston, Texas. This document is a proxy statement for Quanex to use in soliciting proxies for its special meeting of stockholders. Attached is an important document containing answers to frequently asked questions and a summary description of the merger (beginning on page 1), followed by more detailed information about Quanex, the proposed merger and the merger agreement. We urge you to read this document carefully and in its entirety.

Our Board of Directors has unanimously approved the merger, the merger agreement and the other transactions contemplated by the merger agreement, and has declared the merger, the merger agreement and the other transactions contemplated by the merger agreement advisable and in the best interests of our company and its stockholders. **Our Board of Directors unanimously recommends that you vote FOR the proposal to adopt the merger agreement.**

The merger agreement must be adopted by the affirmative vote of a majority of the outstanding shares of our common stock entitled to vote on the matter. The proxy statement accompanying this letter provides you with more specific information concerning the special meeting, the merger agreement and the other transactions contemplated by the merger agreement. We encourage you to read carefully the accompanying proxy statement, including the annexes. The accompanying proxy statement also includes a preliminary Information Statement that describes the proposed spin-off of the Building Products Group of Quanex. We will send stockholders the final Information Statement at the time of the spin-off. You also may obtain more information about our company from us or from documents we have filed with the Securities and Exchange Commission.

Your vote is very important regardless of the number of shares of common stock that you own. Whether or not you plan to attend the special meeting, we urge you to vote and submit your proxy in order to ensure the presence of a quorum. If you fail to vote by proxy or in person, or fail to instruct your broker on how to vote, it will have the same effect as a vote against the proposal to adopt the merger agreement.

Therefore, we request that you authorize your proxy by completing, signing, dating and returning the enclosed proxy card as promptly as possible. The enclosed proxy card contains instructions regarding voting. If you hold your shares through an account with a broker, nominee, fiduciary or other custodian, please follow instructions

you receive from them to vote your shares. If you attend the special meeting, you may continue to have your shares voted as instructed in the proxy, or you will have the right to withdraw your proxy at the special meeting and vote your shares in person.

Sincerely,

Raymond A. Jean
Chairman of the Board

Neither the Securities and Exchange Commission nor any state securities commission has passed upon the adequacy or accuracy of this proxy statement. Any representation to the contrary is a criminal offense.

This proxy statement is dated March 21, 2008 and is first being mailed to Quanex stockholders on or about March 24, 2008.

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REFERENCES TO ADDITIONAL INFORMATION

You can obtain any of Quanex Corporation's filings with the Securities and Exchange Commission from Quanex through the SEC EDGAR Information link located on the financial information page of its website at www.quanex.com or from the Securities and Exchange Commission through its website at www.sec.gov. We are not incorporating the contents of the websites of the Securities and Exchange Commission, Quanex or any other person into this document.

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**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
To Be Held April 22, 2008**

NOTICE IS HEREBY GIVEN that a Special Meeting of Stockholders of Quanex Corporation, a Delaware corporation (the Company), will be held at the principal executive offices of the Company, 1900 West Loop South, Suite 1500, Houston, Texas, on April 22, 2008, at 9:00 a.m., Central time, for the following purposes:

- (1) To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger dated as of November 18, 2007, by and among Quanex Corporation, Gerdau S.A. and Gerdau Delaware, Inc. As a result of the merger, the Company will become a wholly-owned subsidiary of Gerdau S.A. and each outstanding share of the Company's common stock will be converted into the right to receive \$39.20 per share in cash, without interest.
- (2) To consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the approval and adoption of the merger agreement.
- (3) To consider and transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

Information with respect to the above matters is set forth in the proxy statement that accompanies this Notice.

The Board of Directors has fixed the close of business on February 29, 2008, as the record date for determining stockholders entitled to notice of and to vote at the meeting. A complete list of the stockholders entitled to vote at the meeting will be maintained at the Company's principal executive offices, will be open to the examination of any stockholder for any purpose germane to the meeting during ordinary business hours for a period of ten days prior to the meeting, and will be made available at the time and place of the meeting during the whole time thereof.

Our Board of Directors unanimously recommends that you vote FOR the proposal to adopt the merger agreement and FOR the proposal to approve any adjournments of the special meeting for purpose of soliciting additional proxies.

The merger agreement must be adopted by the affirmative vote of a majority of the outstanding shares of our common stock that are entitled to vote on the matter. Any adjournments of the special meeting for the purpose of soliciting additional proxies must be approved by the affirmative vote of a majority of the outstanding shares of our common stock present in person or by proxy at the special meeting and entitled to vote on the matter. **Your vote is very important regardless of the number of shares of common stock that you own. Whether or not you plan to attend the special meeting, we urge you to vote and submit your proxy in order to ensure the presence of a quorum. If you fail to vote by proxy or in person, or fail to instruct your broker on how to vote, it will have the same effect as a vote against the proposal to adopt the merger agreement but will have no effect on the outcome of the adjournment proposal.**

We request that you authorize your proxy by completing and returning the enclosed proxy card as promptly as possible. The enclosed proxy card contains instructions regarding voting. If you hold your shares through an account with a broker, nominee, fiduciary or other custodian, please follow instructions you receive from them to vote your shares. Stockholders who do not vote FOR the proposal to adopt the merger agreement will have the

right to seek appraisal of the fair value of their shares if the merger is completed, but only if they submit a written demand for appraisal to us before the vote is taken on the merger agreement and they comply with all other requirements of Delaware law, which requirements are summarized in the accompanying proxy statement.

Please execute your vote promptly. Your designation of a proxy is revocable and will not affect your right to vote in person if you find it convenient to attend the meeting and wish to vote in person.

By order of the Board of Directors,

Kevin P. Delaney
Senior Vice President General Counsel and Secretary

March 21, 2008
Houston, Texas

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ANNEXES

Annex A	Agreement and Plan of Merger, dated November 18, 2007, among Quanex Corporation, Gerdau S.A. and Gerdau Delaware, Inc. (refer to pages A-i and A-ii of Annex A for a table of contents to the Agreement and Plan of Merger)
Annex B	Opinion of Lazard Frères & Co. LLC dated November 18, 2007
Annex C	Section 262 of the Delaware General Corporation Law
Annex D	Preliminary QBPC Information Statement (refer to Page i of Annex D for a table of contents to the Preliminary QBPC Information Statement)

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SUMMARY

*This summary highlights selected information from this proxy statement, including material terms of the merger, and may not contain all of the information that is important to you. Included in this proxy statement as Annex D is a preliminary information statement of Quanex Building Products Corporation, the QBPC Information Statement, that describes the spin-off in greater detail. We will send stockholders the final QBPC Information Statement at the time of the spin-off. To understand the merger fully and for a more complete description of the legal terms of the merger, you should carefully read this entire document, including its annexes, and the documents to which we refer you. See *Where You Can Find More Information* beginning on page 52 of this proxy statement.*

Frequently Used Terms

We have generally avoided the use of technical defined terms in this proxy statement but a few frequently used terms may be helpful for you to have in mind at the outset. We refer to:

Quanex Corporation and its consolidated subsidiaries other than the Building Products Group of Quanex Corporation, except where the context otherwise requires or as otherwise indicated, as **Quanex** or the **Company** ;

Gerdau S.A., as **Gerdau** ;

Gerdau Delaware, Inc., as **Gerdau Delaware** ;

the proposed merger of Gerdau Delaware into Quanex, as the **merger** ;

the Agreement and Plan of Merger dated as of November 18, 2007, by and among Quanex, Gerdau and Gerdau Delaware, as the **merger agreement** ;

the engineered products segment and the aluminum sheet segment of Quanex prior to the spin-off, as the **Building Products Group** ;

the vehicular products segment of Quanex prior to the spin-off, as the **Vehicular Products Group** ;

the entity that will operate the Building Products Group of Quanex after the spin-off, as **Quanex Building Products** ;

the General Corporation Law of the State of Delaware as the **DGCL** ;

the New York Stock Exchange, as the **NYSE** ; and

the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, as the **Hart-Scott-Rodino Act**.

When **share** of Quanex Building Products common stock is used in this proxy statement, we refer to the share of Quanex Building Products Corporation common stock that you will receive following:

the distribution in the spin-off of a unit of Quanex Building Products LLC for each share of Quanex common stock outstanding, and

the conversion of each unit into a share of Quanex Building Products Corporation common stock pursuant to the subsequent merger of Quanex Building Products LLC into Quanex Building Products Corporation.

See The Spin-Off.

The Merger Parties

Quanex

**Quanex Corporation
1900 West Loop South
Suite 1500
Houston, Texas 77027
(713) 961-4600**

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Quanex Corporation is an industry-leading manufacturer of value-added, engineered materials and components serving the vehicular products and building products markets. Prior to the merger, Quanex intends to spin-off its Building Products Group as a separate company to its stockholders.

Gerdau and Gerdau Delaware

Gerdau S.A.

Av. Dos Farrapos, 1811

Porto Alegre, RS 90220-005

Brazil

The Gerdau Group is the largest long steel bar producer in the Americas, and the fourteenth largest steelmaker in the world. It has over 35,000 employees and operates in 13 countries: Argentina, Brazil, Canada, Chile, Colombia, the Dominican Republic, India, Mexico, Peru, Spain, the United States, Uruguay and Venezuela. It has an annual steel production capacity of 23.2 million metric tons and is one of the largest recyclers in the Americas. Gerdau Delaware is a wholly-owned subsidiary of Gerdau and was formed by Gerdau to participate in the merger.

The Merger (page 18)

General

On November 18, 2007, the companies agreed to the merger between Quanex and Gerdau Delaware under the terms of the merger agreement described in this proxy statement and attached hereto as *Annex A*. The merger agreement is the legal document that governs the merger, and we urge you to read that agreement.

At the effective time of the merger, Gerdau Delaware will merge with and into Quanex. Quanex will be the surviving company and will become a wholly-owned subsidiary of Gerdau. The separate corporate existence of Gerdau Delaware will cease at the effective time of the merger.

Merger Consideration

At the effective time of the merger, each outstanding share of Quanex (other than any shares owned directly or indirectly by Quanex or Gerdau and those shares held by dissenting stockholders) will be converted into the right to receive \$39.20 in cash, without interest.

In connection with the merger, Quanex stockholders will receive, pursuant to the spin-off of Quanex's Building Products Group, one share of Quanex Building Products common stock for each share of Quanex common stock they own on the closing date of the merger.

Treatment of Quanex Stock Options and Restricted Stock Units

At the effective time of the merger, Quanex stock options will become vested and exercisable and will be cancelled. The holder of such Quanex stock options will be entitled to receive an amount in cash equal to: (x) the total number of shares of Quanex common stock subject to the stock option times (y) the excess of (i) the sum of (A) \$39.20 and (B) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group over (ii) the exercise price per share under the stock option, less any applicable tax withholding.

Each restricted stock unit that has been issued but has not vested prior to the effective time of the merger will become fully vested at the effective time of the merger and will be converted into the right to receive an amount per restricted stock unit equal to the sum of (a) \$39.20 and (b) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group.

See Interests of Certain Persons in the Merger beginning on page 33 for a discussion of the treatment of restricted stock pursuant to the terms of the spin-off.

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The Spin-Off

Immediately prior to and in connection with the merger, Quanex will spin-off to its stockholders the limited liability company interests of its building products subsidiary containing all of the assets and liabilities of Quanex's Building Products Group known as Quanex Building Products LLC. The interests will be distributed to Quanex's stockholders on the basis of one unit of Quanex Building Products LLC for each share of Quanex common stock outstanding. Immediately following the spin-off, Quanex Building Products LLC will merge with and into its wholly-owned subsidiary Quanex Building Products Corporation, with Quanex Building Products Corporation being the surviving company in the merger. Each unit of Quanex Building Products LLC will be converted immediately into one share of Quanex Building Products Corporation common stock. As a result, a Quanex stockholder will receive one share of Quanex Building Products Corporation common stock for each share of Quanex common stock held by such stockholder.

Quanex stockholder approval is not needed for, and you are not being asked for a proxy in relation to, the proposed spin-off of the Building Products Group of Quanex or the subsequent merger of Quanex Building Products LLC with and into Quanex Building Products Corporation. Quanex stockholders should read carefully the QBPC Information Statement that is included as *Annex D* to this proxy statement, which describes the spin-off in greater detail. Holders of Quanex common stock on the record date of the spin-off, which will be the same date as the closing date of the merger, will also receive the final QBPC Information Statement.

Material U.S. Federal Income Tax Consequences (page 30)

For U.S. federal income tax purposes, we will treat and report the spin-off and the merger as a single integrated transaction with respect to the Quanex stockholders in which the spin-off will be treated as a redemption of shares of Quanex common stock that qualifies for exchange treatment. Accordingly, with respect to each Quanex stockholder who is a citizen or resident of the United States and holds his shares of Quanex common stock as a capital asset (generally, assets held for investment), we expect that such a Quanex stockholder will generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between (i) the sum of the amount of cash received in the merger and the fair market value, determined when the spin-off occurs, of the property received in the spin-off, and (ii) such Quanex stockholder's adjusted tax basis in his shares of Quanex common stock immediately prior to the spin-off. The deduction of any recognized loss may be delayed or otherwise adversely affected by certain loss limitation rules. Any such gain or loss will generally be long-term capital gain or loss if the Quanex stockholder's holding period in the shares of Quanex common stock immediately prior to the spin-off is more than one year. The amount and character of gain or loss must be calculated separately for each identifiable block of shares of Quanex common stock surrendered.

See *Material U.S. Federal Income Tax Consequences* beginning on page 30 for a detailed discussion of the U.S. federal income tax treatment of the spin-off and merger, including a discussion of possible alternative treatments.

Tax matters are very complicated and the tax consequences of the merger to any particular Quanex stockholder will depend on that stockholder's particular situation. Quanex stockholders should consult with their own tax advisors to determine the specific tax consequences of the merger to them.

Recommendation of the Quanex Board of Directors (page 22)

The Quanex Board of Directors has unanimously determined that the merger is advisable and in your best interests and unanimously recommends that you vote FOR approval and adoption of the merger agreement and the transactions

contemplated thereby and any adjournment or postponement of the special meeting.

Opinion of Lazard Frères & Co. LLC Financial Advisor to Quanex (page 22)

In connection with the proposed merger, Quanex's financial advisor, Lazard Frères & Co. LLC, delivered to Quanex's Board of Directors a written opinion, dated November 18, 2007, as to the fairness, from a financial point of view, to the holders of Quanex common stock of the merger consideration. The full text of Lazard's written opinion is attached to this proxy statement as *Annex B*. We encourage you to read that

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opinion carefully in its entirety for a description of the procedures followed, assumptions made, matters considered, and limitations on the review undertaken by Lazard in rendering its opinion. Lazard's opinion was provided for the use and benefit of Quanex's Board of Directors in connection with its evaluation of the merger and does not address the merits of the proposed merger or constitute a recommendation to any stockholder as to how he or she should vote on the merger or any matter relevant to the merger agreement. The opinion addresses only the fairness, from a financial point of view, as of the date of the opinion, of the merger consideration to be paid to holders of shares of Quanex common stock (other than holders of dissenters' shares and shares of Quanex common stock owned directly by Quanex as treasury stock or by Gerdaul or Gerdaul Delaware, and in each case not held on behalf of third parties).

Interests of Quanex Directors and Executive Officers in the Merger (page 33)

When you consider the recommendation of Quanex's Board of Directors that you vote for the approval and adoption of the merger agreement, you should be aware that certain of our directors and executive officers may have interests in the merger that are different from, or in addition to, yours. The Quanex Board of Directors was aware of these interests and considered them, among other matters, in unanimously approving and adopting the merger agreement and unanimously recommending that Quanex stockholders vote to approve and adopt the merger agreement. At the close of business on the record date for the Quanex special meeting, directors and executive officers of Quanex and their affiliates will be entitled to vote approximately 0.77% of the shares of Quanex common stock outstanding on that date.

Conditions to Completion of the Merger (page 47)

Completion of the merger depends on a number of conditions being satisfied or waived. These conditions include the following:

the approval of Quanex's stockholders will have been obtained;

the waiting period applicable to the consummation of the merger under applicable antitrust laws will have expired or have terminated and any other approvals from governmental entities will have been obtained;

there is no judgment, injunction or other order in effect that restrains, enjoins or otherwise prohibits consummation of the merger or the other transactions contemplated by the merger agreement;

the representations and warranties of the parties contained in the merger agreement will be true and correct as of the date of the merger agreement and as of the effective time of the merger in the manner described under the caption "The Merger Agreement - Conditions to Completion of the Merger";

the parties will have performed in all material respects their respective obligations under the merger agreement at or prior to the closing date; and

with respect to the obligations of Gerdaul and Gerdaul Delaware only, the spin-off will have been effected by Quanex.

Regulatory Matters (page 26)

Under the Hart-Scott-Rodino Act, the parties cannot complete the merger until they have notified and furnished information to the Federal Trade Commission (FTC) and the Antitrust Division of the United States Department of Justice (DOJ), and specified waiting periods expire or are terminated. On November 30, 2007, Quanex and Gerdaul submitted the notification filings to the FTC and the DOJ. Early termination of the waiting period was granted by the

FTC on December 28, 2007.

A party or parties to a transaction may, but are not required to, submit to the Committee on Foreign Investment in the United States, which we refer to as CFIUS, in accordance with the regulations implementing Section 721 of the Defense Production Act of 1950, as amended, a voluntary notice of the transaction. Section 721 empowers the President of the United States to prohibit or suspend an acquisition of, or investment in, a U.S. company by a foreign person if the President of the United States, after investigation,

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finds credible evidence that the foreign person might take action that threatens to impair the national security of the United States and that other provisions of existing law, other than the International Emergency Economic Powers Act, do not provide adequate and appropriate authority to protect the national security. CFIUS has the authority to receive notices of proposed transactions, determine when an investigation is warranted, conduct investigations and submit recommendations to the President of the United States to suspend or prohibit the completion of transactions or to require divestitures of completed transactions.

On January 15, 2008, the parties submitted a notice of the transaction to CFIUS. On February 15, 2008, the parties received a letter stating that CFIUS has determined not to conduct an investigation and that CFIUS has concluded its review of the transaction.

Termination of the Merger Agreement (page 47)

Before the effective time of the merger, the merger agreement may be terminated by either party under certain circumstances specified in the merger agreement, including after a termination date of April 30, 2008, due to the breach by the other party of any of its representations, warranties, covenants or agreements in the merger agreement, under certain circumstances if the approval of Quanex's stockholders is not obtained or if Quanex receives and accepts a superior proposal to the merger.

Non-Solicitation Provisions and Acquisition Proposals (page 43)

Subject to certain conditions, until the effective time of the merger, Quanex is not permitted to solicit or seek acquisition proposals, engage in any substantive discussions regarding such proposals, provide any information to third parties regarding such proposals, enter into any agreement relating to any such proposals or release any third party from, or waive any provision of, any confidentiality or standstill agreement relating to any such proposals. However, under certain circumstances, if Quanex receives an unsolicited takeover proposal from a third party that Quanex's Board of Directors determines in good faith (after consultation with outside counsel and financial advisors) constitutes a superior proposal or would reasonably be expected to lead to a superior proposal, Quanex may furnish nonpublic information to that third party and engage in negotiations regarding a takeover proposal with that third party, subject to specified conditions set forth in the merger agreement.

Fees and Expenses (page 48)

If Quanex terminates the merger agreement, Quanex must pay to Gerdau, in certain circumstances set forth in the merger agreement, \$50,190,000. Gerdau must pay Quanex a termination fee of \$60 million if the merger agreement is terminated in certain circumstances set forth in the merger agreement following a second request made by the FTC or the DOJ under the Hart-Scott-Rodino Act.

Whether or not the merger is consummated, each of Gerdau, Gerdau Delaware and Quanex will bear its own fees and expenses in connection with the merger agreement.

Appraisal Rights (page 27)

Under Delaware law, you are entitled to appraisal rights in connection with the merger. As a result, you will have the right under Delaware law to have the fair value of your Quanex common stock determined by the Delaware Chancery Court. This right to appraisal is subject to a number of restrictions and procedural requirements. Generally, in order to exercise your appraisal rights, you must:

Send a written demand to Quanex for appraisal in compliance with the DGCL before the vote on the adoption of the merger agreement;

Not vote in favor of the adoption of the merger agreement; and

Continuously hold your Quanex common stock from the date you make the demand for appraisal through the effective date of the merger.

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Merely voting against the adoption of the merger agreement will not protect your rights to an appraisal, which requires you to take all the steps provided under Delaware law. Delaware law requirements for exercising appraisal rights are described in further detail in this proxy statement. In addition, Section 262 of the DGCL, which is the section of Delaware law regarding appraisal rights, is set forth in *Annex C* to this proxy statement.

Market Price of Our Common Stock (page 50)

Our shares of common stock are traded on the NYSE under the ticker symbol NX. On November 16, 2007, the last trading day prior to the date of the public announcement of the merger agreement, the closing price of our common stock on the NYSE was \$36.74 per share. On March 20, 2008, the last trading day prior to the date of this proxy statement, the closing price of our common stock on the NYSE was \$51.37 per share. You are encouraged to obtain current market quotations for shares of our common stock.

Unaudited Financial Statements of the Vehicular Products Group (page F-1)

Included in this proxy statement are unaudited combined financial statements of the Vehicular Products Businesses of Quanex Corporation.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETING

The following questions and answers briefly address some commonly asked questions about the merger and the special meeting. They may not include all of the information that is important to you. We urge you to read carefully this entire proxy statement, including the annexes and the other documents we refer to in this proxy statement.

About the Merger

Q1: When and where is the Quanex special stockholder meeting?

A1: The Quanex special stockholder meeting will take place on April 22, 2008, at 9:00 a.m., and will be held at the Company's principal executive offices at 1900 West Loop South, 15th Floor, Houston, Texas.

Q2: What will happen at the special meeting?

A2: At the Quanex special meeting, Quanex stockholders will vote on a proposal to approve and adopt the merger agreement and on a proposal to approve adjournments or postponements of the special meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve and adopt the merger agreement. We cannot complete the merger unless, among other things, Quanex's stockholders vote to approve and adopt the merger agreement.

Q3: What am I voting on?

A3: Quanex is proposing to merge with Gerdau Delaware, with Quanex becoming a wholly-owned subsidiary of Gerdau. Quanex stockholders are being asked to vote to approve and adopt the merger agreement. Quanex is also seeking your approval of a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of approval and adoption of the merger agreement.

Q4: What will I receive in exchange for my Quanex shares?

A4: Upon completion of the merger, you will receive \$39.20 in cash, without interest, for each share of Quanex common stock that you own. The merger consideration is not subject to any adjustment.

In connection with the merger, Quanex stockholders will receive, pursuant to the spin-off of Quanex's Building Products Group, one share of Quanex Building Products common stock for each share of Quanex common stock that they own on the record date of the spin-off, which will be the same date as the closing date of the merger.

Q5: What will I receive in exchange for my options to purchase Quanex common stock and my restricted stock units?

A5: At the effective time of the merger, Quanex stock options will become vested and exercisable and will be cancelled. If you hold Quanex stock options, you will be entitled to receive an amount in cash equal to: (x) the total number of shares of Quanex common stock subject to the stock option times (y) the excess of (i) the sum of (A) \$39.20 and (B) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group over (ii) the exercise price per share under the stock option, less any applicable withholding.

Each restricted stock unit that has been issued but has not vested prior to the effective time of the merger will become fully vested at the effective time of the merger. If you hold Quanex restricted stock units, you will have the right to receive an amount per restricted stock unit equal to the sum of (y) \$39.20 and (z) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group.

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Q6: What is the required vote to approve and authorize the merger?

A6: Holders of a majority of the outstanding shares of Quanex common stock entitled to vote at the special meeting must vote to approve and adopt the merger agreement to complete the merger. Approval of any adjournments of the special meeting to solicit additional proxies requires the affirmative vote of a majority of the outstanding shares of Quanex common stock present in person or by proxy at the special meeting and entitled to vote on the matter.

If a quorum is not present at the special meeting, the special meeting may be adjourned by the vote of a majority of the outstanding shares of Quanex common stock entitled to vote at the special meeting and present in person or by proxy.

Even if the votes set forth above are obtained at the special meeting, we cannot assure you that the merger will be completed, because the completion of the merger is subject to the satisfaction or waiver of other conditions discussed in this proxy statement, including the completion of the spin-off.

Q7: What happens if I do not vote?

A7: Because the required vote of Quanex stockholders is based upon the number of outstanding shares of Quanex common stock entitled to vote rather than upon the number of shares actually voted, abstentions from voting and broker non-votes will have the same effect as a vote AGAINST approval and adoption of the merger agreement. If you return a properly signed proxy card but do not indicate how you want to vote, your proxy will be counted as a vote FOR approval and adoption of the merger agreement and FOR approval of any proposal to adjourn or postpone the special meeting to solicit additional proxies in favor of approval and adoption of the merger agreement.

Q8: How does the Quanex Board of Directors recommend I vote?

A8: The Board of Directors of Quanex unanimously recommends that Quanex's stockholders vote FOR approval and adoption of the merger agreement and FOR the approval of any proposal to adjourn or postpone the special meeting to solicit additional proxies in favor of approval and adoption of the merger agreement. The Board of Directors of Quanex believes the merger is advisable and in the best interests of Quanex and its stockholders.

Q9: Do I have appraisal rights with respect to the merger?

A9: Yes. Under Delaware law, a Quanex stockholder has the right to dissent from the merger and, in lieu of receiving the merger consideration, obtain payment in cash of the fair value of his or her shares of Quanex common stock as determined by the Delaware Chancery Court. To exercise appraisal rights, a Quanex stockholder must strictly follow the procedures prescribed by Section 262 of the DGCL. See *The Merger Appraisal Rights* beginning on page 27 of this proxy statement. In addition, the full text of the applicable provisions of Delaware law is included as *Annex C* to this proxy statement.

Q10: When do you expect the merger to be completed?

A10: We are working on completing the merger as quickly as possible. To complete the merger, we must obtain the approval of the Quanex stockholders and satisfy or waive all other closing conditions under the merger agreement, which we currently expect should occur in the first calendar quarter of 2008. However, we cannot assure you when or if the merger will occur. See *The Merger Agreement - Conditions to the Merger* beginning

on page 47 of this proxy statement. If the merger occurs, we will promptly make a public announcement of that fact.

Q11: What will happen to my Quanex shares after completion of the merger?

A11: Upon completion of the merger, your shares of Quanex common stock will be canceled and will represent only the right to receive \$39.20 per share as the merger consideration (or the fair value of your Quanex common stock if you seek appraisal rights) and any declared but unpaid dividends that you may be owed. In addition, trading in shares of Quanex common stock on the NYSE will cease and price quotations for shares of Quanex common stock will no longer be available.

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In connection with the spin-off of Quanex's Building Products Group, Quanex stockholders will also receive one share of Quanex Building Products common stock for each share of Quanex common stock that they own on the record date of the spin-off, which will be the same date as the closing date of the merger.

Q12: How does the merger consideration compare to the market price of the shares of Quanex common stock?

A12: The merger consideration is \$39.20 per share of Quanex common stock, without interest. On November 16, 2007, the last trading day prior to the date of the public announcement of the merger agreement, the closing price of our common stock on the NYSE was \$36.74 per share. On March 20, 2008, the last trading day prior to the date of this proxy statement, the closing price of our common stock on the NYSE was \$51.37 per share. In making this comparison, you should keep in mind that, as a result of the spin-off, you will also receive one share of Quanex Building Products common stock for each share of Quanex common stock that you hold on the record date for the spin-off, which will be the same date as the closing date of the merger.

Q13: What happens if the merger is not completed?

A13: Quanex will consider its options with respect to alternative transactions for the Building Products Group and the Vehicular Products Group and may still proceed with the spin-off of the Building Products Group.

About the Spin-Off

Q14: What is the spin-off transaction being contemplated by Quanex?

A14: Immediately prior to and in connection with the merger, Quanex will spin-off to its stockholders the limited liability company interests of its building products subsidiary containing all of the assets and liabilities of Quanex's Building Products Group known as Quanex Building Products LLC. The interests will be distributed to Quanex's stockholders on the basis of one unit of Quanex Building Products LLC for each share of Quanex common stock outstanding. Immediately following the spin-off, Quanex Building Products LLC will merge with and into its wholly-owned subsidiary Quanex Building Products Corporation, with Quanex Building Products Corporation being the surviving company in the merger. Each unit of Quanex Building Products LLC will be converted immediately into one share of Quanex Building Products Corporation common stock. As a result, a Quanex stockholder will receive one share of Quanex Building Products Corporation common stock for each share of Quanex common stock held by such stockholder.

Quanex stockholder approval is not needed for, and you are not being asked for a proxy in relation to, the proposed spin-off of the Building Products Group of Quanex or the subsequent merger of Quanex Building Products LLC with and into Quanex Building Products Corporation. This proxy statement includes a preliminary QBPC Information Statement attached hereto as *Annex D* that describes the spin-off in greater detail. Holders of Quanex common stock on the record date of the spin-off, which will be the same date as the closing date of the merger, will also receive the final QBPC Information Statement.

About Voting at the Special Meeting

Q15: Who is entitled to vote at the special meeting?

A15: Holders of record of Quanex common stock at the close of business on February 29, 2008, which is the date Quanex's Board of Directors has fixed as the record date for the special meeting, are entitled to receive notice

of and vote at the special meeting.

Q16: What is a quorum?

A16: A quorum is the number of shares that must be present to hold the meeting. The quorum requirement for the Quanex special meeting is the holders of a majority of the issued and outstanding shares of Quanex common stock as of the record date, present in person or represented by proxy and entitled to vote at the special meeting. A proxy submitted by a stockholder may indicate that all or a portion of the shares represented by the proxy are not being voted with respect to a particular matter. Proxies that are marked `abstain` or for which votes have otherwise been withheld and proxies relating to `street name`

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shares that are returned to Quanex but not voted will be treated as shares present for purposes of determining the presence of a quorum on all matters.

Q17: How many shares can vote?

A17: On the record date, Quanex had outstanding 37,296,765 shares of common stock, which constitute Quanex's only outstanding voting securities. Each Quanex stockholder is entitled to one vote on each proposal for each share of Quanex common stock held as of the record date.

Q18: What do I need to do now?

A18: After carefully reading and considering the information contained and referred to in this proxy statement, including its annexes, please authorize your shares of Quanex common stock to be voted by returning your completed, dated, and signed proxy card in the enclosed return envelope, or vote by telephone or Internet, as soon as possible. To be sure that your vote is counted, please submit your proxy as instructed on your proxy card even if you plan to attend the special meeting in person. **DO NOT** enclose or return your stock certificates with your proxy card. If you hold shares registered in the name of a broker, bank, or other nominee, that broker, bank, or other nominee has enclosed or will provide a voting instruction card for use in directing your broker, bank, or other nominee how to vote the shares.

Q19: May I vote in person?

A19: Yes. You may attend the special meeting of Quanex's stockholders and vote your shares in person rather than by signing and returning your proxy card. If you wish to vote in person and your shares are held by a broker, bank, or other nominee, you need to obtain a proxy from the broker, bank, or nominee authorizing you to vote your shares held in the broker's, bank's, or nominee's name

Q20: If my shares are held in street name, will my broker, bank, or other nominee vote my shares for me?

A20: Yes, but your broker, bank, or other nominee may vote your shares of Quanex common stock only if you instruct your broker, bank, or other nominee how to vote. If you do not provide your broker, bank, or other nominee with instructions on how to vote your street name shares, your broker, bank, or other nominee will not be permitted to vote them on the merger. You should follow the directions your broker, bank, or other nominee provides to ensure your shares are voted at the special meeting. Please check the voting form used by your broker, bank, or other nominee to see if it offers telephone or Internet voting.

Q21: May I change my vote?

A21: Yes. You may change your vote at any time before your proxy is voted at the special meeting. If your Quanex common stock is registered in your own name, you can do this in one of three ways.

First, you can deliver to Quanex, prior to the special meeting, a written notice stating that you want to revoke your proxy. The notice should be sent to the attention of Kevin P. Delaney, Secretary, Quanex Corporation, 1900 West Loop South, Suite 1500, Houston, Texas 77027, to arrive by the close of business on April 21, 2008.

Second, prior to the special meeting, you can complete and deliver a new proxy card. The proxy card should be sent to the addressee indicated on the pre-addressed envelope enclosed with your initial proxy card to arrive by the close of business on April 21, 2008. The latest dated and signed proxy actually received by this addressee before the special meeting will be counted, and any earlier proxies will be considered revoked. If you vote

electronically through the Internet or by telephone, you can change your vote by submitting a different vote through the Internet or by telephone, in which case your later-submitted proxy will be recorded and your earlier proxy revoked.

Third, you can attend the Quanex special meeting and vote in person. Any earlier proxy will thereby be revoked automatically. Simply attending the special meeting, however, will not revoke your proxy, as you must vote at the special meeting to revoke a prior proxy.

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If you have instructed a broker, bank or nominee to vote your shares, you must follow directions you receive from your broker to change or revoke your vote.

If you are a street-name stockholder and you vote by proxy, you may later revoke your proxy instructions by informing the holder of record in accordance with that entity's procedures.

Q22: How will the proxies vote on any other business brought up at the special meetings?

A22: By submitting your proxy, you authorize the persons named on the proxy card to use their judgment to determine how to vote on any other matter properly brought before the special meeting. The proxies will vote your shares in accordance with your instructions. If you sign, date, and return your proxy without giving specific voting instructions, the proxies will vote your shares FOR the proposal. If you do not return your proxy, or if your shares are held in street name and you do not instruct your bank, broker or nominee on how to vote, your shares will not be voted at the special meeting.

The Quanex Board of Directors does not intend to bring any other business before the meeting, and it is not aware that anyone else intends to do so. If any other business properly comes before the meeting, it is the intention of the persons named on the proxy cards to vote as proxies in accordance with their best judgment.

Q23: What is a broker non-vote?

A23: A broker non-vote occurs when a bank, broker, or other nominee submits a proxy that indicates that the broker does not vote for some or all of the proposals because the broker has not received instructions from the beneficial owners on how to vote on these proposals and does not have discretionary authority to vote in the absence of instructions.

Q24: Will broker non-votes or abstentions affect the results?

A24: Yes. Broker non-votes or abstentions will have the same effect as a vote against the proposal to adopt the merger agreement, but will have no effect on the outcome of the proposal relating to adjournments or postponements of the special meeting, if necessary, to permit further solicitation of proxies. If your shares are held in street name, we urge you to instruct your bank, broker, or nominee how to vote your shares for those proposals on which you are entitled to vote.

Q25: What happens if I choose not to submit a proxy or to vote?

A25: If you do not submit a proxy or vote at the Quanex special meeting, it will have the same effect as a vote against the proposal to adopt the merger agreement, but will have no effect on the outcome of the proposal relating to adjournments or postponements of the special meeting, if necessary, to permit further solicitations of proxies.

Q26: Why is it important for me to vote?

A26: We cannot complete the merger without holders of a majority of the outstanding Quanex common stock present in person or by proxy at the special meeting voting in favor of the approval and adoption of the merger agreement.

Q27: What happens if I sell my shares of Quanex common stock before the special meeting?

A27: The record date for the special meeting is February 29, 2008, which is earlier than the date of the special meeting. If you hold your shares of Quanex common stock on the record date you will retain your right to vote at the special meeting. If you transfer your shares of Quanex common stock after the record date but prior to the date on which the merger is completed, you will continue to have the right to vote at the special meeting but you will lose the right to receive the merger consideration for shares of Quanex common stock. The right to receive the merger consideration will pass to the person who owns your shares of Quanex common stock when the merger is completed.

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General

Q28: Should I send in my Quanex stock certificates now?

A28: No. PLEASE DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY CARD. After the merger is completed, you will receive written instructions informing you how to send in your stock certificates to receive the merger consideration.

Q29: What does it mean if I get more than one proxy card?

A29: Your shares of Quanex common stock are probably registered in more than one account. You should vote each proxy card you receive.

Q30: Where can I find more information about the special meeting, the merger or Quanex?

A30: You can find more information about Quanex in its filings with the Securities and Exchange Commission and the NYSE. If you have any questions about the special meeting, the merger or how to submit your proxy, or if you need additional copies of this proxy statement or the enclosed proxy card or voting instructions, you should contact Quanex at the address or phone number below. If your broker holds your shares, you can also call your broker for additional information.

Quanex Corporation
1900 West Loop South
Suite 1500
Houston, Texas 77027
(713) 961-4600
Attn: Kevin P. Delaney

STOCKHOLDER LITIGATION

A putative stockholder derivative and class action lawsuit was filed in state district court in Harris County, Texas relating to the spin-off and the merger: *Momentum Partners v. Raymond A. Jean, et al.*, Cause No. 2008-01592 (125th State District Court). This lawsuit is brought against the members of Quanex's Board of Directors and Gerdau. The lawsuit also names Quanex as a nominal defendant, as is customary in putative derivative lawsuits. The plaintiff alleges, among other things, that the Quanex Board of Directors breached its fiduciary duties by benefiting as a result of the accelerated vesting of options, restricted stock and restricted stock units in the merger and that the preliminary proxy statement filed by Quanex is materially misleading and incomplete in certain ways. The lawsuit seeks an order requiring corrective disclosures to be issued and an award of money damages to either Quanex or a class of stockholders from the defendants. On March 13, 2008, the court denied the plaintiff's request for a temporary injunction. The court also found that the plaintiff has no standing to bring derivative claims on behalf of the company because it failed to make demand on our Board of Directors and failed to plead particularized facts to excuse demand. The court has stayed the case until April 15, 2008, and ordered the plaintiff to re-plead by that date to attempt to cure its pleading deficiencies. The court has further set a hearing for April 17, 2008, at which time the court will consider dismissing plaintiff's derivative claims.

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INFORMATION ABOUT THE SPECIAL MEETING AND VOTING

This proxy statement is being furnished to Quanex stockholders by Quanex's Board of Directors in connection with the solicitation of proxies from the holders of Quanex common stock for use at the special meeting of Quanex stockholders and any adjournments or postponements of the special meeting.

Date, Time and Place

The special meeting of stockholders of Quanex will be held on April 22, 2008 at 9:00 a.m., at the Company's principal executive offices at 1900 West Loop South, 15th Floor, Houston, Texas.

Matters to Be Considered

At the special meeting, Quanex stockholders will be asked:

to consider and vote upon a proposal to approve and adopt the merger agreement;

to consider and vote upon a proposal to adjourn or postpone the special meeting, if necessary, to solicit additional proxies in favor of the approval and adoption of the merger agreement; and

to consider and transact any other business as may properly be brought before the special meeting or any adjournments or postponements thereof.

At this time, the Quanex Board of Directors is unaware of any matters, other than those set forth above, that it expects to properly come before the special meeting.

Stockholders Entitled to Vote

The close of business on February 29, 2008 has been fixed by Quanex's Board as the record date for the determination of those holders of Quanex common stock who are entitled to notice of, and to vote at, the special meeting and on any adjournments or postponements thereof. At the close of business on the record date, there were 37,296,765 shares of Quanex common stock outstanding and entitled to vote, held by approximately 4,920 holders of record. A list of the stockholders of record entitled to vote at the special meeting will be available for examination by Quanex stockholders for any purpose germane to the meeting. The list will be available at the meeting and for ten days prior to the meeting during ordinary business hours by contacting Quanex's Secretary at 1900 West Loop South, Suite 1500, Houston, Texas 77027.

Quorum and Required Vote

Each holder of record of Quanex common stock as of the record date is entitled to cast one vote per share at the special meeting on each proposal. The presence, in person or by proxy, of the holders of a majority of the issued and outstanding shares of Quanex common stock outstanding as of the record date constitutes a quorum for the transaction of business at the special meeting. The affirmative vote of the holders of a majority of the shares of Quanex common stock entitled to vote at the special meeting is required to approve and adopt the merger agreement.

As of the record date for the special meeting, directors and executive officers of Quanex and their affiliates beneficially owned an aggregate of 289,011 shares of Quanex common stock entitled to vote at the special meeting.

These shares represent approximately 0.77% of the Quanex common stock outstanding and entitled to vote as of the record date.

As of the record date, Gerdau and its directors, executive officers, and their affiliates owned none of the outstanding shares of Quanex common stock.

How Shares Will Be Voted at the Special Meeting

All shares of Quanex common stock represented by properly executed proxies received before or at the special meeting, and not properly revoked, will be voted as specified in the proxies. Properly executed proxies

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that do not contain voting instructions will be voted **FOR** approval and adoption of the merger agreement and any adjournment or postponement of the special meeting.

A properly executed proxy marked **Abstain** with respect to any proposal will be counted as present for purposes of determining whether there is a quorum at the special meeting. However, because the approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares entitled to vote at the special meeting, an abstention will have the same effect as a vote **AGAINST** approval and adoption of the merger agreement.

If you hold shares of Quanex common stock in **street name** through a bank, broker, or other nominee, the bank, broker, or nominee may vote your shares only in accordance with your instructions. If you do not give specific instructions to your bank, broker, or nominee as to how you want your shares voted, your bank, broker, or nominee will indicate that it does not have authority to vote on the proposal, which will result in what is called a **broker non-vote**. Broker non-votes will be counted for purposes of determining whether there is a quorum present at the special meeting, but because approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares entitled to vote at the special meeting, broker non-votes will have the same effect as a vote **AGAINST** approval and adoption of the merger agreement.

If any other matters are properly brought before the special meeting, the proxies named in the proxy card will vote the shares represented by duly executed proxies in their sole discretion.

How to Vote Your Shares

Record holders may cause their shares of Quanex common stock to be voted using one of the following methods:

mark, sign, date and return the enclosed proxy card by mail;

submit your proxy or voting instructions by telephone or Internet by following the instructions included with your proxy card; or

appear and vote in person by ballot at the special meeting.

Regardless of whether you plan to attend the special meeting, we request that you complete and return a proxy for your shares of Quanex common stock as described above as promptly as possible. You can always change your vote at the special meeting. If you properly submit your proxy card or your voting instructions as described above, one of the individuals named as your proxy will vote your shares of Quanex common stock as you have directed. You may vote for or against the proposals submitted at the special meeting or you may abstain from voting.

If you hold shares of Quanex common stock through a broker, bank, or other nominee, please follow the voting instructions provided by that firm. If you do not return your proxy card, or if your shares are held in a stock brokerage account or held by a bank, broker, or other nominee, or, in other words, in **street name** and you do not instruct your bank, broker, or other nominee on how to vote those shares, those shares will not be voted at the special meeting.

A number of banks and brokerage firms participate in a program that also permits stockholders whose shares are held in **street name** to direct their vote by the Internet or telephone. This option, if available, will be reflected in the voting instructions from the bank or brokerage firm that accompany this proxy statement. If your shares are held in an account at a bank or brokerage firm that participates in such a program, you may direct the vote of these shares by the Internet or telephone by following the voting instructions enclosed with the proxy from the bank or brokerage firm. The Internet and telephone proxy procedures are designed to authenticate stockholders' identities, to allow

stockholders to give their proxy voting instructions and to confirm that those instructions have been properly recorded. Votes directed by the Internet or telephone through such a program must be received by 12:00 p.m. (CT) on April 21, 2008. Requesting a proxy prior to the deadline described above will automatically cancel any voting directions you have previously given by the Internet or telephone with respect to your shares. Directing the voting of your shares will not affect your right

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to vote in person if you decide to attend the meeting; however, you must first obtain a signed and properly executed proxy from your bank, broker, or other nominee to vote your shares held in street name at the special meeting.

If you submit your proxy but do not make specific choices, your proxy will be voted **FOR** each of the proposals presented.

How to Change Your Vote

If you are a registered stockholder, you may revoke your proxy at any time before the shares are voted at the special meeting by:

completing, signing, and timely submitting a new proxy to the addressee indicated on the pre-addressed envelope enclosed with your initial proxy card by the close of business on April 21, 2008; the latest dated and signed proxy actually received by such addressee before the special meeting will be counted, and any earlier proxies will be considered revoked;

notifying Quanex's Secretary at 1900 West Loop South, Suite 1500, Houston, Texas 77027, Attn: Kevin P. Delaney, in writing, by the close of business on April 21, 2008, that you have revoked your earlier proxy; or

voting in person at the special meeting.

Merely attending the special meeting will not revoke any prior votes or proxies; you must vote at the special meeting to revoke a prior proxy.

If you hold shares of Quanex common stock through a bank, broker or other nominee and you vote by proxy, you may later revoke your proxy instructions by informing the holder of record in accordance with that firm's procedures.

Solicitation of Proxies

In addition to solicitation by mail, directors, officers, and employees of Quanex may solicit proxies for the special meeting from Quanex stockholders personally or by telephone, facsimile, and other electronic means without compensation other than reimbursement for their actual expenses.

Arrangements will be made with brokerage firms and other custodians, nominees, and fiduciaries for the forwarding of solicitation material to the beneficial owners of Quanex common stock held of record by those persons, and Quanex will, if requested, reimburse the record holders for their reasonable out-of-pocket expenses in so doing.

Quanex has engaged D.F. King & Co., Inc. to assist in the solicitation of proxies and provide related advice and informational support for a services fee and the reimbursement of customary disbursements that are not expected to exceed \$12,000 in the aggregate.

Recommendation of the Quanex Board of Directors

The Quanex Board of Directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement, including the merger. The Quanex Board of Directors determined that the merger is advisable and in the best interests of Quanex and its stockholders and unanimously recommends that you vote **FOR** approval and adoption of the merger agreement. See *The Merger - Quanex's Reasons for the Merger* beginning on page 21 and *The Merger - Recommendation of the Quanex Board of Directors* beginning on page 22 for a more detailed discussion of the recommendation of the Quanex Board of Directors.

Special Meeting Admission

If you wish to attend the special meeting in person, you must present a form of personal identification and proof of ownership. If you are a beneficial owner of shares of Quanex common stock that is held by a

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bank, broker, or other nominee, you will need proof of such beneficial ownership of such shares to be admitted to the meeting. A recent brokerage statement or a letter from your bank or broker are examples of proof of ownership.

No cameras, recording equipment, electronic devices, large bags, briefcases, or packages will be permitted in the meeting.

PLEASE DO NOT SEND IN ANY QUANEX COMMON STOCK CERTIFICATES WITH YOUR PROXY CARD. After the merger is completed, you will receive written instructions from the exchange agent informing you how to surrender your stock certificates to receive the merger consideration.

Adjournment and Postponements

The special meeting may be adjourned from time to time, to reconvene at the same or some other place, by approval of the holders of shares of Quanex common stock representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting, so long as the new time and place for the special meeting are announced at that time. If the adjournment is for more than thirty days, or if after the adjournment a new record date is determined for the adjourned special meeting, a notice of the adjourned special meeting must be given to each stockholder of record entitled to vote at the special meeting. If a quorum is not present at the Quanex special meeting, holders of shares of Quanex common stock may be asked to vote on a proposal to adjourn or postpone the Quanex special meeting to solicit additional proxies. If a quorum is not present at the Quanex special meeting, the holders of a majority of the shares entitled to vote who are present in person or by proxy may adjourn the meeting. If a quorum is present at the Quanex special meeting but there are not sufficient votes at the time of the special meeting to approve the other proposal(s), holders of shares of Quanex common stock may also be asked to vote on a proposal to approve the adjournment or postponement of the special meeting to permit further solicitation of proxies.

Appraisal Rights

Under Delaware law, if you do not vote in favor of adopting the merger agreement, you will have the right to have the fair value of your shares of our common stock determined by the Court of Chancery of the State of Delaware and to receive payment based on that valuation in lieu of receiving the merger consideration, but only if you comply with all requirements of Delaware law, which are summarized in this proxy statement. The ultimate amount that you receive as a dissenting stockholder in an appraisal proceeding may be more than, less than, or the same as, the \$39.20 per share you would have received under the merger agreement. If you intend to exercise appraisal rights, among other things, you must:

send a written demand to us for appraisal in compliance with Delaware law before the vote on adopting the merger agreement at the special meeting;

not vote for the proposal to adopt the merger agreement; and

continuously hold your shares of our common stock from the date you make the demand for appraisal through the effective date of the merger.

If you vote for the proposal to adopt the merger agreement, you will waive your rights to seek appraisal of your shares of our common stock under Delaware law. Also, merely voting against or abstaining with respect to the proposal to adopt the merger agreement will not protect your rights to an appraisal. Failure to follow exactly the procedures specified under Delaware law will result in the loss of your appraisal rights. Delaware law requirements for exercising appraisal rights are described in further detail in **Appraisal Rights** beginning on page 27 and the relevant section of

Delaware law regarding appraisal rights is reproduced and attached as *Annex C* to this proxy statement.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this proxy statement 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 a general outlook about future operating results, are forward-looking statements. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from Quanex'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. Quanex undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Factors exist that could cause Quanex's actual results to differ materially from the expected results described in or underlying Quanex's forward-looking statements. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, the rate of change in prices for steel and aluminum scrap, energy costs, interest rates, construction delays, market conditions, particularly in the vehicular, home building and remodeling markets, any material changes in purchases by Quanex'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, Quanex'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 Quanex or persons acting on its behalf are expressly qualified in their entirety by such factors.

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THE SPIN-OFF

Immediately prior to and in connection with the merger, Quanex will spin-off to its stockholders the limited liability company interests of its building products subsidiary containing all of the assets and liabilities of Quanex's Building Products Group known as Quanex Building Products LLC. The interests will be distributed to Quanex's stockholders on the basis of one unit of Quanex Building Products LLC for each share of Quanex common stock outstanding. Immediately following the spin-off, Quanex Building Products LLC will merge with and into its wholly-owned subsidiary Quanex Building Products Corporation, with Quanex Building Products Corporation being the surviving company in the merger. Each unit of Quanex Building Products LLC will be converted immediately into one share of Quanex Building Products Corporation common stock. As a result, a Quanex stockholder will receive one share of Quanex Building Products Corporation common stock for each share of Quanex common stock held by such stockholder.

Quanex stockholder approval is not needed for, and you are not being asked for a proxy in relation to, the proposed spin-off of the Building Products Group of Quanex or the subsequent merger of Quanex Building Products LLC with and into Quanex Building Products Corporation. This proxy statement includes a preliminary QBPC Information Statement attached hereto as *Annex D* that describes the spin-off in greater detail. Holders of Quanex common stock on the record date of the spin-off, which will be the same date as the closing date of the merger, will also receive the final QBPC Information Statement.

THE MERGER

General

Quanex's Board of Directors is using this document to solicit proxies from the holders of Quanex common stock for use at the Quanex special meeting, at which holders of Quanex common stock will be asked to vote upon approval and adoption of the merger agreement.

The Board of Directors of Quanex has unanimously approved the merger agreement providing for the merger of Gerdau Delaware with and into Quanex. Upon the completion of the merger, the separate corporate existence of Gerdau Delaware will terminate and Quanex will be a wholly-owned subsidiary of Gerdau. Subject to the satisfaction or waiver of the conditions to closing of the merger, including the completion of the spin-off, we expect to complete the merger in the first calendar quarter of 2008.

Background of the Merger

Since early 2006 the management and Board of Directors of Quanex had been debating and exploring the merits of alternative strategies involving the company, including the separation of its Building Products Group from its Vehicular Products Group. Ultimately, management and the Board of Directors determined that each Group would be better positioned to grow separate from each other and would receive a better valuation in the marketplace and, as a result, would deliver enhanced value to stockholders.

In July 2006, Quanex began active discussions with its financial and legal advisors regarding a potential tax free spin-off of the Building Products Group as an initial step towards delivering value to stockholders, given Quanex's relatively low market valuation compared to other public companies active in the building products sector. At a meeting of the Quanex Board of Directors held in October 2006, Lazard presented several scenarios to the Board for realizing the potential values of the Building Products Group and the Vehicular Products Group as two separate

companies. A reverse Morris trust transaction was introduced as an alternative method to achieve a tax free separation of the two Groups.

In October 2006, a potential candidate was identified for a reverse Morris trust transaction involving Quanex's Building Products Group given the company's size and business composition. From October 2006 through February 2007, Quanex and management of this company exchanged high-level business and financial information and held numerous discussions regarding the potential merits of a reverse Morris trust transaction. At a Quanex Board of Directors meeting held in February 2007, this transaction was presented to the Board and a special committee of the Board was formed to monitor the progress of the potential transaction. During

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March 2007 and April 2007, the two companies conducted formal due diligence, including numerous site visits, management presentations and the negotiation of merger terms. Quanex and this company, however, were unable to reach agreement on certain key issues and negotiations were ultimately terminated.

On May 4, 2007, Quanex's Board of Directors met with Lazard to review Quanex's strategic alternatives. At that meeting, it was concluded that the value of the Vehicular Products Group would be enhanced under an alternative growth strategy that might be best achieved through a strategic combination with a larger, more diversified steel company. Given that such a strategy was unlikely to include a combination of the Vehicular Products Group and the Building Products Group, the Board of Directors approved senior management's formally exploring separation alternatives for the Building Products Group, including the potential sale or spin-off of the division.

On May 16, 2007, Quanex publicly announced the strategic review of the Building Products Group. Lazard commenced a sale process for the Building Products Group on May 17, 2007. In total, 72 prospective buyers were contacted (of which 19 were potential strategic buyers and 53 were potential financial buyers), 36 confidentiality agreements were signed and 36 confidential information memoranda were distributed. On July 11, 2007, 11 preliminary indications of interest were received from prospective financial buyers for the Building Products Group

On July 14, 2007, Quanex's Board met with Lazard and approved five parties to be invited to conduct detailed due diligence on the Building Products Group, to include site visits, management presentations and access to an electronic data room. At this meeting the Board of Directors also gave Lazard approval to begin contacting a targeted list of potential strategic buyers for the Vehicular Products Group to solicit preliminary indications of interest. Lazard contacted 19 potential strategic buyers regarding the Vehicular Products Group, from which eight confidentiality agreements were signed and eight confidential information packages were distributed.

In early August 2007, two of the bidders for the Building Products Group elected not to continue with that process, citing deteriorating U.S. credit market conditions. The remaining three bidders attended management presentations in early August, but significantly reduced or retracted their preliminary indications of interest, also citing deteriorating U.S. credit market conditions. During this period the U.S. new home construction market also began to rapidly deteriorate, which significantly reduced management's confidence that an attractive sale price could be secured for the Building Products Group.

On August 28, 2007, the Quanex Board of Directors met with Lazard and discussed the merits of a taxable spin-off of the Building Products Group as a means to facilitate the continuation of the sales process for the Vehicular Products Group.

On September 10, 2007, five preliminary indications of interest were received for the Vehicular Products Group ranging from \$1,000 million to \$1,300 million in enterprise value. All five parties were invited to a second round of due diligence, which included management presentations in Houston, Texas, and access to an electronic data room.

On October 12, 2007, the remaining bidders were provided with draft forms of the merger agreement and the spin-off related agreements for their review. Bidders were instructed to submit their second round offers on a per share basis for Quanex, subject to the separation of the Building Products Group through a taxable spin-off, assuming a certain level of net financial debt and other corporate adjustments.

On October 24, 2007, three parties submitted non-binding, all cash offers for Quanex. These offers ranged from \$19.20 to \$32.61 per share, representing \$919 million to \$1,418 million in enterprise value. In addition, one other offer was submitted under an alternative transaction structure.

On October 28, 2007, the Quanex Board met with Lazard to discuss the various offers received and to review the merits of the alternative transaction structure. After review, the Board of Directors instructed Lazard to invite Gerdau and another company to proceed with a third and final round of confirmatory due diligence and final contract negotiations. In addition, the Board of Directors instructed Lazard to determine whether the company that submitted the alternative transaction structure would be prepared to submit an offer on an all

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cash basis similar to the other offers received. This company declined to proceed on that basis soon thereafter. The Board of Directors also reviewed the merits of a spin-off transaction involving the Building Products Group and decided that Quanex should proceed with a taxable spin-off of the Building Products Group to Quanex stockholders immediately prior to the closing of any transaction involving the Vehicular Products Group.

From October 29, 2007 to November 16, 2007, representatives of Quanex and Quanex's legal advisors continued to negotiate the terms of the merger agreement, the spin-off related agreements and the associated schedules to those agreements with the two remaining bidders. At the same time, both remaining bidders conducted extensive additional due diligence through written questions responded to by Quanex management and telephone conferences attended by representatives of the bidders, their legal counsel, accountants and financial advisers and Quanex's management, legal counsel, accountants and financial advisers. Both bidders were also provided with the opportunity to visit several of the facilities of the Vehicular Products Group in Lansing, Michigan, Jackson, Michigan, Monroe, Michigan, and Ft. Smith, Arkansas.

On the evening of November 16, 2007, Gerdau and the second bidder submitted their final bids to Quanex together with the forms of agreements they would be willing to enter into with Quanex. Gerdau presented a bid of \$40.02 per share of outstanding Quanex common stock, or \$1,673 million in enterprise value (representing an enterprise value to fiscal year-end 2007 earnings before interest, taxes, depreciation and amortization, referred to as EBITDA, ratio of 10.3x). The second bidder presented a bid of \$38.67 per share of outstanding Quanex common stock, or \$1,623 million in enterprise value (representing an enterprise value to fiscal year-end 2007 EBITDA ratio of 10.0x).

On November 17, 2007, attorneys for Quanex and Gerdau continued negotiating certain provisions of the agreements. In addition, Lazard representatives held conversations with representatives of the second bidder regarding certain commercial positions that the bidder was proposing in its form of agreements that varied from Quanex's expectations for the agreements.

To facilitate the bidding process, Quanex advised the bidders to make their bids based on the assumption that Quanex, not the Building Products Group, would remain liable for Quanex's convertible notes and certain expenses of the transaction, including expenses dependent on Quanex's share price such as the cost of employee stock options, restricted stock and restricted stock units and change-in-control obligations, in a stated amount. Pursuant to the agreements between Quanex and the Building Products Group, if the actual amount, as determined by Quanex's share price at closing, exceeded the stated amount, the Building Products Group would reimburse Quanex, and if the actual amount was less than the stated amount, Quanex would pay the Building Products Group the difference. Based on the enterprise values reflected in the two final bids, management of Quanex believed that the stated amount underestimated the actual cost of these liabilities and therefore would require the Building Products Group to make a payment to Quanex. To avoid this result, Quanex instructed Gerdau to mathematically adjust its bid to reflect a higher stated amount which would result in it acquiring Quanex with a larger liability. This mathematical adjustment changed the Gerdau bid to \$39.20 per share of outstanding Quanex common stock but that bid, with assumed liabilities, continued to reflect an enterprise value of \$1,673 million.

On the morning of November 18, 2007, at a telephonic special meeting of the Quanex Board of Directors, the Board met to discuss the two bids that had been submitted and the status of negotiations regarding the respective sets of agreements with both bidders. Raymond Jean and other members of senior management of Quanex discussed certain aspects of both bids and the progress that had been made with Gerdau both in the amount of their bid and the status of the transaction agreements. Also, representatives of Lazard presented an overview of the financial aspects of the proposed merger. At the meeting, Lazard delivered its oral opinion to the Quanex Board of Directors followed by delivery of its written opinion, dated November 18, 2007, as described under "Opinion of Lazard Frères & Co. LLC, Quanex's Financial Advisor," to the effect that, as of that date, and based upon and subject to the assumptions made, matters considered and limitations described in the opinion, the consideration to be paid in the merger to holders of

shares of Quanex common stock (other than holders of dissenters' shares and shares of Quanex common stock owned directly by Quanex as treasury stock or by Gerdau or Gerdau Delaware, and in each case not held on behalf of third parties) was

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fair to such holders from a financial point of view. The Board approved the merger agreement and authorized the Company to enter into the merger agreement with Gerdau and, contingent upon completion of the merger, approved the distribution of Quanex Building Products to Quanex's stockholders.

On November 18, 2007, representatives of the Company and Gerdau executed and delivered the merger agreement.

Quanex's Reasons for the Merger

Following a review and discussion of all relevant information regarding the merger, Quanex's Board of Directors determined that the merger is in the best interests of Quanex and its stockholders. In reaching their conclusion, the members of Quanex's Board of Directors relied on their personal knowledge of Quanex and the served industries of its operating groups, and the advice of management and Quanex's legal and financial advisors. The Quanex Board considered numerous factors in favor of the merger agreement, including, among other things, the following:

Separating the Building Products Group from the Vehicular Products Group Enhances Stockholder Value. Separating the groups will better enable each group to reach its full potential. Management did not see the Vehicular Products Group as a consolidator in the steel industry and believes it would be disadvantaged over time in servicing its increasingly global vehicular customers. The ongoing steel consolidation trend, where company size and geographic location can make a competitive difference, is expected to continue. With respect to the Building Products Group, management and the Quanex Board believe it should be managed under an invest for growth strategy and that there are rapid growth opportunities, both organically (particularly as the housing sector rebounds), through new product introduction, and through an acquisition program. Management and the Board also believe the focus on the Building Products Group will permit more corporate vigor and a new level of creativity to be applied to stimulate profitable growth in this sector business.

Creating Stockholder Value With Respect to Quanex's Vehicular Products Group. The cash to be paid to stockholders, per the terms of the merger agreement, represent a fair value in exchange for the assets and liabilities being assumed by Gerdau. Recent consolidation activity in the market has created enhanced value for a well-positioned business like the Vehicular Products Group. However, it has also created future uncertainty with the potential addition of much larger competitors. As a result, the Board believes that at present there is an unusual opportunity to realize capitalized value for the Quanex stockholders. This view is supported by the fact that the earnings multiple represented by the enterprise value implicit in the total consideration is equal to or higher than multiples paid for similarly situated steel companies in recent years.

Opportunity to Raise Equity Market Valuation. Over the past decade, the current Quanex portfolio of companies has not been rewarded in the equities markets with strong valuation metrics. Equity analysts and institutional investment managers often specialize in specific economic sectors. Because of its unique combination of specialty steel bar mills serving primarily automotive applications, positioned alongside building products businesses serving primarily residential, new home and remodeling markets, Quanex has not neatly fallen into any one investment category, nor has it been classified as a diversified industrial. In addition, Quanex shares have traditionally traded at earnings multiples more in line with steel companies rather than the higher multiples typically associated with building products manufacturers. Management and the Board believe that a separately traded Building Products Group may trade at a higher multiple.

The Quanex Board therefore concluded that the merger and the spin-off present an opportunity to maximize the cash value of the Vehicular Products Group under favorable circumstances while giving our stockholders the opportunity to participate in a pure play building products business with greater growth and market pricing potential.

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Recommendation of the Quanex Board of Directors

After careful consideration of the matters discussed above, the Quanex Board of Directors concluded that the proposed merger is advisable and in the best interests of the stockholders of Quanex.

FOR THE REASONS SET FORTH ABOVE, THE BOARD OF DIRECTORS OF QUANEX HAS UNANIMOUSLY ADOPTED THE MERGER AGREEMENT AS BEING ADVISABLE AND IN THE BEST INTERESTS OF QUANEX AND ITS STOCKHOLDERS, AND UNANIMOUSLY RECOMMENDS THAT QUANEX S STOCKHOLDERS VOTE FOR APPROVAL AND ADOPTION OF THE MERGER AGREEMENT.

Opinion of Lazard Frères & Co. LLC Quanex s Financial Advisor

Under an engagement letter dated as of October 21, 2006, as amended and restated as of March 16, 2007, Quanex retained Lazard to act as its investment banker in connection with certain potential transactions involving Quanex and its businesses. As part of that engagement, the Board of Directors of Quanex requested that Lazard evaluate the fairness to the holders of shares of Quanex common stock (other than holders of dissenters shares and shares of Quanex common stock owned directly by Quanex as treasury stock or by Gerdau or Gerdau Delaware, and in each case not held on behalf of third parties), from a financial point of view, of the consideration to be received by such holders in the merger. On November, 18, 2007, Lazard rendered its opinion to Quanex s Board of Directors that, as of that date, and subject to certain assumptions, limitations, factors and qualifications set forth therein, the merger consideration of \$39.20 per share in cash to be received by each holder of shares of Company common stock (other than holders of dissenters shares and shares of Quanex common stock owned directly by Quanex as treasury stock or by Gerdau or Gerdau Delaware, and in each case not held on behalf of third parties)in the merger was fair to such holders from a financial point of view.

The full text of the Lazard opinion, which was approved by Lazard s opinion committee and which sets forth, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Lazard in connection with the opinion, is attached as Annex B to this proxy statement and is incorporated into this proxy statement by reference. You are urged to read Lazard s opinion carefully in its entirety.

In connection with rendering its opinion, Lazard:

- (i) reviewed the financial terms and conditions of the draft, dated November 18, 2007, of the merger agreement;
- (ii) analyzed certain publicly available historical business and financial information relating to Quanex;
- (iii) reviewed various financial forecasts and other data provided to Lazard by the management of Quanex relating to the business and prospects of Quanex after giving effect to the disposition of Quanex s Building Products Group;
- (iv) held discussions with members of the senior management of Quanex with respect to the business and prospects of Quanex after giving effect to the disposition of Quanex s Building Products Group;
- (v) reviewed public information with respect to certain other companies in lines of business Lazard believes to be generally comparable to the business of Quanex after giving effect to the disposition of Quanex s Building Products Group;

(vi) reviewed the financial terms of certain business combinations involving companies in lines of business Lazard believes to be generally comparable to the business of Quanex after giving effect to the disposition of Quanex's Building Products Group;

(vii) reviewed the historical stock prices and trading volumes of Quanex's common stock; and

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(viii) conducted such other financial studies, analyses and investigations as Lazard deemed appropriate.

Lazard relied upon the accuracy and completeness of the foregoing information and did not assume any responsibility for any independent verification of (and did not independently verify) such information or any independent valuation or appraisal of any of the assets or liabilities of Quanex or concerning the solvency or fair value of Quanex. With respect to financial forecasts, Lazard assumed that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of Quanex as to the future financial performance of Quanex. Lazard assumed no responsibility for and expressed no view as to such forecasts or the assumptions on which they were based.

In rendering its opinion, Lazard assumed that the merger agreement would be identical in all material respects to the draft merger agreement reviewed by Lazard and that the merger would be consummated on the terms described in the merger agreement without any waiver or modification of any material terms or conditions. Lazard further assumed that obtaining the necessary regulatory approvals and contractual consents for the merger and the disposition of the Building Products Group would not have an adverse effect on Quanex or the merger. In addition, Lazard assumed the representations and warranties contained in the merger agreement and all agreements related thereto were true and correct in all material respects. Lazard did not express any opinion as to any tax or other consequences that might result from the merger or the disposition of the Building Products Group, nor did the Lazard opinion address any legal, tax, regulatory or accounting matters, as to which Lazard understood that Quanex obtained such advice it deemed necessary from qualified professionals. In addition, Lazard did not express any opinion about the fairness of the amount or nature of, or any other aspect of, the compensation to any of Quanex's officers, directors or employees, or any class of such persons, relative to the merger consideration to be paid to Quanex's public stockholders or otherwise.

In rendering the Lazard opinion, Lazard further assumed that the stockholders of Quanex prior to the consummation of the merger (and not the owners of Quanex after giving effect to the merger) will either own or be entitled to receive the proceeds of the disposition of Quanex's Building Products Group. Lazard expressed no opinion as to the value of Quanex's Building Products Group or as to the fairness or any other aspect of the disposition of Quanex's Building Products Group.

Lazard's opinion was for the benefit of the Board of Directors in connection with its consideration of the merger and only addressed the fairness to the holders of shares of common stock (other than holders of dissenters' shares and shares of Quanex common stock owned directly by Quanex as treasury stock or by Gerdau or Gerdau Delaware, and in each case not held on behalf of third parties) of the merger consideration to be paid to such holders in the merger from a financial point of view as of the date of the Lazard opinion. Lazard's written opinion did not address the relative merits of the merger as compared to other business strategies or transactions that might be available to Quanex or the underlying decision by Quanex to engage in the merger, and was not intended to and does not constitute a recommendation to Quanex's stockholders as to how such stockholders should vote with respect to the merger or any matter relating thereto. Lazard's opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Lazard as of, the date of the Lazard opinion. Lazard assumed no responsibility for updating or revising the Lazard opinion based on circumstances or events occurring after the date of the Lazard opinion. Lazard expressed no opinion as to the price at which shares of Quanex's common stock may trade at any time subsequent to the announcement of the merger. The following is only a summary of the Lazard opinion. You are urged to read the entire Lazard opinion.

The following is a summary of the material financial analyses that Lazard performed in connection with rendering its opinion. The summary of Lazard's analyses described below is not a complete description of the analyses underlying Lazard's opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analyses and the application of those

methods to the particular circumstances, and, therefore, is not readily susceptible to summary description. In arriving at its opinion, Lazard considered the results of all the analyses and did not attribute any particular weight to any factor or analysis considered by it; rather, Lazard made its determination

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as to fairness on the basis of its experience and professional judgment after considering the results of all of the analyses.

For purposes of its analyses, Lazard considered industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Quanex. No company, transaction or business used in Lazard's analyses as a comparison is identical to Quanex, either before or after giving effect to the disposition of the Building Products Group, or the merger, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions analyzed. The estimates contained in Lazard's analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Lazard's analyses are inherently subject to substantial uncertainty.

The financial analyses summarized below include information presented in tabular format. In order to fully understand Lazard's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Lazard's financial analyses.

Financial Analyses

Discounted Cash Flow Analysis. Based on the base case and downside case projections provided to Lazard by Quanex, Lazard performed a discounted cash flow analysis of Quanex to calculate the estimated present value of the standalone, unlevered, after-tax free cash flow that Quanex, after giving effect to the disposition of the Building Products Group, could generate during the fiscal years ended October 31, 2008 through October 31, 2011. Lazard calculated estimated terminal values for Quanex, after giving effect to the disposition of the Building Products Group, by applying a range of multiples of 5.0x to 6.0x to Quanex's fiscal year ended October 31, 2011 base case and downside case estimated EBITDA. The standalone, unlevered, after-tax free cash flows and terminal values were discounted to present value using discount rates ranging from 11.25% to 12.75%, which were based on the weighted average cost of capital of a selected group of global steel producers. Based on this analysis, Lazard calculated an implied enterprise value range for Quanex of approximately \$915 million to \$1,080 million in the base case and \$720 million to \$840 million in the downside case. A company's enterprise value is equal to its short and long term debt plus the market value of its common equity and the value of any preferred stock (at liquidation value), minus its cash and cash equivalents.

Comparable Company Analysis. Lazard reviewed and analyzed selected public companies in the steel industry that it viewed as reasonably comparable to Quanex, after giving effect to the disposition of the Building Products Group. In performing these analyses, Lazard reviewed and analyzed publicly available financial information relating to the selected companies and compared that information to the corresponding information for Quanex, after giving effect to the disposition of the Building Products Group, based on the forecasts of management of Quanex. Specifically, Lazard compared Quanex, after giving effect to the disposition of the Building Products Group, to the following five public companies in the steel industry:

The Timken Company;

Steel Dynamics, Inc.;

Nucor Corporation;

Commercial Metals Company; and

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Gerdau Ameristeel Corporation.

Based on equity analysts' estimates and other public information, Lazard reviewed, among other things, the enterprise value of each selected comparable company as a multiple of such company's estimated EBITDA, for calendar year 2008, and each comparable company's closing stock price on November 16, 2007, as a multiple of such comparable company's estimated earnings per share, referred to as EPS, for calendar year 2008.

Lazard calculated the following multiples for the above comparable companies:

	Enterprise Value/EBITDA CY 2008E	November 16, 2007 Closing Stock Price/EPS CY 2008E
Low	4.8x	7.3x
Mean	5.3x	9.2x
High	5.8x	10.6x

Based on the foregoing, Lazard applied EBITDA multiples of 5.0x to 6.0x to Quanex's calendar year 2008 estimated EBITDA, after giving effect to the disposition of the Building Products Group, provided by Quanex's management, and determined an implied enterprise value range of \$970 million to \$1,165 million.

Comparable Transactions Analysis. Lazard reviewed and analyzed selected precedent merger and acquisition transactions involving companies in the steel industry. In performing these analyses, Lazard analyzed certain financial information and transaction multiples relating to companies in the selected transactions and compared such information to the corresponding information for Quanex, after giving effect to the disposition of the Building Products Group. Specifically, Lazard reviewed 14 merger and acquisition transactions since November 2005 involving companies in the steel industry for which sufficient public information was available. Lazard reviewed, among other things, the transaction value of each acquired company implied by the transaction as a multiple of the acquired company's EBITDA for the last twelve months, or LTM, prior to the public announcement of the transaction.

The precedent transactions were (listed by acquirer followed by the acquired company and the date the transaction was publicly announced):

Acquirer	Target Company	Announcement Date
United States Steel Corporation	Stelco Inc.	8/26/2007
Gerdau Ameristeel Corporation	Chaparral Steel Company	7/3/2007
SSAB Svenskt Stal AB	IPSCO Inc.	5/3/2007
Ternium S.A.	Grupo Imsa, S.A.B. de C.V.	4/30/2007
Essar Steel Limited	Algoma Steel Corporation	4/15/2007
United States Steel Corporation	Lone Star Technologies, Inc.	3/29/2007
Nucor Corporation	Harris Steel Group Inc.	1/2/2007
Evraz Group S.A.	Oregon Steel Mills, Inc.	11/20/2006
IPSCO Inc.	NS Group Inc.	9/11/2006
KNIA Holdings, Inc.	Niagara Corporation	7/19/2006

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Mittal Steel Company N.V.	Arcelor S.A.	6/25/2006
Tenaris S.A.	Maverick Tube Corporation	6/12/2006
Black Diamond Capital Management, L.L.C.	Bayou Steel Corporation	3/17/2006
Arcelor S.A.	Dofasco Inc.	11/23/2005

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Lazard calculated the following multiple for the above selected transactions used in its analysis:

	Transaction Value as a Multiple of LTM EBITDA
Low	3.8x
Mean	7.5x
Median	7.5x
High	9.9x

Based on the foregoing, Lazard applied LTM EBITDA multiples of 7.0x to 8.9x to Quanex's LTM EBITDA as provided by Quanex's management, and determined an implied enterprise value range of \$1,130 million to \$1,430 million.

Miscellaneous

In connection with Lazard's services as investment banker to Quanex, Quanex agreed to pay Lazard a fee of 0.7% of the aggregate transaction consideration, or \$11.7 million, one quarter of which is payable upon announcement of the merger and the remainder will be payable upon consummation of the merger. Lazard will also be entitled to receive a separate fee of 0.7% of the aggregate transaction consideration in connection with the disposition of Quanex's Building Products Group. Lazard and Quanex have agreed that if the disposition of the building products business is accomplished through a spin-off, split-off or similar transaction, and Lazard serves as the resulting entity's investment banker in connection with a subsequent sale, merger, consolidation or business combination transaction, within 18 months following the disposition, 50% of the fee to be paid to Lazard in connection with Quanex's disposition of the Building Products Group will be credited against the fee of 0.7% of the aggregate transaction consideration payable to Lazard by the resulting entity in such second stage transaction. The Company has also agreed to reimburse Lazard for all expenses incurred in connection with the engagement and to indemnify Lazard and certain related parties against certain liabilities under certain circumstances that may arise out of the rendering of its advice, including certain liabilities under U.S. federal securities laws.

Lazard, as part of its investment banking business, is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, leveraged buyouts, and valuations for estate, corporate and other purposes. In addition, in the ordinary course of their respective businesses, affiliates of Lazard and LFCM Holdings LLC (an entity owned in large part by managing directors of Lazard) may actively trade securities of Quanex and/or the securities of Gerda for their own accounts and for the accounts of their customers and, accordingly, may at any time hold for a long or short position in such securities.

Lazard is an internationally recognized investment banking firm providing a full range of financial advisory and securities services. Lazard was selected to act as investment banker to Quanex because of its qualifications, expertise and reputation in investment banking and mergers and acquisitions, as well as its familiarity with the businesses of Quanex.

The opinion of Lazard was one of many factors taken into consideration by Quanex's Board of Directors. Consequently, the analyses described above should not be viewed as determinative of the opinion of Quanex's Board of Directors with respect to the merger consideration or of whether Quanex's Board of Directors would have been willing to recommend a merger transaction with different merger consideration. Additionally, Lazard's opinion is not

intended to confer any rights or remedies upon any employee or creditor of Quanex.

Regulatory Matters

The merger is subject to review by the DOJ and the FTC under the Hart-Scott-Rodino Act. The Hart-Scott-Rodino Act, and the rules promulgated under it by the FTC, prevent transactions, such as the merger, from being completed until required information and materials are furnished to the DOJ and the FTC and certain waiting periods are terminated or expire. On November 30, 2007, the parties submitted the

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notification filings with the DOJ and the FTC. Early termination of the waiting period was granted by the FTC on December 28, 2007.

The DOJ, the FTC and others may also challenge the merger on antitrust grounds after termination of the waiting period. Accordingly, at any time after the completion of the merger, the DOJ, the FTC or another regulatory agency could take action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the merger or permitting completion subject to regulatory concessions or conditions. We cannot assure you that a challenge to the merger will not be made or that, if a challenge is made, it will not prevail.

A party or parties to a transaction may, but are not required to, submit to the Committee on Foreign Investment in the United States, which we refer to as CFIUS, in accordance with the regulations implementing Section 721 of the Defense Production Act of 1950, as amended, a voluntary notice of the transaction. Section 721 empowers the President of the United States to prohibit or suspend an acquisition of, or investment in, a U.S. company by a foreign person if the President of the United States, after investigation, finds credible evidence that the foreign person might take action that threatens to impair the national security of the United States and that other provisions of existing law, other than the International Emergency Economic Powers Act, do not provide adequate and appropriate authority to protect the national security. CFIUS has the authority to receive notices of proposed transactions, determine when an investigation is warranted, conduct investigations and submit recommendations to the President of the United States to suspend or prohibit the completion of transactions or to require divestitures of completed transactions.

On January 15, 2008, the parties submitted a notice of the transaction to CFIUS. On February 15, 2008, the parties received a letter stating that CFIUS has determined not to conduct an investigation and that CFIUS has concluded its review of the transaction.

Other than as we describe in this document, the approval of any other U.S. federal or state agency or any foreign agency is not a condition to completion of the transaction.

Appraisal Rights

Under the DGCL, any Quanex stockholder who does not wish to accept the merger consideration has the right to dissent from the merger and to seek an appraisal of, and to be paid the fair value (exclusive of any element of value arising from the accomplishment or expectation of the merger) for his or her shares of Quanex common stock, so long as the stockholder complies with the provisions of Section 262 of the DGCL.

Holders of record of Quanex common stock who do not vote in favor of the merger agreement and who otherwise comply with the applicable statutory procedures summarized in this proxy statement will be entitled to appraisal rights under Section 262 of the DGCL. A person having a beneficial interest in shares of Quanex common stock held of record in the name of another person, such as a broker or nominee, must act promptly to cause the record holder to follow the steps summarized below properly and in a timely manner to perfect appraisal rights.

THE FOLLOWING DISCUSSION IS NOT A COMPLETE STATEMENT OF THE LAW PERTAINING TO APPRAISAL RIGHTS UNDER THE DGCL AND IS QUALIFIED IN ITS ENTIRETY BY THE FULL TEXT OF SECTION 262 OF THE DGCL, WHICH IS REPRINTED IN ITS ENTIRETY AS ANNEX C. ALL REFERENCES IN SECTION 262 OF THE DGCL AND IN THIS SUMMARY TO A STOCKHOLDER OR HOLDER ARE TO THE RECORD HOLDER OF THE SHARES OF COMMON STOCK AS TO WHICH APPRAISAL RIGHTS ARE ASSERTED.

Under Section 262 of the DGCL, holders of shares of Quanex common stock who follow the procedures set forth in Section 262 of the DGCL will be entitled to have their shares of Quanex common stock appraised by the Delaware

Chancery Court and to receive payment in cash of the fair value of those shares of Quanex common stock, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, as determined by that court.

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Under Section 262 of the DGCL, when a proposed merger is to be submitted for approval at a meeting of stockholders, the corporation, not less than 20 days prior to the meeting, must notify each of its stockholders who was a stockholder on the record date for the meeting with respect to shares for which appraisal rights are available, that appraisal rights are so available, and must include in that required notice a copy of Section 262 of the DGCL.

This proxy statement constitutes the required notice to the holders of those shares of Quanex common stock and the applicable statutory provisions of the DGCL are attached to this proxy statement as *Annex C*. Any Quanex stockholder who wishes to exercise his or her appraisal rights or who wishes to preserve his or her right to do so should review the following discussion and *Annex C* carefully because failure to timely and properly comply with the procedures specified in *Annex C* will result in the loss of appraisal rights under the DGCL.

A holder of shares of Quanex common stock wishing to exercise his or her appraisal rights (a) must not vote in favor of the merger agreement and (b) must deliver to Quanex prior to the vote on the merger agreement at the Quanex special meeting, a written demand for appraisal of his or her shares of Quanex common stock. This written demand for appraisal must be in addition to and separate from any proxy or vote abstaining from or against the merger. This demand must reasonably inform Quanex of the identity of the stockholder and of the stockholder's intent thereby to demand appraisal of his or her shares. A holder of shares of Quanex common stock wishing to exercise his or her appraisal rights must be the record holder of such shares on the date the written demand for appraisal is made and must continue to hold such shares until the consummation of the merger. Accordingly, a holder of shares of Quanex common stock who is the record holder of shares of Quanex common stock on the date the written demand for appraisal is made, but who thereafter transfers such shares prior to consummation of the merger, will lose any right to appraisal in respect of such shares.

Only a holder of record of shares of Quanex common stock is entitled to assert appraisal rights for the Quanex shares registered in that holder's name. A demand for appraisal should be executed by or on behalf of the holder of record, fully and correctly, as the holder's name appears on the holder's stock certificates. If the shares of Quanex common stock are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of the demand should be made in that capacity, and if the shares of Quanex common stock are owned of record by more than one owner as in a joint tenancy or tenancy in common, the demand should be executed by or on behalf of all joint owners. An authorized agent, including one or more joint owners, may execute a demand for appraisal on behalf of a holder of record. The agent, however, must identify the record owner or owners and expressly disclose the fact that, in executing the demand, the agent is agent for the owner or owners. A record holder such as a broker who holds shares of Quanex common stock as nominee for several beneficial owners may exercise appraisal rights with respect to shares of Quanex common stock held for one or more beneficial owners while not exercising appraisal rights with respect to shares of Quanex common stock held for other beneficial owners. In this case, the written demand should set forth the number of shares of Quanex common stock as to which appraisal is sought. When no number of shares of Quanex common stock is expressly mentioned, the demand will be presumed to cover all shares of Quanex common stock in brokerage accounts or other nominee forms, and those who wish to exercise appraisal rights under Section 262 of the DGCL are urged to consult with their brokers to determine the appropriate procedures for the making of a demand for appraisal by such a nominee.

ALL WRITTEN DEMANDS FOR APPRAISAL SHOULD BE SENT OR DELIVERED TO QUANEX CORPORATION, 1900 WEST LOOP SOUTH, SUITE 1500, HOUSTON, TEXAS 77027, ATTENTION: SECRETARY.

Within ten days after the effective time of the merger, Gerdau will notify each stockholder who has properly asserted appraisal rights under Section 262 of the DGCL and has not voted in favor of the merger agreement.

Within 120 days after the effective time of the merger, but not thereafter, Gerdau or any stockholder who has complied with the statutory requirements summarized above may file a petition in the Delaware Chancery Court demanding a determination of the fair value of the shares of Quanex common stock held by those

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stockholders. None of Gerdau, Gerdau Delaware or Quanex is under any obligation to and none of them has any present intention to file a petition with respect to the appraisal of the fair value of the Quanex shares. Accordingly, it is the obligation of stockholders wishing to assert appraisal rights to initiate all necessary action to perfect their appraisal rights within the time prescribed in Section 262 of the DGCL.

Within 120 days after the effective time of the merger, any Quanex stockholder who has complied with the requirements for exercise of appraisal rights will be entitled, upon written request, to receive from Gerdau a statement setting forth the aggregate number of shares of Quanex common stock not voted in favor of adoption of the merger agreement and with respect to which demands for appraisal have been received and the aggregate number of holders of those shares of Quanex common stock. That statement must be mailed to those stockholders within ten days after a written request therefor has been received by Gerdau.

If a petition for an appraisal is filed timely, at a hearing on the petition, the Delaware Chancery Court will determine the stockholders entitled to appraisal rights. After determining those stockholders, the Delaware Chancery Court will appraise the fair value of their Quanex shares, exclusive of any element of value arising from the accomplishment or expectation of the merger, together with a fair rate of interest, if any, to be paid upon the amount determined to be the fair value. Stockholders considering seeking appraisal should be aware that the fair value of their Quanex shares as determined under Section 262 of the DGCL could be more than, the same as, or less than the value of the merger consideration they would receive pursuant to the merger agreement if they did not seek appraisal of their shares of Quanex common stock and that investment banking opinions as to fairness from a financial point of view are not necessarily opinions as to fair value under Section 262 of the DGCL. The Delaware Supreme Court has stated that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered in the appraisal proceedings.

The Delaware Chancery Court will determine the amount of interest, if any, to be paid upon the amounts to be received by stockholders whose shares of Quanex common stock have been appraised. The costs of the appraisal proceeding may be determined by the Delaware Chancery Court and taxed upon the parties as the Delaware Chancery Court deems equitable. The Delaware Chancery Court may also order that all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys' fees and the fees and expenses of experts used in the appraisal proceeding, be charged pro rata against the value of all of the shares of Quanex common stock entitled to appraisal.

Any holder of shares of Quanex common stock who has duly demanded an appraisal in compliance with Section 262 of the DGCL will not, after the effective time of the merger, be entitled to vote the shares of Quanex common stock subject to that demand for any purpose or be entitled to the payment of dividends or other distributions on those shares of Quanex common stock (except dividends or other distributions payable to holders of record of shares of Quanex common stock as of a record date prior to the effective time of the merger).

If any stockholder who properly demands appraisal of his or her shares of Quanex common stock under Section 262 of the DGCL fails to perfect, or effectively withdraws or loses, his or her right to appraisal, as provided in Section 262 of the DGCL, the shares of Quanex common stock of that stockholder will be converted into the right to receive the merger consideration receivable with respect to these shares of Quanex common stock in accordance with the merger agreement. A stockholder will fail to perfect, or effectively lose or withdraw, his or her right to appraisal if, among other things, no petition for appraisal is filed within 120 days after the consummation of the merger, or if the stockholder delivers to Quanex or Gerdau, as the case may be, a written withdrawal of his or her demand for appraisal. Any attempt to withdraw an appraisal demand in this matter more than 60 days after the consummation of the merger will require the written approval of the surviving company.

Failure to follow the steps required by Section 262 of the DGCL for perfecting appraisal rights may result in the loss of these rights, in which event a Quanex stockholder will be entitled to receive the merger consideration receivable with respect to his or her shares of Quanex common stock in accordance with the merger agreement.

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Delisting and Deregistration of Quanex Common Stock

If the merger is completed, the shares of Quanex common stock will be delisted from the NYSE and will be deregistered under the Securities Exchange Act of 1934.

Accounting Treatment

We expect that the merger will be accounted for as a business combination using the purchase method of accounting for financial accounting purposes, whereby the purchase price would be allocated to our assets and liabilities based on their relative fair values following Financial Accounting Standards Board Statement of Financial Accounting Standards No. 141, *Business Combinations*.

Material U.S. Federal Income Tax Consequences

The following discussion summarizes the material U.S. federal income tax consequences of the spin off and the merger that may be relevant to Quanex stockholders who hold shares of Quanex common stock as a capital asset for U.S. federal income tax purposes (generally, assets held for investment) and who or that are for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States (including certain former citizens and former long-term residents);

a corporation, or other entity taxable as a corporation for U.S. federal tax purposes, created or organized in or under the laws of the United States or any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust (i) that is subject to the primary supervision of a court within the United States and the control of one or more United States persons as defined in section 7701(a)(30) of the Code or (ii) that has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

This discussion is addressed only to those Quanex stockholders who exchange shares of Quanex common stock for cash in the merger.

This discussion is based on the Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations promulgated thereunder, court decisions, published rulings of the Internal Revenue Service, or the IRS, and other applicable authorities, all as in effect on the date of this proxy statement and all of which are subject to change or differing interpretations, possibly with retroactive effect.

This discussion does not address all of the U.S. federal income tax consequences that may be relevant to Quanex stockholders in light of their particular circumstances or to Quanex stockholders who may be subject to special treatment under U.S. federal income tax laws, such as tax exempt organizations, foreign persons or entities, S corporations or other pass-through entities, financial institutions, insurance companies, broker-dealers, persons who hold Quanex shares as part of a hedge, straddle, wash sale, synthetic security, conversion transaction, or other integrated investment comprised of shares of Quanex common stock and one or more investments, persons whose functional currency (as defined in the Code) is not the U.S. dollar, persons who exercise appraisal rights, and persons who acquired shares of Quanex common stock in compensatory transactions. Further, this discussion does not address

any aspect of state, local, or foreign taxation.

We have not sought nor obtained an opinion of counsel or any advance tax ruling from the IRS regarding the U.S. federal income tax consequences described below. If the IRS contests a conclusion set forth herein, no assurance can be given that a Quanex stockholder would ultimately prevail in a final determination by a court. Quanex stockholders are urged to consult their own tax advisors as to the U.S. federal income tax consequences of the spin-off and the merger, as well as the effects of state, local, and foreign tax laws.

If a partnership (or other entity classified as a partnership for U.S. federal tax purposes) is a beneficial owner of shares of Quanex common stock, the tax treatment of a partner in that partnership will generally depend on the status of the partner and the activities of the partnership. Quanex stockholders that are

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partnerships and partners in these partnerships are urged to consult their tax advisors regarding the U.S. federal income tax consequences of the spin-off and the merger to them.

THIS SUMMARY IS NOT A SUBSTITUTE FOR AN INDIVIDUAL ANALYSIS OF THE TAX CONSEQUENCES OF THE SPIN OFF AND THE MERGER TO YOU. WE URGE YOU TO CONSULT YOUR TAX ADVISOR REGARDING THE PARTICULAR FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE SPIN OFF AND THE MERGER IN LIGHT OF YOUR OWN SITUATION.

Tax Consequences of the Spin-Off and the Merger to Quanex Stockholders

Quanex believes, and the parties to the merger agreement intend, that for U.S. federal income tax purposes the spin-off and the merger will constitute a single integrated transaction with respect to the Quanex stockholders in which the spin-off will be treated as a redemption of shares of Quanex common stock in connection with the complete termination of Quanex stockholders interests in Quanex. Quanex will treat and report the spin-off and the merger in a manner consistent with such characterization. Under such characterization, Quanex stockholders should generally recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference between (i) the sum of the amount of cash received in the merger and the fair market value, determined when the spin-off occurs, of the property received in the spin-off, and (ii) such Quanex stockholder's adjusted tax basis in his shares of Quanex common stock immediately prior to the spin-off.

The deduction of any recognized loss may be delayed or otherwise adversely affected by certain loss limitation rules. Any such gain or loss will generally be long-term capital gain or loss if the Quanex stockholder's holding period in the shares of Quanex common stock immediately prior to the spin-off is more than one year. The amount and character of gain or loss must be calculated separately for each identifiable block of shares of Quanex common stock surrendered. Each Quanex stockholder is urged to consult his tax advisor regarding the manner in which gain or loss should be calculated as a result of the spin-off and the merger.

Although Quanex believes the foregoing treatment correctly characterizes the transaction for U.S. federal income tax purposes, there is no direct authority on point, and the IRS could challenge the treatment of the spin-off and the merger as a single integrated transaction for U.S. federal income tax purposes. Such a challenge, if successful, could result in Quanex stockholders being treated as receiving a dividend distribution in the spin-off in respect of their shares of Quanex common stock and as selling, in a separate transaction, their shares of Quanex common stock in the merger immediately after the spin-off. Under such characterization, the fair market value of the property treated as received by a Quanex stockholder in the spin-off would generally (i) be treated as a dividend to the Quanex stockholder to the extent of our current or accumulated earnings and profits, (ii) to the extent such amount exceeded our earnings and profits, it would be applied to reduce, but not below zero, each Quanex stockholder's adjusted basis in such Quanex stockholder's shares of Quanex common stock, and (iii) to the extent such amount exceeded the sum of the amounts described in (i) and (ii), would be taxable as capital gain to each Quanex stockholder. It is not clear whether corporations would be entitled to a dividends received deduction or whether individuals would be entitled to preferential rates with respect to qualified dividend income. In the merger, each Quanex stockholder would generally recognize gain or loss in an amount equal to the difference between the amount of cash received and such Quanex stockholder's adjusted basis in the shares of Quanex common stock immediately prior to the merger, taking into account the effect of the spin-off on such adjusted basis as described above. Quanex stockholders should consult their tax advisors with respect to the tax consequences of the spin-off and the merger.

Information Reporting and Backup Withholding

Under U.S. federal income tax laws, the exchange agent will generally be required to report to a Quanex stockholder and to the IRS any reportable payments made to such Quanex stockholder in the spin-off and the merger.

Additionally, a Quanex stockholder may be subject to a backup withholding tax, unless the Quanex

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stockholder provides the exchange agent with his correct taxpayer identification number, which in the case of an individual is his social security number, or, in the alternative, establishes a basis for exemption from backup withholding. If the correct taxpayer identification number or an adequate basis for exemption is not provided, a Quanex stockholder will be subject to backup withholding (which will be satisfied out of any cash paid to such Quanex stockholder in the merger) on any reportable payment. To prevent backup withholding, each Quanex stockholder must complete the IRS Form W-9 or a substitute Form W-9 which will be provided by the exchange agent with the transmittal letter. Any amounts withheld under the backup withholding rules from a payment to a Quanex stockholder will be allowed as a credit against his U.S. federal income tax liability and may entitle him to a refund, if the required information is furnished to the IRS.

The foregoing discussion is for general information only and is not intended to be legal or tax advice to any particular Quanex stockholder. Tax matters regarding the spin-off and the merger are very complicated, and the tax consequences of the spin-off and merger to any particular Quanex stockholder will depend on that stockholder's particular situation. Quanex stockholders should consult their own tax advisor to determine the specific tax consequences of the spin-off and the merger, including tax return reporting requirements, the applicability of U.S. federal, state, local, and foreign tax laws, and the effect of any proposed change in the tax laws to them.

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In considering the recommendation of the Quanex Board of Directors with respect to the merger, Quanex stockholders should be aware that some directors and executive officers of Quanex have interests in the merger that are different from, or in addition to, the interests of Quanex stockholders generally. The Quanex Board of Directors was aware of those interests and took them into account in approving and adopting the merger agreement and recommending that Quanex stockholders vote to approve and adopt the merger agreement. Those interests are summarized below.

Quanex's Stock Options, Restricted Stock Units and Restricted Stock

As of December 10, 2007, an aggregate of 850,112 shares of our common stock subject to stock options, 6,019 restricted stock units and 43,417 shares of restricted stock were held by our directors and executive officers under our equity incentive plans.

At the effective time of the merger, Quanex stock options will become vested and exercisable and will be cancelled. The holder of such Quanex stock options will be entitled to receive an amount in cash equal to: (x) the total number of shares of Quanex common stock subject to the stock option times (y) the excess of (i) the sum of (A) \$39.20 and (B) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group over (ii) the exercise price per share under the stock option, less any applicable withholding.

Each restricted stock unit that has been issued but has not vested prior to the effective time of the merger will become fully vested at the effective time of the merger and will be converted into the right to receive an amount per restricted stock unit equal to the sum of (y) \$39.20 and (z) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group.

Pursuant to the terms of the spin-off of Quanex's Building Products Group, all shares of Quanex restricted stock that have been issued but have not vested immediately prior to the record date for the spin-off will become fully vested at such time, and on the distribution date for the spin-off, the owners of such shares will be entitled to participate in the spin-off, and, at the effective time of the merger, the owners of such shares will be entitled to receive the merger consideration in exchange for their shares. See the preliminary QBPC Information Statement attached as Annex D hereto for more information.

The following table summarizes the stock options, restricted stock units, and restricted stock held by each of our directors and executive officers as of December 10, 2007, and the consideration (calculated prior to any reduction for any required withholding taxes) that each of them will receive pursuant to the merger agreement in connection with the conversion of restricted stock units and restricted stock and the cancellation of options in the merger (assuming that a share of Quanex Building Products common stock on the distribution date for the spin-off equals \$13.29):

Name	Common Stock Underlying Options	Restricted	Restricted Stock	Consideration to be Received in the Merger
		Stock Units		

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Raymond A. Jean	431,975	0	0	\$	11,641,663.47
Thomas M. Walker	40,000	0	8,300	\$	1,059,567.00
Kevin P. Delaney	66,925	0	6,300	\$	1,925,403.21
Mark A. Marcucci	110,151	0	6,750	\$	3,387,655.06
Donald G. Barger, Jr.	31,458	1,353	4,023	\$	1,254,210.68
Susan F. Davis	22,458	1,353	4,023	\$	873,325.28
Joseph J. Ross	40,458	1,353	4,023	\$	1,551,145.88
Joseph J. Rupp	2,528	607	0	\$	60,427.83
Richard L. Wellek	31,458	1,353	2,898	\$	1,081,043.48
Paul A. Hammonds	26,601	0	1,650	\$	760,438.13
Brent L. Korb	20,300	0	3,900	\$	612,427.91
John J. Mannion	25,800	0	1,550	\$	713,277.01

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Indemnification of Officers and Directors

Following the effective time of the merger, Gerdau and the surviving company will indemnify and hold harmless, and provide advancements of expenses to, each present and former officer or director of Quanex or any of its subsidiaries. This indemnification will include indemnification against all losses, expenses (including reasonable attorneys' fees and expenses), claims, damages and liabilities arising out of actions or omissions occurring at or prior to the effective time of the merger (whether asserted or claimed prior to, at or after the effective time of the merger) that are based on the fact that the person is or was a director or officer of Quanex or any of its subsidiaries.

For six years after the effective time of the merger, Gerdau will also maintain in effect directors' and officers' liability insurance covering acts or omissions occurring prior to the effective time of the merger with respect to those directors and officers of Quanex who were covered by, and on terms and in amounts no less favorable than those of, Quanex's directors' and officers' liability insurance at the time the merger agreement was executed. In no event will the surviving company be required to pay aggregate annual premiums for insurance in excess of three times the most recent aggregate annual premium paid by Quanex for such purpose (which most recent aggregate annual premium was \$561,500 in the aggregate) provided, further, that if the annual premiums of such insurance coverage exceed such amount, the surviving company will be obligated to obtain a policy with the best coverage available, in the reasonable judgment of the Board of Directors of the surviving company, for a cost up to but not exceeding 300% of the most recent aggregate annual premium paid by Quanex. In addition, for six years after the effective time of the merger, Gerdau will cause the surviving company to maintain in effect fiduciary liability insurance policies for employees who serve or have served as fiduciaries under or with respect to any employee benefit plans described in the disclosure schedules with coverages and in amounts no less favorable than those of the policies of Quanex in effect on the date of the merger agreement.

The indemnification provisions in the merger agreement seek to ensure that (i) the officers and directors retain the same rights to indemnification that they currently have and (ii) directors' and officer's liability insurance similar to what the directors and officers currently have is maintained for six years after the merger closes.

Quanex's Deferred Compensation Plan

Under the Quanex Deferred Compensation Plan, a participant who defers a portion of his annual incentive bonuses or director fees into a fund deemed invested in Quanex common stock units for a period of three full years or more receives a matching award of additional deemed units of Quanex common stock equal to 20% of the amount originally deferred. At the effective time of the merger, the units deemed invested in Quanex common stock under the Deferred Compensation Plan will become vested and the account of each participant who is deemed invested in such units of Quanex common stock will be credited with an amount in cash equal to: (x) the total number of units deemed invested in Quanex common stock times (y) the sum of (A) \$39.20 and (B) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group. The following table summarizes the unvested units of Quanex common stock deemed held by each of our directors and executive officers as of December 10, 2007, and the consideration that each of their accounts will be credited with upon acceleration

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of the unvested units pursuant to the distribution and merger agreement (assuming that a share of Quanex Building Products common stock on the distribution date for the spin-off equals \$13.29):

Name	Unvested Units Deemed Invested in Quanex Common Stock Under Deferred Compensation Plan		Amount Vested and Credited to Account Due to Distribution and Merger
Raymond A. Jean			
Thomas M. Walker	460.67	\$	24,180.52
Kevin P. Delaney	1,479.87	\$	77,678.43
Mark A. Marcucci			
Donald G. Barger, Jr.	690.87	\$	36,263.79
Susan F. Davis	652.25	\$	34,236.71
Joseph J. Ross	688.49	\$	36,138.70
Joseph J. Rupp			
Richard L. Wellek	674.60	\$	35,409.55
Paul A. Hammonds	599.04	\$	31,443.61
Brent L. Korb	370.82	\$	19,464.13
John J. Mannion	552.57	\$	29,004.45

Quanex's Frozen Non-Employee Director Retirement Plan

The Quanex Non-Employee Director Retirement Plan, which was previously frozen, will be terminated as of the effective time of the merger, and each former or present director who has accrued benefits under the plan will be paid a lump sum cash payment of the present value of the director's accrued benefits, discounted using the interest rate for 30-year Treasury securities for the month of August 2007 (which rate is used for lump sum determinations under the Quanex Employee's Pension Plan) or the interest rate for 30-year Treasury securities for the last month preceding the month in which the effective time occurs, whichever provides the higher lump sum amount. Assuming a discount rate of 4.5%, the following directors would receive the following amounts: Joseph J. Ross \$36,067; Donald G. Barger \$162,809 and Susan F. Davis \$91,050.

Change-in-Control Agreements with Executive Officers

In the past, the Company entered into change in control agreements (the "change-in-control agreements") with Raymond A. Jean, Thomas M. Walker, Kevin P. Delaney, John J. Mannion, Paul A. Hammonds, Mark A. Marcucci and Brent L. Korb (each, an "executive"). On November 18, 2007, the Board authorized and approved waiver and release agreements (the "waivers") with each of the executives with the exception of Mr. Marcucci. The waivers provide that the change-in-control agreements with these executives will be deemed to have terminated immediately prior to the closing date of the merger, and the executive will release Quanex from all claims he may have had with respect to his change-in-control agreement. The waivers are conditioned upon the consummation of the merger and the spin-off as well as the executive being offered employment by Quanex Building Products at a level of base pay and cash incentive bonus opportunities at or higher than the level the executive has at present with Quanex along with other conditions. For more information on the compensation that Quanex Building Products expects to pay its executive officers, see the preliminary QBPC Information Statement attached hereto as *Annex D*.

The waivers provide that (i) any outstanding unvested stock options that the executive holds will immediately vest and be exercisable; (ii) all restrictions on any restricted stock held by the executive will immediately lapse and the restricted stock will become free of restrictions and be transferable; (iii) the executive will be fully vested in his entire account balance under Quanex's Deferred Compensation Plan or any portion of such plan that is spun-off to Quanex Building Products as a result of the spin-off; and (iv) the

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executive's accrued benefit under Quanex's Supplemental Benefit Plan will be spun-off to Quanex Building Products as a result of the spin-off.

In conjunction with the waivers, Quanex will also pay each executive the following:

If a performance unit award was granted to the executive in 2005 pursuant to Quanex's 2003 Long-Term Incentive Plan, an amount equal to the number of units granted under the award times the target value of the award times 3/3; plus

If a performance unit award was granted to the executive in 2006 under Quanex's 2006 Omnibus Incentive Plan, an amount equal to the number of units granted under the award times the target value of the award times 2/3; plus

An amount equal to the executive's bonus under the fiscal year 2008 bonus plan as determined by the Quanex Board of Directors times a fraction, the numerator of which is the number of days in the current fiscal year through the closing date and the denominator of which is 365.

The waivers provide that the executive is entitled to a gross-up payment for any excise taxes that are imposed upon him under Section 4999 of the Code as a result of these or any payments made by Quanex being deemed to be excess parachute payments under Section 280G of the Code.

We currently value these benefits (excluding the acceleration of equity awards) for Mr. Jean at approximately \$1,526,667, for Mr. Walker at approximately \$329,375, for Mr. Delaney at approximately \$336,458, for Mr. Mannion at approximately \$103,333, for Mr. Hammonds at approximately \$111,000, and for Mr. Korb at approximately \$107,667.

Pursuant to the waivers, Quanex will also cause Quanex Building Products to enter into a new change-in-control agreement and a severance agreement with each executive. Under the terms of the severance agreement, Quanex Building Products will provide a severance benefit in an amount equal to 12 months for Messrs. Korb, Hammonds and Mannion, 18 months for Messrs. Delaney and Walker and 24 months for Mr. Jean of their respective base salary and a prorated annual bonus equal to the executive's annual bonus opportunity prorated through the date of severance if the executive's employment with Quanex Building Products is terminated by Quanex Building Products without cause or, if within the one-year period following the closing date, the executive terminates his employment with good reason, as each such term will be defined in the severance agreement.

If the merger or the spin-off fail to close or if Quanex breaches any of the provisions of the waivers or any other agreement required to be entered into under the terms of the waivers, then the waivers will be void and the change-in-control agreements will remain in full force and effect.

Since Mr. Marcucci did not execute a waiver, his change-in-control agreement will remain in full force and effect. A change in control is defined generally as (i) an acquisition of securities resulting in an individual or entity or group thereof becoming, directly or indirectly, the beneficial owner of 20% or more of either (a) Quanex's then-outstanding common stock or (b) the combined voting power of the then-outstanding voting securities of Quanex entitled to vote generally in the election of directors, (ii) a change in a majority of the members of the Board of Directors as of the effective date of the agreement, (iii) generally, a reorganization, merger or consolidation or sale of Quanex or disposition of all or substantially all of the assets of Quanex, or (iv) the approval by the stockholders of Quanex of a complete liquidation or dissolution of Quanex.

Upon a change in control, Mr. Marcucci will continue to receive substantially the same compensation and benefits from Quanex (or its successor) that he received before the change. In addition, all options to acquire Quanex common stock held by Mr. Marcucci will immediately vest and be fully exercisable, and all restrictions on restricted Quanex common stock granted to Mr. Marcucci will be removed and the stock will be fully transferable. If during the two-year period following a change in control Mr. Marcucci's employment is terminated by Quanex (or its successor) other than for cause (as defined in the change-in-control agreement) or if Mr. Marcucci terminates his own employment with the company for good reason (as defined in the change-in-control agreement), Mr. Marcucci will be entitled to (i) a payment equal to two times

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the sum of (a) his base salary and (b) his annual bonus (ii) a prorated annual bonus for the year in which such termination occurs and (iii) continued coverage under Quanex welfare plans until the earlier to occur of (x) the third anniversary of his termination of employment and (y) the date he becomes employed on a full time basis with another employer. The agreement also provides that Mr. Marcucci is entitled to a gross-up payment for any excise taxes that are imposed upon him under Section 4999 of the Code as a result of these or any other payments made by Quanex being deemed to be excess parachute payments under Section 280G of the Code.

We currently value these benefits (excluding the acceleration of equity awards) for Mr. Marcucci at approximately \$867,917.

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THE MERGER AGREEMENT

The following summary of the merger agreement is qualified by reference to the complete text of the merger agreement, which is attached as *Annex A* and incorporated by reference into this proxy statement. This section of the proxy statement describes the material provisions of the merger agreement but may not contain all of the information about the merger agreement that is important to you. We encourage you to read the merger agreement in its entirety. It is an agreement that establishes and governs the legal relationships among the parties to the agreement with respect to the transactions described in this proxy statement. It is not intended to be a source of factual, business or operational information about any of the parties to the merger agreement. The representations, warranties and covenants made in the agreement are qualified and subject to important limitations. Furthermore, the representations and warranties may be subject to a contractual standard of materiality or material adverse effect applicable to the parties to the agreement that may be different from those that are applicable to you or may be used to allocate risk among the parties to the agreement rather than establishing matters of fact. Some of these representations and warranties may not have been accurate or complete as of any specified date and do not purport to be accurate or complete as of the date of this proxy statement. Accordingly, you should not rely on the representations and warranties as characterizations of the actual state of facts at the time they were made or otherwise.

Structure of the Merger

Following the spin-off of Quanex's Building Products Group, on the terms and subject to the conditions of the merger agreement, and in accordance with the DGCL, at the effective time of the merger, Gerdau Delaware will merge with and into Quanex. Quanex will continue as the surviving company and will be a wholly-owned subsidiary of Gerdau. The separate corporate existence of Gerdau Delaware will cease.

Timing of Closing

The closing of the merger will occur as promptly as practicable following the Quanex stockholder meeting and when all other conditions to the merger, including the completion of the spin-off, other than those conditions that by their nature are to be satisfied at the closing, have been satisfied or waived (or such other date as the parties may agree). However, we cannot assure you when or if the merger will occur.

As soon as practicable after the closing of the merger, Gerdau and Quanex will file a certificate of merger with the Secretary of State of the State of Delaware. The effective time of the merger will be the time Gerdau and Quanex file the certificate of merger with the Secretary of State of the State of Delaware or at a later time as may be agreed to and specified in the certificate of merger.

Merger Consideration

At the effective time of the merger, each outstanding share of Quanex common stock (other than any shares owned directly or indirectly by Gerdau or Quanex and those shares held by dissenting stockholders), together with the rights associated with that share of Quanex common stock under the Third Amended and Restated Rights Agreement dated as of September 15, 2004, between Quanex and Wells Fargo Bank, N.A. as Rights Agent (the "Rights Plan"), collectively will be converted into the right to receive \$39.20 in cash, without interest.

Treatment of Quanex Stock Options and Restricted Stock Units

At the effective time of the merger, Quanex stock options will become vested and exercisable and will be cancelled. The holder of such Quanex stock options will be entitled to receive an amount in cash equal to: (x) the total number of shares of Quanex common stock subject to the stock option times (y) the excess of (i) the sum of (A) \$39.20 and (B) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group over (ii) the exercise price per share under the stock option, less any applicable withholding.

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Each restricted stock unit that has been issued but has not vested prior to the effective time of the merger will become fully vested at the effective time of the merger and will be converted into the right to receive an amount per restricted stock unit equal to the sum of (y) \$39.20 and (z) the closing sales price of a share of Quanex Building Products common stock on the NYSE on the distribution date for the spin-off of Quanex's Building Products Group.

See "Interests of Certain Persons in the Merger" beginning on page 33 for a discussion of the treatment of restricted stock pursuant to the terms of the spin-off.

Exchange and Payment Procedures

At the effective time of the merger, Gerdau will deposit cash in an amount sufficient to pay the merger consideration and the other equity amounts due to each holder of shares of Quanex common stock or other equity holders with a bank or trust company (the "paying agent") reasonably acceptable to Quanex. As soon as reasonably practicable after the effective time of the merger, the paying agent will send to each holder of Quanex common stock a letter of transmittal and instructions. The letter of transmittal and instructions will tell each holder of Quanex common stock how to exchange their shares for the merger consideration.

QUANEX STOCK CERTIFICATES SHOULD NOT BE RETURNED WITH THE ENCLOSED PROXY CARD. QUANEX STOCK CERTIFICATES SHOULD NOT BE SENT TO THE PAYING AGENT WITHOUT A LETTER OF TRANSMITTAL.

Holders of Quanex common stock that hold certificates will not be entitled to receive the merger consideration until they surrender their stock certificate or certificates to the paying agent, together with a duly completed and executed letter of transmittal and any other documents as may be reasonably requested by the paying agent. For holders of Quanex common stock that hold their shares in book-entry form, the letter of transmittal will provide specific instructions on how to provide evidence of your ownership of Quanex common stock. The merger consideration may be paid to a person other than the person in whose name the corresponding certificate is registered if the certificate is properly endorsed or is otherwise in the proper form for transfer. In addition, the person who surrenders such certificate must pay any transfer or similar taxes or establish to the satisfaction of the paying agent that such tax has been paid or is not applicable.

No interest will be paid or will accrue on the cash payable upon surrender of the certificates. Each of the surviving company and the paying agent will be entitled to deduct and withhold, and pay to the appropriate taxing authorities, any applicable taxes from the merger consideration and the option and restricted stock unit amounts. Any sum which is withheld and paid to a taxing authority by the surviving company or the paying agent will be deemed to have been paid to the person with regard to whom it is withheld.

At the effective time of the merger, Quanex's stock transfer books will be closed, and there will be no further registration of transfers of outstanding shares of Quanex common stock. If, after the effective time of the merger, certificates are presented to the surviving company for transfer, they will be cancelled and exchanged for the merger consideration.

If any certificate is lost, or if it has been stolen or destroyed, then before the holder of such certificate will be entitled to receive the merger consideration, such holder will have to make an affidavit of that fact and, if required by Gerdau, post a bond or surety in such reasonable amount as Gerdau may direct as indemnity against any claim that may be made against it with respect to that certificate.

Certificate of Incorporation and Bylaws

The certificate of incorporation and bylaws of Quanex will be amended and restated as of the effective time and, as so amended and restated, will be the certificate of incorporation and bylaws of the surviving company.

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Directors and Officers

The directors and officers of Gerdau Delaware immediately prior to the effective time of the merger will be the initial directors and officers of the surviving company. The directors and officers will serve in accordance with the certificate of incorporation and bylaws of the surviving company.

Representations and Warranties

Quanex makes various representations and warranties in the merger agreement, including with respect to, among other things:

the due organization, good standing and qualification of Quanex and its subsidiaries;

Quanex's capital structure, including the number of shares of Quanex common stock, stock options and other equity-based interests;

Quanex's corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

the approval and recommendation of Quanex's Board of Directors of the merger agreement, the merger and the other transactions contemplated by the merger agreement;

the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

the absence of violations of or conflicts with Quanex's and its subsidiaries' governing documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;

the filing and validity of Quanex's reports filed with the Securities and Exchange Commission since October 31, 2005 and the accuracy and completeness of the historical financial statements included therein;

the absence of certain fundamental changes and undisclosed liabilities;

material legal proceedings and judgments;

employment and labor matters affecting Quanex or its subsidiaries, including matters relating to Quanex and its subsidiaries' employee benefit plans;

compliance with laws;

the possession of permits necessary to conduct the Quanex business;

the inapplicability of anti-takeover statutes to the merger;

taxes and environmental matters;

Quanex's and its subsidiaries' insurance policies;

intellectual property;

the holding of good and valid title to all assets and properties necessary to conduct the Quanex business as currently conducted;

the absence of undisclosed broker's fees;

the amendment of Quanex's Rights Plan; and

the absence of affiliate transactions.

Generally, the Quanex representations and warranties are subject to a material adverse effect clause. If Quanex does something or fails to do something that would normally violate a representation or warranty, but the action or failure does not result in a material adverse effect, the representation or warranty has not been

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breached if it is qualified by the material adverse effect clause. A material adverse effect is any event or development that would reasonably be expected to be materially adverse to the Quanex business or is reasonably likely to prevent or materially impair or delay the consummation of the merger. The following events are excluded from being a material adverse effect:

general economic, capital market, regulatory, political or business conditions or acts of war or terrorism;

factors generally affecting the industries or markets in which Quanex operates;

entering into the merger agreement or the announcement thereof or the pendency or consummation of the transactions contemplated thereby;

changes in applicable law, rules or regulations or generally accepted accounting principles or the interpretation thereof after the date of the merger agreement; and

changes in Quanex's relationships with its employees or with any labor organization, or any adverse change, effect or circumstance resulting from or arising in connection with any labor strike, slowdown, work stoppage or other labor controversy (in each case relating to collective bargaining negotiations), that is threatened to occur or occurs after the date of the merger agreement.

The merger agreement also contains various representations and warranties made by Gerdau and Gerdau Delaware, including with respect to, among other things:

their due organization, good standing and qualification;

their corporate power and authority to enter into the merger agreement and to consummate the transactions contemplated by the merger agreement;

the required consents and approvals of governmental entities in connection with the transactions contemplated by the merger agreement;

the absence of violations of or conflicts with their and their subsidiaries' governing documents, applicable law or certain agreements as a result of entering into the merger agreement and consummating the merger;

the accuracy and completeness of the historical financial statements included in Gerdau's Form 6-K's filed with the Securities and Exchange Commission on April 27, 2007 and September 14, 2007;

the absence of material litigation or investigations;

compliance with laws;

material permits necessary to conduct their business;

the purpose of the formation of Gerdau Delaware and the prior activities of Gerdau Delaware;

the absence of undisclosed broker's fees;

the lack of ownership by Gerdau and Gerdau Delaware of Quanex common stock; and

that Gerdau Delaware has the funds available to consummate the merger and pay the merger consideration.

Conduct of Business Pending the Merger

During the period from the date of the merger agreement to the effective time of the merger, Quanex agrees to, and to cause its affiliates to, carry on its business in the usual, regular and ordinary course consistent with past practice and use its reasonable commercial efforts to preserve intact its current business organization, keep available the services of its current officers and employees and preserve its relationships with customers, suppliers, licensors, licensees, distributors and others having business dealings with Quanex with respect to its business, in each case consistent with past practice. In addition, Quanex agrees, with certain exceptions, not to

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engage in the following actions from the date of the merger agreement to the effective time of the merger without the prior written consent of Gerdau or Gerdau Delaware:

declare, set aside or pay any dividend or distribution in respect of its capital stock other than regular quarterly cash dividends not to exceed \$0.14 per share of Quanex common stock;

split, combine or reclassify any of its capital stock, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock;

purchase, redeem or otherwise acquire any shares of its capital stock or any rights, warrants or options to acquire any such shares, except in connection with certain equity incentive plan transactions;

except as provided for in the documents effecting the spin-off of Quanex's Building Products Group, issue, deliver or sell any shares of its capital stock, any other voting securities or any securities convertible into, or any rights, warrants or options to acquire, any shares, voting securities or convertible securities or any restricted stock units, except in connection with certain equity incentive plan transactions or pursuant to any existing obligation described in the disclosure schedules;

amend the certificate of incorporation or bylaws of Quanex;

acquire or agree to acquire (i) by merger or consolidation with, or by purchasing an equity interest in or substantial portion of the assets of any person or any division or business or (ii) any assets material to the Quanex business except purchases of supplies, equipment and inventory in the ordinary course of business consistent with past practice;

sell, lease, license, impose a lien or otherwise encumber or dispose of any of its material properties or assets, other than in the ordinary course of business consistent with past practice and in other transactions involving not in excess of \$10 million in the aggregate;

incur any indebtedness for borrowed money or guarantee any such indebtedness of another person, issue or sell any debt securities or warrants or rights to acquire any debt securities of Quanex, guarantee any debt securities of another person, enter into any keep well or other arrangement to maintain any financial statement condition of another person or enter into any arrangement having the economic effect of any of the foregoing except as agreed to in the merger agreement;

make any loans or capital contributions to, or investments in, any other person;

make any capital expenditures, other than as agreed to in the merger agreement;

change any method of tax accounting, make any material tax election, file any amended tax return for any material tax or change any annual tax accounting period;

except as permitted in the merger agreement, waive the benefits of, or agree to modify in any manner, any confidentiality, standstill or similar agreement to which Quanex is a party or exempt any third party from the provisions of any anti-takeover statutes;

adopt a plan of complete or partial liquidation or resolutions authorizing such a liquidation, dissolution, recapitalization or reorganization of Quanex;

enter into any new collective bargaining agreement;

except as required by changes in law or GAAP, make any change in accounting principles used by Quanex;

settle or compromise any material litigation;

except as provided in the documents effecting the spin-off of Quanex's Building Products Group, (i) enter into any new or amend any existing employment, consulting, severance or termination agreement with any officer, director or employee whose annual base salary exceeds \$100,000, (ii) adopt any new incentive, retirement or welfare benefit arrangements, plans or programs for the benefit of current, former or retired employees or amend any existing benefit plans other than amendments

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required by law or to maintain the tax qualified status of such plans, (iii) grant any increases in employee compensation, other than in the ordinary course consistent with past practice provided that any such increase will not include increases in compensation to officers or any employee whose annual base salary exceeds \$100,000 or (iv) grant any stock options or stock awards other than as permitted under the merger agreement;

cancel any material debts or waive any material claims or rights of substantial value except for cancellations made or waivers granted with respect to claims other than indebtedness in the ordinary course consistent with past practice or as permitted under the merger agreement;

enter into, make any modification or amendment to certain specified contracts;

take any action or fail to take any action which would result in any of the conditions to the merger agreement to not be satisfied; or

authorize, commit or agree to take any action described above.

Non-Solicitation Provisions and Acquisition Proposals

Quanex has agreed that it will instruct its advisors or representatives not to, directly or indirectly:

solicit, initiate or knowingly take any action to facilitate or encourage, whether publicly or otherwise, the submission of any inquiries or the making of any inquiry, proposal or offer or other efforts or attempts that constitutes, or could reasonably be expected to lead to, any acquisition proposal ;

enter into, or participate in any discussions or negotiations regarding, or furnish to any person any non-public information for the purpose of encouraging or facilitating any acquisition proposal ; or

enter into any letter of intent, memorandum of understanding, agreement in principle, acquisition agreement, merger agreement or similar agreement with respect to any acquisition proposal or enter into any agreement or agreement in principle requiring Quanex to abandon, terminate or fail to consummate the transactions contemplated under the merger agreement or breach its obligations under the merger agreement or agree to do any of the foregoing.

An acquisition proposal means any inquiry, proposal or offer (other than the transactions contemplated by the merger agreement) from any person or group relating to:

any proposal or offer for a merger, consolidation, dissolution, tender offer, recapitalization, reorganization, share exchange, business combination or similar transaction involving Quanex; or

any proposal or offer to acquire in any manner, directly or indirectly, over 20% of the equity securities or consolidated total assets (including, without limitation, equity securities of Quanex's subsidiaries) of Quanex, in each case other than the transactions contemplated under the merger agreement.

Notwithstanding the above, Quanex may, to the extent failure to take such actions would reasonably be expected to result in a breach of the fiduciary obligations of the Quanex Board under applicable law, as determined in good faith by the Quanex Board after consultation with outside counsel, in response to a (1) a superior proposal or (2) a bona fide, unsolicited written acquisition proposal that Quanex's Board determines in good faith after consultation with outside counsel and its financial advisor is or is reasonably likely to lead to a superior proposal, furnish information with respect to Quanex to such person that has made a superior proposal or potential superior proposal and its

representatives (provided that Quanex will promptly make available to Gerdau and Gerdau Delaware any material non-public information concerning Quanex or its subsidiaries that is made available to any person given such access which was not previously provided to Gerdau and Gerdau Delaware) pursuant to a customary confidentiality agreement not less restrictive of the other party than the confidentiality agreement current in place with Gerdau Ameristeel Corporation, but excluding any standstill provisions, and participate in discussions or negotiations with, such person and its representatives regarding any such superior proposal or potential superior proposal. Quanex will promptly advise Gerdau of the receipt by Quanex of any acquisition proposal or any request for non-public information made by any person or group of persons that has informed Quanex that it is considering making an acquisition

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proposal or any request for discussions or negotiations with Quanex or its representatives relating to an acquisition proposal (in each case within 48 hours of receipt thereof), and Quanex will provide Gerda (within such 48 hour time frame) a written summary of the material terms of such acquisition proposal (which shall include the identity of the person or group of persons making the acquisition proposal) and if Quanex determines to begin providing information or to engage in discussions regarding an acquisition proposal. Quanex will keep Gerda reasonably informed of any material change to the terms and conditions of any acquisition proposal. Quanex agrees not to enter into any confidentiality agreement with any person subsequent to the date of the merger agreement which prohibits Quanex from providing such information to Gerda.

For purposes of the merger agreement, a superior proposal means any bona fide written acquisition proposal made by a third party and not solicited to acquire more than 50% of the assets of Quanex and its subsidiaries, taken as a whole but excluding the Building Products Group, pursuant to a tender or exchange offer, a merger, a recapitalization, a consolidation or a sale of its assets, which the Board of Directors of Quanex determines in its good faith judgment (i) to be more favorable from a financial point of view to Quanex stockholders than the merger contemplated with Gerda and (ii) is reasonably capable of being completed on the terms proposed therein, after taking into account the likelihood and timing of completion and after taking into account all financial, regulatory, legal and other aspects of such proposal.

Quanex's Board of Directors shall generally not be permitted to make a change in recommendation regarding the transactions contemplated in the merger agreement unless, prior to obtaining the Quanex stockholder approval, it determines in good faith, after consulting with outside legal counsel, that the failure to do so would reasonably be expected to result in a breach of its obligations under applicable law provided that Quanex cannot make such change in recommendation in response to a superior proposal until:

at least three business days following Gerda's receipt of written notice from Quanex (i) advising Gerda that the Quanex Board intends to make a change in recommendation and the reason for such change, (ii) specifying the terms and conditions of such superior proposal (including the proposed financing for such proposal) and (iii) identifying any party making such superior proposal, and

prior to effecting such change in recommendation in response to a superior proposal, Quanex and its financial and legal advisors negotiate with Gerda and Gerda Delaware in good faith (to the extent that Gerda and Gerda Delaware desire to negotiate) to make such adjustments to the terms and conditions of the merger agreement so that the acquisition proposal ceases to constitute a superior proposal.

For the purposes of the merger agreement, a change in recommendation occurs when the Quanex Board of Directors (i) withdraws, qualifies or modifies or proposes publicly to withdraw, qualify or modify in any manner adverse to Gerda, its approval or recommendation with respect to the merger agreement and the merger or other transactions contemplated thereby or (ii) approves or recommends any superior proposal made or received after the date of the merger agreement. In determining whether to make a change in recommendation in response to a superior proposal, the Quanex Board of Directors must take into account any changes to the terms of the merger agreement proposed by Gerda in determining whether such third party acquisition proposal still constitutes a superior proposal.

Quanex has also agreed to, and will direct its advisors and representatives to:

immediately cease all discussions and negotiations that commenced prior to the date of the merger agreement regarding any acquisition proposals existing on the date of the merger agreement, and to request return or destruction of all confidential information;

promptly advise Gerdau of Quanex's receipt of any acquisition proposal or any request for non-public information made by any person or group of persons that has informed Quanex that it is considering making an acquisition proposal or any request for discussions or negotiations with Quanex or its representatives relating to an acquisition proposal, in each case within 48 hours receipt thereof, and Quanex shall provide Gerdau a written summary of the material terms and conditions of the proposal, including the identity of the person or persons making such proposal, and if Quanex determines to begin providing information or engage in discussions regarding an acquisition proposal;

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keep Gerdau reasonably informed of any material change to the terms and conditions of any acquisition proposal; and

not enter into any confidentiality agreement with any person after the date of the merger agreement which prohibits Quanex from providing such information to Gerdau.

Financing Commitments; Cooperation of Quanex

Gerdau Delaware has represented in the merger agreement that it has sufficient funds to consummate the merger and has provided Quanex a commitment letter from a major bank in order to demonstrate its ability to pay the merger consideration. The ability of Gerdau Delaware to pay the merger consideration is not a condition to the completion of the merger.

Quanex has agreed to use its commercially reasonable efforts to, and will cause its subsidiaries and its and their respective officers, employees and representatives to use their commercially reasonable efforts to assist Gerdau and Gerdau Delaware in connection with the arrangement of any financing to be consummated prior to or contemporaneously with the closing of the merger in order for Gerdau to satisfy its obligations under the merger agreement or any refinancing or replacement of any existing, or the arrangement of any new, facility for indebtedness of Quanex and its subsidiaries. Such assistance may include the following:

entering into customary agreements, including underwriting and purchase agreements, in connection with the debt financing;

participating in meetings, due diligence sessions and road shows;

assisting in preparing offering memoranda, rating agency presentations, private placement memoranda, prospectuses and similar documents;

using commercially reasonable efforts to obtain comfort letters of accountants and legal opinions; and

otherwise making available documents and information relating to Quanex and its subsidiaries.

However, such assistance will not be provided if it would:

unreasonably interfere with the ongoing operations of Quanex or any of its subsidiaries;

cause any representation or warranty in the merger agreement to be breached;

cause any condition to the closing of the merger to fail to be satisfied or otherwise cause any breach of the merger agreement or any material agreement to which Quanex or any of its subsidiaries is a party;

involve any binding commitment by Quanex or any of its subsidiaries which commitment is not conditioned on the closing of the merger and does not terminate without liability to Quanex or any of its subsidiaries upon the termination of the merger agreement; or

in the case of Quanex's or its subsidiaries' officers, (i) result in the indemnification protections afforded such officers by Quanex or its subsidiaries not being in full force and effect, (ii) not allow such officers to sign documents, certificates and other instruments in their representative capacity with Quanex or such subsidiary

and (iii) result in personal liability attaching to such officers as a result of signing such documents, certificates and other instruments.

Employee Benefits

For a period of one year after the effective time of the merger, Gerdau will, or will cause the surviving company or its subsidiaries to, offer base salary and bonus opportunities to Quanex employees who are not covered by a collective bargaining agreement that are in the aggregate equal to the base salary, bonus opportunities and value of the equity incentives being offered to such employees for the fiscal year immediately preceding the fiscal year in which the merger is closed. Generally, Gerdau will grant Quanex employees not covered by a collective bargaining agreement full credit for past service with Quanex for purposes of eligibility, vesting and benefit accrual (other than accrual under certain pension and retiree medical

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plans) under any employee benefit plans maintained by Gerdau or any of its subsidiaries. Gerdau will take any actions as are necessary so that each Quanex employee who continues as an employee of Quanex not covered by a collective bargaining agreement or any of its subsidiaries will not be subject to preexisting condition exclusions or waiting periods for coverages under any Gerdau benefit plan.

Directors and Officers Indemnification and Insurance

Each of Quanex's certificate of incorporation and bylaws contains a provision eliminating the personal liability of its directors to the company or its stockholders for monetary damages for breach of fiduciary duty as a director to the extent permitted under applicable law. The effect of this provision is to eliminate the personal liability of directors to the company or its stockholders for monetary damages for actions involving a breach of their fiduciary duty. The bylaws of Quanex generally provide for the mandatory indemnification of, and payment of expenses incurred by, its directors and officers to the fullest extent permitted under applicable law. Quanex has obtained directors' and officers' liability insurance, which insures against liabilities that its directors and officers may incur in these capacities.

Following the effective time of the merger, Gerdau and the surviving company will indemnify and hold harmless, and provide advancements of expenses to, each present and former officer or director of Quanex or any of its subsidiaries. This indemnification will include indemnification against all losses, expenses (including reasonable attorneys' fees and expenses), claims, damages and liabilities arising out of actions or omissions occurring at or prior to the effective time of the merger (whether asserted or claimed prior to, at or after the effective time of the merger) that are based on the fact that the person is or was a director or officer of Quanex or any of its subsidiaries.

For six years after the effective time of the merger, Gerdau will also maintain in effect directors' and officers' liability insurance covering acts or omissions occurring prior to the effective time of the merger with respect to those directors and officers of Quanex who were covered by, and on terms and in amounts no less favorable than those of, Quanex's directors' and officers' liability insurance at the time the merger agreement was executed. In no event will the surviving company be required to pay aggregate annual premiums for insurance under this in excess of three times the most recent aggregate annual premium paid by Quanex for such purpose (which most recent aggregate annual premium was \$561,500 in the aggregate) provided, further, that if the annual premiums of such insurance coverage exceed such amount, the surviving company will be obligated to obtain a policy with the best coverage available, in the reasonable judgment of the Board of Directors of the surviving company, for a cost up to but not exceeding 300% of the most recent aggregate annual premium paid by Quanex. In addition, for six years after the effective time of the merger, Gerdau will cause the surviving company to maintain in effect fiduciary liability insurance policies for employees who serve or have served as fiduciaries under or with respect to any employee benefit plans described in the disclosure schedules with coverages and in amounts no less favorable than those of the policies of Quanex in effect on the date of the merger agreement.

Actions to Consummate the Merger

Quanex and Gerdau will cooperate with each other and use their respective reasonable best efforts to take all action to consummate the merger, including complying with Hart-Scott-Rodino Act notice requirements, furnishing information upon request by the other, keeping each other apprised of the status of matters relating to the completion of the transactions and affording representatives of the other party reasonable access to properties, books, contracts, records and personnel. Gerdau and Quanex each agreed to make a filing under the Hart-Scott-Rodino Act with respect to the merger, to request early termination of the waiting period with respect to the merger under the Hart-Scott-Rodino Act and to use their respective reasonable best efforts to promptly respond to any request for additional information under the Hart-Scott-Rodino Act. In addition, Gerdau has agreed to use its best efforts, after consultation with Quanex, to avoid the entry of any permanent, preliminary or temporary injunction or other order or judgment that would delay, prevent or prohibit consummation of the transactions contemplated by the merger.

agreement, including:

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the defense through litigation of any claim brought to delay, prevent or prohibit the transactions contemplated by the merger agreement, and

the agreement by Gerdau to sell or dispose of assets or businesses of Gerdau or Quanex if such action is necessary to obtain termination of the waiting period under the Hart-Scott-Rodino Act or to avoid commencement of a proceeding or the issuance of an order that would delay, prevent or prohibit the transactions contemplated by the merger agreement.

Gerdau has also agreed to use its best efforts, if an injunction, judgment or decree is issued that would make consummation of the merger unlawful or would delay, prevent or prohibit the transactions contemplated by the merger agreement, to take any and all steps necessary to resist, vacate or modify the injunction, judgment or decree so as to permit consummation on a schedule as close as possible to that contemplated by the merger agreement.

Additional Covenants

Quanex agrees to take all action necessary to convene a meeting of the Quanex stockholders to consider and vote upon the adoption of the merger agreement, and Quanex's Board of Directors agrees to recommend such approval and take all lawful action to solicit such approval.

Prior to the effective time of the merger, Quanex will effect the spin-off of its Building Products Group in accordance with the terms of the spin-off documents attached as exhibits to the merger agreement.

Conditions to the Merger

The respective obligation of each party to effect the merger is subject to the satisfaction or waiver at or prior to the effective time of the merger of each of the following conditions:

the approval of Quanex's stockholders will have been obtained;

the waiting period applicable to the consummation of the merger under applicable antitrust laws will have expired or have terminated and any other approvals from governmental entities will have been obtained;

there is no judgment, injunction or other order in effect that restrains, enjoins or otherwise prohibits consummation of the merger or the other transactions contemplated by the merger agreement;

the representations and warranties of the parties contained in the merger agreement will be true and correct in all material respects as of the effective time of the merger;

the parties will have performed in all material respects their respective obligations under the merger agreement at or prior to the closing date; and

with respect to the obligations of Gerdau and Gerdau Delaware only, the spin-off will have been effected by Quanex.

Termination

The merger agreement may be terminated, and the merger may be abandoned in the following ways:

at any time prior to the effective time of the merger by mutual written consent of Quanex and Gerdau or by action of their respective boards of directors;

by Quanex or Gerdau, if the merger is not consummated by April 30, 2008 provided that, if a second request is made by the DOJ or FTC under the Hart-Scott-Rodino Act, the merger is not consummated by the date that is 60 days after the last day of the additional 30-day waiting period for such second request, so long as the party attempting to terminate has not breached in any material respect its obligations under the merger agreement in a manner that would have contributed to the failure of the merger to be consummated by that date;

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by Quanex or Gerdau, if the approval of Quanex's stockholders is not obtained;

by Quanex or Gerdau, if any order permanently restraining, enjoining or otherwise prohibiting consummation of the merger becomes final and non-appealable;

by Quanex, if the Board of Directors of Quanex authorizes Quanex to enter into a binding written agreement concerning a superior proposal, and Gerdau does not make at least as favorable an offer, from a financial point of view, as such superior proposal;

by Quanex, if there has been a breach of any representation, warranty, covenant or agreement made by Gerdau or Gerdau Delaware in the merger agreement or any such representation and warranty becomes untrue after the date of the merger agreement and such breach or condition delays, prevents or materially impairs or is reasonably likely to delay, prevent or materially impair the ability of Gerdau or Gerdau Delaware to consummate the transactions contemplated by the merger agreement and is not curable by April 30, 2008, provided that Quanex is not then in breach of the merger agreement;

by Gerdau, in the event that the Quanex Board of Directors (i) shall have effected a change in recommendation to the Quanex stockholders or (ii) fails publicly to reaffirm its adoption and recommendation of the merger agreement, the merger or the other transactions contemplated by the merger agreement within ten business days of receipt of a written request by Gerdau to provide such reaffirmation following an acquisition proposal; or

by Gerdau, if there has been a material breach of any representation, warranty, covenant or agreement made by Quanex in the merger agreement.

Fees and Expenses

Quanex will pay Gerdau a termination fee of \$50,190,000 if the merger agreement is terminated:

1) by Quanex, if Quanex's Board of Directors authorizes Quanex to enter into a binding written agreement concerning a superior proposal, and Gerdau does not make at least as favorable an offer, from a financial point of view, as such superior proposal;

2) by Gerdau, within 20 business days of the date on which Quanex's Board of Directors (i) makes a change in recommendation to the Quanex stockholders to approve the merger or publicly proposes to do so, (ii) approves or recommends to the Quanex stockholders an acquisition proposal other than the merger or resolves to do so or (iii) fails to include its approval and recommendation with respect to the merger agreement and the merger in this proxy statement; or

3) if all three of the following conditions are met:

the merger agreement is terminated (i) by Quanex or Gerdau, if the merger is not consummated by April 30, 2008 provided that, if a second request is made by the DOJ or FTC under the Hart-Scott-Rodino Act, the merger is not consummated by the date that is 60 days after the last day of the additional 30-day waiting period for such second request, so long as the party attempting to terminate has not breached in any material respect its obligations under the merger agreement in a manner that would have contributed to the failure of the merger to be consummated by that date; (ii) by Quanex or Gerdau, if Quanex's stockholder approval has not been obtained; or (iii) by Gerdau, if there has been a breach of any representation, warranty, covenant or agreement

made by Quanex in the merger agreement or any such representation and warranty becomes untrue after the date of the merger agreement and such breach or condition causes or is reasonably likely to cause a material adverse effect and is not curable by April 30, 2008, provided that Gerdau and Gerdau Delaware are not then in breach of the merger agreement,

if, after the date of the merger agreement and prior to the Quanex stockholders meeting, a third party has made a bona fide written acquisition proposal for Quanex that has been publicly disclosed and not publicly withdrawn or rejected by the Quanex Board of Directors prior to the Quanex stockholders meeting,

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and

within twelve months of such termination Quanex consummates or enters into a definitive agreement with respect to an acquisition proposal.

Gerdau agrees to pay Quanex a termination fee of \$60 million if the merger agreement is terminated if a second request is made by the DOJ or FTC under the Hart-Scott-Rodino Act and the merger is not consummated by the date that is 60 days after the last day of the additional 30-day waiting period for such second request, so long as the party attempting to terminate has not breached in any material respect its obligations under the merger agreement in any manner that would have contributed to the failure of the merger to be consummated by that date, and at the time of the termination, there exists an order under U.S. federal or state antitrust law that would make the consummation of the merger unlawful or in violation of any court order.

Except as otherwise provided above, all costs and expenses incurred in connection with the merger agreement and the merger and the other transactions contemplated by the merger agreement will be paid by the party incurring such expense.

Modification, Amendment and Waiver

Subject to applicable law, at any time prior to the effective time of the merger, the merger agreement may be amended, modified or supplemented in writing by the parties, by written agreement executed and delivered by duly authorized officers of the respective parties.

The conditions to each of the parties' obligations to consummate the merger may be waived by such party in whole or in part to the extent permitted by applicable law.

Table of Contents**MARKET PRICE AND DIVIDEND DATA**

Quanex common stock is listed for trading on the NYSE under the symbol NX. The following table sets forth, for the fiscal quarters indicated, the high and low sale prices per share as reported on the NYSE composite tape. Share amounts set forth below and elsewhere in this proxy statement have been adjusted to reflect the results of the March 2006 three-for-two stock split in the form of a stock dividend.

	High	Low
Fiscal Quarter Ended January 31, 2006	\$ 42.17	\$ 32.41
Fiscal Quarter Ended April 30, 2006	49.02	38.22
Fiscal Quarter Ended July 31, 2006	44.91	33.81
Fiscal Quarter Ended October 31, 2006	38.09	29.15
Fiscal Quarter Ended January 31, 2007	39.67	32.91
Fiscal Quarter Ended April 30, 2007	44.99	37.79
Fiscal Quarter Ended July 31, 2007	55.51	42.26
Fiscal Quarter Ended October 31, 2007	48.27	36.47
Fiscal Quarter Ended January 31, 2008	53.40	36.08
Current Quarter (through March 20, 2008)	54.09	48.50

The closing price of the Quanex common stock on the NYSE on November 16, 2007, the trading day prior to the announcement of the merger, was \$36.74 per share. On March 20, 2008, the most recent practicable date before this proxy statement was printed, the closing price for the Quanex common stock on the NYSE was \$51.37 per share.

The following table sets forth, for the fiscal quarters indicated, the quarterly common stock cash dividends paid by Quanex.

	2008	2007	2006
Fiscal Quarter Ended January 31	\$ 0.1400	\$ 0.1400	\$ 0.1033
Fiscal Quarter Ended April 30		0.1400	0.1200
Fiscal Quarter Ended July 31		0.1400	0.1200
Fiscal Quarter Ended October 31		0.1400	0.1400
Total	\$ 0.1400	\$ 0.5600	\$ 0.4833

The terms of Quanex's revolving credit agreement do not specifically limit the total amount of dividends or other distributions to its stockholders.

Table of Contents**SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS**

The following tables set forth certain information with respect to the beneficial ownership of shares of our common stock (including shares underlying options) as of February 29, 2008, by each of our directors, our executive officers named in the summary compensation table of our Form 10-K/A filed on February 25, 2008, all executive officers and directors as a group and the beneficial owners of 5% or more of our outstanding common stock.

Name	Common Stock Owned of Record	Restricted Stock Units	Common Stock	Common	Common Stock Underlying Unvested Options(2)	Total	Percentage of Issued and Outstanding Common Stock
			Credited	Stock			
Raymond A. Jean	188,890	0	36,172	357,641	74,334	657,037	1.76%
Thomas M. Walker	8,300(3)	0	2,786	13,333	26,667	51,086	*%
Kevin P. Delaney	18,014(4)	0	13,334	52,358	14,567	98,273	*%
Mark A. Marcucci	23,260(5)	0	0	94,467	15,684	133,411	*%
Brent L. Korb	5,625	0	4,171	16,066	4,234	30,096	*%
Donald G. Barger, Jr.	4,107(6)	1,353	15,724	31,458	0	52,642	*%
Susan F. Davis	25,182(7)	1,353	19,823	22,458	0	68,816	*%
Joseph J. Ross	6,273(8)	1,353	14,668	40,458	0	62,752	*%
Joseph D. Rupp	0	607	0	7,528	0	8,135	*%
Richard L. Wellek	2,898(9)	1,353	8,005	31,458	0	43,714	*%
All directors and officers as a group	289,011	6,019	121,732	712,092	143,020	1,271,874	3.41%

* Less than 1.0%

(1) Includes options exercisable within 60 days.

(2) These options will vest and be liquidated when the merger closes.

(3) Includes 8,300 shares of restricted stock.

(4) Includes 6,300 shares of restricted stock.

- (5) Includes 6,750 shares of restricted stock.
- (6) Includes 4,023 shares of restricted stock.
- (7) Includes 4,023 shares of restricted stock.
- (8) Includes 4,023 shares of restricted stock.
- (9) All of these shares are restricted stock.

5% or More Beneficial Owners

Shares

Lord Abbett & Co	6,543,547
Artisan Partners Limited	2,453,508
Barclays Global Investors	1,974,367

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STOCKHOLDER PROPOSALS

If the merger agreement described in Proposal 1 is approved and adopted and the merger is completed, we will no longer have any public stockholders and we will not hold an annual meeting of stockholders in 2008. However, if the merger is not completed for any reason, we expect to hold a 2008 Annual Meeting of Stockholders in the second calendar quarter of 2008. Under the rules of the Securities and Exchange Commission, if a stockholder wants us to include a proposal in our proxy statement and form a proxy for presentation at our 2008 Annual Meeting it must have been received by us at our principal executive offices by September 21, 2007. Under our bylaws, if a stockholder has a proposal that they would like us to consider at the 2008 Annual Meeting or if a stockholder would like to nominate an individual for a position on the Board of Directors, the proposal must have been submitted not more than 180 days (October 1, 2007) nor less than 60 days (December 29, 2007) prior to February 27, 2008, the anniversary date of the 2007 Annual Meeting. In the event that the date of the Annual Meeting is more than 45 days (which for the 2008 Annual Meeting would be April 12, 2008) 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 tenth 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.

WHERE YOU CAN FIND MORE INFORMATION

Quanex files annual, quarterly and current reports, proxy statements, and other information with the Securities and Exchange Commission. You may read and copy materials that Quanex has filed with the Securities and Exchange Commission at the following Securities and Exchange Commission public reference room:

100 F Street, N.E., Washington, D.C. 20549

Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference room.

Quanex Building Products Corporation has filed a Registration Statement on Form 10 with the Securities and Exchange Commission to register the common stock of Quanex Building Products to be distributed to Quanex's stockholders in the spin-off. The QBPC Information Statement is part of the Quanex Building Products Registration Statement. The preliminary QBPC Information Statement is attached hereto as *Annex D* and is being furnished to Quanex's stockholders as part of this proxy statement.

As allowed by the Securities and Exchange Commission rules, this proxy statement does not contain all of the information that you can find in the Quanex Building Products Registration Statement or the exhibits to the Quanex Building Products Registration Statement.

Quanex's common stock is traded on the NYSE under the symbol **NX**, and its Securities and Exchange Commission filings can also be read at the following address:

11 Wall Street, New York, NY 10005

The Securities and Exchange Commission filings of Quanex are also available to the public on the Securities and Exchange Commission's internet website at www.sec.gov, which contains reports, proxy, and information statements, and other information regarding companies that file electronically with the Securities and Exchange Commission. In addition, Quanex's Securities and Exchange Commission filings are also available to the public on Quanex's website,

www.quanex.com. Information contained on the Securities and Exchange Commission's web site and Quanex's web site is not incorporated by reference into this proxy statement, and you should not consider information contained on those web sites as part of this proxy statement.

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Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****COMBINED BALANCE SHEETS
(Unaudited)**

	January 31, 2008	October 31, 2007	2006
	(In thousands)		
ASSETS			
Current assets:			
Cash and equivalents	\$ 180,542	\$ 151,938	\$ 103,462
Short-term investments	4,750	44,750	
Accounts receivable, net of allowance of \$2,163 \$2,204 and \$2,764	114,146	109,659	104,841
Inventories, net	111,867	98,630	87,301
Deferred income taxes	6,534	6,534	6,803
Prepaid and other current assets	531	693	251
Total current assets	418,370	412,204	302,658
Property, plant and equipment, net	246,519	252,442	242,376
Goodwill	6,680	6,680	
Cash surrender value insurance policies	29,525	29,424	28,684
Intangible assets, net	17,019	17,315	350
Other assets	4,496	5,059	9,202
Total assets	\$ 722,609	\$ 723,124	\$ 583,270
LIABILITIES AND PARENT COMPANY EQUITY			
Current liabilities:			
Accounts payable	\$ 96,979	\$ 81,345	\$ 67,509
Accrued liabilities	16,002	21,794	15,912
Income taxes payable	5,968	14,431	13,185
Current maturities of long-term debt	115,600	125,000	
Total current liabilities	234,549	242,570	96,606
Long-term debt			126,665
Deferred pension obligation	4,548	3,750	365
Deferred postretirement welfare benefits	6,191	6,189	6,946
Deferred income taxes	20,996	25,776	32,626
Non-current environmental reserves	8,077	8,499	9,005
Other liabilities	21,039	3,022	4,490
Total liabilities	295,400	289,806	276,703

Commitments and contingencies

Parent Company equity:

Parent company investment	(132,395)	(122,294)	(173,441)
Retained earnings	563,085	559,093	481,881
Accumulated other comprehensive income (loss)	(3,481)	(3,481)	(1,873)
Total parent company equity	427,209	433,318	306,567
Total liabilities and parent company equity	\$ 722,609	\$ 723,124	\$ 583,270

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Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****COMBINED STATEMENTS OF INCOME
(Unaudited)**

	Three Months Ended January 31,		Years Ended October 31,		
	2008	2007	2007	2006	2005
	(In thousands)				
Net sales	\$ 272,639	\$ 217,250	\$ 1,085,046	\$ 988,799	\$ 1,016,981
Cost and expenses:					
Cost of sales (exclusive of items shown separately below)	231,429	177,460	903,888	787,249	770,709
Selling, general and administrative	10,356	6,518	27,783	19,886	22,761
Depreciation and amortization	9,961	9,159	39,049	34,075	32,700
Operating income	20,893	24,113	114,326	147,589	190,811
Interest expense	(777)	(873)	(3,464)	(3,796)	(7,946)
Other, net	(7,184)	1,895	7,797	4,120	49
Income from continuing operations before income taxes	12,932	25,135	118,659	147,913	182,914
Income tax expense	(8,940)	(8,978)	(41,447)	(51,887)	(67,641)
Income from continuing operations	3,992	16,157	77,212	96,026	115,273
Income (loss) from discontinued operations, net of taxes				(69)	(15,225)
Gain/(loss) on sale of discontinued operations, net of taxes				(61)	(3,913)
Net income	\$ 3,992	\$ 16,157	\$ 77,212	\$ 95,896	\$ 96,135

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****COMBINED STATEMENTS OF PARENT COMPANY EQUITY****(Unaudited)**

Period Ended January 31, 2008 and Years Ended October 31, 2007, 2006 and 2005	Comprehensive Income	Parent Company Investment	Retained Earnings	Accumulated Other Comprehensive Income	Total Parent Company Equity
			(In thousands)		
Balance at October 31, 2004		\$ (49,633)	\$ 289,850	\$ (4,226)	\$ 235,991
Comprehensive income:					
Net income	\$ 96,135		96,135		96,135
Adjustment for minimum pension liability (net of taxes of \$609)	952			952	952
Total comprehensive income	\$ 97,087				
Net transfer from (to) parent		(134,588)			(134,588)
Balance at October 31, 2005		\$ (184,221)	\$ 385,985	\$ (3,274)	\$ 198,490
Comprehensive income:					
Net income	\$ 95,896		95,896		95,896
Adjustment for minimum pension liability (net of taxes of \$897)	1,401			1,401	1,401
Total comprehensive income	\$ 97,297				
Net transfer from (to) parent		10,780			10,780
Balance at October 31, 2006		\$ (173,441)	\$ 481,881	\$ (1,873)	\$ 306,567
Comprehensive income:					
Net income	\$ 77,212		77,212		77,212
Adjustment for minimum pension liability (net of taxes of \$1,198)	1,873			1,873	1,873
Total comprehensive income	\$ 79,085				
Adjustment to initially apply SFAS 158 (net of taxes of \$2,090)				(3,481)	(3,481)
Net transfer from (to) parent		51,147			51,147
Balance at October 31, 2007		\$ (122,294)	\$ 559,093	\$ (3,481)	\$ 433,318
Net Income	\$ 3,992		3,992		3,992
Total comprehensive income	\$ 3,992				

Cumulative effect of adopting FIN 48		2,284		2,284
Net transfer from (to) parent	(12,385)			(12,385)
Balance at January 31, 2008	\$ (134,679)	\$ 565,369	\$ (3,481)	\$ 427,209

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Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****COMBINED STATEMENTS OF CASH FLOW****(Unaudited)**

	Three Months Ended		Years Ended		
	January 31,		October 31,		
	2008	2007	2007	2006	2005
	(In thousands)				
Operating Activities:					
Net income	\$ 3,992	\$ 16,157	\$ 77,212	\$ 95,896	\$ 96,135
Loss (income) from discontinued operations				130	19,138
Adjustments to reconcile net income to cash provided by operating activities from continuing operations:					
Depreciation and amortization	10,026	9,224	39,308	34,638	33,285
Deferred income taxes	(230)	(2,056)	(8,158)	845	(6,830)
Stock-based compensation	79	457	1,111	1,375	46
Changes in assets and liabilities, net of effects from acquisitions and dispositions:					
Decrease (increase) in accounts receivable	(4,493)	15,857	(168)	(22,882)	20,496
Decrease (increase) in inventory	(13,237)	5,007	(9,840)	(7,614)	(7,752)
Increase (decrease) in accounts payable	15,633	3,354	14,843	(3,403)	(30,393)
Increase (decrease) in accrued liabilities	(6,034)	(1,941)	2,114	(7,062)	3,448
Increase (decrease) in income taxes payable to parent	16,470	11,854	(2,090)	3,157	4,840
Increase (decrease) in deferred pension and postretirement benefits	1,041	(491)	6,566	(10,705)	1,782
Increase (decrease) in environmental liabilities	(180)	(234)	(203)	3,603	(617)
Other, net	9,290	(1,169)	(2,764)	2,232	(541)
Cash provided by (used for) operating activities from continuing operations	32,357	56,019	117,931	90,210	133,037
Cash provided by (used for) operating activities from discontinued operations				(716)	1,699
Cash provided by (used for) operating activities	32,357	56,019	117,931	89,494	134,736
Investing Activities:					
Purchase of short-term investments		(40,000)	(106,114)		
Proceeds from sales of short-term investments	40,000		61,150		
Acquisitions, net of cash acquired			(58,975)		

Proceeds from sale of discontinued operations				5,739	9,387
Capital expenditures, net of retirements	(3,742)	(5,955)	(18,467)	(45,189)	(22,704)
Other, net	92	(173)	878	1,054	(488)
Cash provided by (used for) investing activities from continuing operations	36,350	(46,128)	(121,528)	(38,396)	(13,805)
Cash provided by (used for) investing activities from discontinued operations				(14)	(1,058)
Cash provided by (used for) investing activities	36,350	(46,128)	(121,528)	(38,410)	(14,863)
Financing Activities:					
Early extinguishment of debentures	(18,825)				
Repayment of third party debt			(1,665)		
Change in parent company investment	(21,278)	2,061	53,749	4,907	(112,296)
Other, net		(11)	(11)	(547)	(46)
Cash provided by (used for) financing activities from continuing operations	(40,103)	2,050	52,073	4,360	(112,342)
Cash provided by (used for) financing activities from discontinued operations				(56)	(211)
Cash provided by (used for) financing activities	(40,103)	2,050	52,073	4,304	(112,553)
Increase (decrease) in cash and equivalents	28,604	11,941	48,476	55,388	7,320
Cash and equivalents at beginning of period	151,938	103,462	103,462	48,074	40,754
Cash and equivalents at end of period	\$ 180,542	\$ 115,403	\$ 151,938	\$ 103,462	\$ 48,074

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VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION

NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS

1. Organization and Significant Accounting Policies

The Combined Financial Statements include the assets and liabilities and the related operations of the Vehicular Products Businesses (collectively referred to as the Businesses or Vehicular Products), which historically have been included in the consolidated financial statements of Quanex Corporation (Quanex or Parent).

On November 19, 2007, Quanex Corporation announced that its Board of Directors unanimously approved a merger of Quanex Corporation, consisting principally of the Vehicular Products business and all non-Building Products related corporate accounts, with a wholly-owned subsidiary of Gerdau S.A. (Gerdau) in exchange for \$39.20 per share in cash. Quanex Corporation entered into a definitive agreement with Gerdau S.A. with respect to the merger on November 18, 2007. In connection with the merger, Quanex Corporation will spin-off its Building Products business to its shareholders as a stand alone company called Quanex Building Products in a taxable distribution. All Quanex Corporation shareholders of record will receive one share of Quanex Building Products stock for each share of Quanex Corporation stock.

The merger of Quanex Corporation with a wholly-owned subsidiary of Gerdau remains subject to approval by Quanex Corporation shareholders, completion of the Building Products spin-off and other customary closing conditions. The spin and merger are expected to be completed by the end of April 2008, though no assurances can be given that any such transaction will be completed. Until the spin and merger are completed, Quanex Corporation expects to continue to pay a regular, quarterly cash dividend on its outstanding common stock. The proposed Building Products spin-off is expected to be consummated immediately prior to completion of the Quanex Corporation/Gerdau merger and is structured as a taxable distribution at the corporate level.

Quanex Building Products will report as discontinued operations for financial reporting purposes Quanex Corporation's Vehicular Products and non-Building Products related corporate accounts following the completion of the spin-off and merger. Notwithstanding the legal form of the proposed transactions to spin-off the Building Products business and merge what remains of Quanex Corporation with Gerdau, because of the substance of the transactions, Quanex Building Products will be the divesting entity and treated 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). Effective with the spin-off, Quanex Building Products will report the historical consolidated results of operations (subject to certain adjustments) of Vehicular Products and non-Building Products related corporate items in discontinued operations 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). Pursuant to SFAS 144, this presentation is not permitted until the accounting period in which spin-off occurs.

Nature and Scope of Operations

Vehicular Products has one reportable segment that manufactures engineered carbon and alloy steel bars which primarily serves the North American vehicular products markets. The Businesses' manufacturing operations are conducted in the United States. See Note 10, Industry Segment Information.

Principles of Combination and Basis of Presentation

The Combined Financial Statements have been prepared in accordance with the accounting principles generally accepted in the United States of America (GAAP). All intercompany transactions between the Businesses have been

eliminated. The results of companies acquired or disposed of are included in the Combined Financial Statements from the effective date of acquisition or up to the date of disposal. The preparation of the Combined Financial Statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of

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VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION

NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

contingent assets and liabilities and the reported amount of revenues and expenses. 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 Businesses' operating environment changes. Actual results may differ from those estimates.

The combined financial statements of Vehicular Products include the financial position, results of operations and cash flows of Quanex Corporation's Vehicular Products segment and non-Building Products related corporate accounts as if it were a separate entity for all periods presented. The combined financial statements include only those corporate items that are specifically applicable to Vehicular Products following the spin in accordance with the terms of the Distribution Agreement including, but not limited to, expenses, assets and liabilities associated with previously divested businesses and former corporate employees. The residual corporate expenses not included in Vehicular Product's results of operations represent those directly related to Quanex Building Products Corporation. All current corporate employees of Quanex Corporation will become employees of Quanex Building Products following the spin and as such, the Vehicular Products combined financial statements do not include any recurring expenses, assets or liabilities for the current corporate employees.

These combined financial statements may not necessarily reflect the financial position, results of operations, changes in parent company equity and cash flows of Vehicular Products in the future or had it operated as a separate independent company during the periods presented. The combined financial statements do not reflect any changes that may occur in the financing and operations of Vehicular Products following the merger transaction.

Note 11 provides further information regarding allocated expenses. Note 7 provides additional information regarding income taxes.

The following are significant accounting policies used in the preparation of the Businesses' combined financial statements as well as the significant judgments and uncertainties affecting the application of these policies.

Revenue Recognition and Allowance for Doubtful Accounts

Vehicular Products recognizes revenue when the products are shipped and the title and risk of ownership pass to the customer. Selling prices are fixed based on purchase orders or contractual agreements. Sales allowances and customer incentives are treated as reductions to sales and are provided for based on historical experience and current estimates. Inherent in the Businesses' revenue recognition policy is the determination of collectibility. This requires management to make frequent judgments and estimates in order to determine the appropriate amount of allowance needed for doubtful accounts. The Businesses' allowance for doubtful accounts is estimated to cover the risk of loss related to accounts receivable. This allowance is maintained at a level Vehicular Products considers appropriate based on historical and other factors that affect collectibility. These factors include historical trends of write-offs, recoveries and credit losses, the careful monitoring of portfolio credit quality, and projected economic and market conditions. Different assumptions or changes in economic circumstances could result in changes to the allowance.

Inventory

Vehicular Products records inventory valued at the lower of cost or market value. Inventories are valued using both the first-in first-out (FIFO) and last-in first-out (LIFO) methods. The Businesses adopted the dollar-value link chain

LIFO method in fiscal 1973 and the LIFO reserve is calculated on a consolidated basis in a single consolidated pool. Since then, acquisitions were integrated into the Businesses operations with some valuing inventories on a LIFO basis and others on a FIFO basis. Inventory quantities are regularly reviewed and provisions for excess or obsolete inventory are recorded primarily based on the Businesses forecast of

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VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION

NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

future demand and market conditions. Significant unanticipated changes to the Businesses' forecasts could require a change in the provision for excess or obsolete inventory.

Environmental Contingencies

Vehicular Products 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, Vehicular Products must make capital and other expenditures on an ongoing basis. The Businesses accrue their best estimates of their remediation obligations and adjust 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 for environmental remediation 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, Vehicular Products 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 Businesses' alleged connections. Recoveries of environmental remediation costs from other parties are recorded as assets when their receipt is deemed probable. Unanticipated changes in circumstances and/or legal requirements could result in expenses being incurred in future periods in addition to an increase in actual cash required to remediate contamination for which the Businesses are responsible.

Asset Retirement Obligations

Asset retirement obligations represent legal obligations associated with the retirement of tangible long-lived assets that result from the normal operation of the long-lived asset. The costs associated with such legal obligations are accounted for under the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143) and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred and capitalized as part of the carrying amount of the long-lived asset. The fair value of such obligations is based upon the present value of the future cash flows expected to be incurred to satisfy the obligation. Over time, the liability is accreted to its settlement value and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Businesses will recognize a gain or loss for any difference between the settlement amount and the liability recorded. When certain legal obligations are identified with indeterminate settlement dates, the fair value of these obligations can not be reasonably estimated and accordingly a liability is not recognized. When a date or range of dates can reasonably be estimated for the retirement of that asset, the Businesses will estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

Long-Lived Assets

Property, Plant and Equipment and Intangibles

The Businesses make judgments and estimates in conjunction with the carrying value of property, plant and equipment, other intangibles, and other assets, including amounts to be capitalized, depreciation and amortization methods and useful lives. Additionally, carrying values of these assets are reviewed for impairment whenever events

or changes in circumstances indicate that carrying value may not be recoverable. The Businesses determine that the carrying amount is not recoverable if the carrying amount exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If the carrying value exceeds the sum of the undiscounted cash flows, an impairment charge is recorded in the period

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)**

in which such review is performed. The Businesses measure the impairment loss as the amount by which the carrying amount of the long-lived asset exceeds its fair value as determined by quoted market prices in active markets or by discounted cash flows. This requires the Businesses to make long-term forecasts of its future revenues and costs related to the assets subject to review. Forecasts require assumptions about demand for the Businesses' products and future market conditions. Future events and unanticipated changes to assumptions could require a provision for impairment in a future period.

Property, plant and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of certain categories are as follows:

	Years
Land improvements	10 to 20
Buildings	25 to 40
Building improvements	10
Leasehold improvements	Over lease term
Machinery and equipment	3 to 12

Goodwill

The purchase method of accounting for business combinations requires the Businesses to make use of estimates and judgments to allocate the purchase price paid for acquisitions to the fair value of the net tangible and identifiable intangible assets. The Businesses perform a goodwill impairment test annually as of August 31. In addition, goodwill would be tested more frequently if changes in circumstances or the occurrence of events indicates that a potential impairment exists. The Businesses test for impairment of its goodwill using a two-step approach as prescribed in SFAS 142. The first step of the Businesses' goodwill impairment test compares the fair value of each reporting unit with its carrying value including assigned goodwill. The second step of the Businesses' goodwill impairment test is required only in situations where the carrying value of the reporting unit exceeds its fair value as determined in the first step. In such instances, the Businesses compare the implied fair value of goodwill to its carrying value. The implied fair value of goodwill is determined by allocating the fair value of a reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the price paid to acquire the reporting unit. The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is recorded to the extent that the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill. The Businesses primarily use the present value of future cash flows to determine fair value and validates the result against the market approach. Future cash flows are typically based upon appropriate future periods for the businesses and an estimated residual value. Management judgment is required in the estimation of future operating results and to determine the appropriate residual values. The residual values are determined by reference to an exchange transaction in an existing market for that asset. Future operating results and residual values could reasonably differ from the estimates and could require a provision for impairment in a future period.

Income Taxes

The Businesses record the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and the amounts reported in the Businesses' combined balance sheet, as well as operating loss and tax credit carry forwards. The carrying value of the net deferred tax liability reflects the Businesses' assumption that the Businesses will be able to generate sufficient future taxable income in certain jurisdictions to realize its deferred tax assets. If the estimates and assumptions change in the future, the Businesses may be required to record a valuation allowance against a portion of its deferred tax assets. This could result in additional income tax expense in a future period in the combined statement of income. The Businesses adopted FASB Interpretation No. 48 Accounting for Uncertainty in Income Taxes (FIN 48)

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VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION

NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

effective November 1, 2007. Consistent with its past practices, the Businesses continue to recognize interest and penalties as income tax expense.

Insurance

The Businesses manage their costs of group medical, property, casualty and other liability exposures through a combination of retentions and insurance coverage with third party carriers. Liabilities associated with the Businesses portion of these exposures are estimated in part by considering historical claims experience, severity factors and other assumptions. Projections of future loss expenses are inherently uncertain because of the random nature of insurance claims occurrences and could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Stock-Based Compensation

The Businesses adopted SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R) on November 1, 2005 using the modified prospective transition method. Under SFAS No. 123R, the Businesses determine the fair value of share awards for Vehicular Products employees participating in Quanex Corporation's stock-based compensation plans on the date of grant using the Black-Scholes valuation model. The Businesses recognize the fair value as compensation expense on a straight-line basis over the requisite service period of the award based on awards ultimately expected to vest. Under SFAS 123R, the Businesses amortize new option grants to retirement-eligible employees immediately upon grant, consistent with the retirement vesting acceleration provisions of these grants. For employees near retirement age, the Businesses amortize such grants over the period from the grant date to the retirement date if such period is shorter than the standard vesting schedule. In accordance with SFAS 123R, the Combined Statements of Cash Flow report the excess tax benefits from the stock-based compensation as financing cash inflows. See Note 12 for additional information related to the Businesses' stock-based compensation.

Retirement and Pension Plans

The Businesses sponsor a number of defined benefit pension plans and an unfunded postretirement plan that provides health care and life insurance benefits for eligible retirees and dependents. The measurement of liabilities related to these plans is based on management's assumptions related to future events, including expected return on plan assets, rate of compensation increases and health care cost trend rates. The discount rate, which is determined using a model that matches corporate bond securities, is applied against the projected pension and postretirement disbursements. Actual pension plan asset investment performance will either reduce or increase unamortized pension losses at the end of any fiscal year, which ultimately affects future pension costs.

Discontinued Operations

In accordance with SFAS 144, the Businesses present the results of operations, financial position and cash flows of operations that have either been sold or that meet the criteria for held for sale accounting as discontinued operations. At the time an operation qualifies for held for sale accounting, the operation is evaluated to determine whether or not the carrying value exceeds its fair value less cost to sell. Any loss as a result of carrying value in excess of fair value less cost to sell is recorded in the period the operation meets held for sale accounting. Management judgment is required to (1) assess the criteria required to meet held for sale accounting, and (2) estimate fair value. Changes to the

operation could cause it to no longer qualify for held for sale accounting and changes to fair value could result in an increase or decrease to previously recognized losses.

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Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)*****Statements of Cash Flows***

The Businesses generally consider all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments.

Supplemental cash flow information is as follows:

	Years Ended October 31,		
	2007	2006	2005
	(In thousands)		
Cash paid for interest	\$ 3,571	\$ 4,205	\$ 8,633
Cash paid for income taxes	56,678	47,444	38,209
Cash received for income tax refunds	\$ 11	\$	\$ 31

New Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 141R (revised 2007), *Business Combinations* (SFAS 141R). 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 and the goodwill acquired. 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 Businesses). Early application is not permitted. While the Businesses have not yet evaluated SFAS 141R for the impact, if any, the statement will have on its combined financial statements, the Businesses will be required to expense costs related to any acquisitions closed after October 31, 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 No. 160 addresses the accounting and reporting framework for minority interests by a parent company. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 (as of November 1, 2009 for the Businesses). The Businesses have not yet determined the impact, if any, that SFAS 160 will have on its combined financial statements.

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 Businesses). The

Businesses are currently assessing the impact of applying SFAS 159's elective fair value option on the Businesses 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 requires recognition of the funded status of a benefit plan in the balance sheet. The funded status is measured as the difference between the fair market value of the plan assets and the benefit obligation. For a defined benefit pension plan, the benefit obligation is the projected benefit obligation; for any other defined benefit postretirement plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement benefit obligation. Any overfunded status should be recognized as an asset and any underfunded

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)**

status should be recognized as a liability. As part of the initial recognition of the funded status, any transitional asset/(liability), prior service cost (credit) or actuarial (gain)/loss that has not yet been recognized as a component of net periodic cost should be recognized in the accumulated other comprehensive loss section of the Combined Statements of Parent Company Equity, net of tax. Accumulated other comprehensive income will be adjusted as these amounts are subsequently recognized as a component of net periodic benefit costs in future periods. The method of calculating net periodic benefit cost under SFAS 158 is the same as under existing practices. SFAS 158 prescribes additional disclosure requirements including the classification of the current and noncurrent components of plan liabilities, as well as the disclosure of amounts included in Accumulated Other Comprehensive Income that will be recognized as a component of net periodic benefit cost in the following year. The recognition of the funded status and disclosure elements of SFAS 158 are effective for fiscal years ending after December 15, 2006 (as of October 31, 2007 for the Businesses). Retrospective application of SFAS 158 is not permitted. The initial incremental recognition of the funded status under SFAS 158 reflected upon adoption in the Accumulated Other Comprehensive Income section of Parent Company Equity was an after-tax charge to equity of \$3.5 million. 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 Businesses), but will not have an impact on the Businesses as the Businesses already measure the plan assets and obligations as of the end of its fiscal year. The impact of adopting the provisions of SFAS 158 on the components of the Combined Balance Sheet as of October 31, 2007 are as follows:

	October 31, 2007 Prior to Application of SFAS 158	SFAS 158 Adjustment Increase (Decrease) (In thousands)	October 31, 2007 After Application of SFAS 158
Other assets	\$ 6,492	\$ (1,433)	\$ 5,059
Total assets	724,557	(1,433)	723,124
Accrued liabilities	\$ 21,271	\$ 523	\$ 21,794
Deferred pension obligation	(561)	4,311	3,750
Deferred postretirement welfare benefits	6,881	(692)	6,189
Deferred income taxes	27,831	(2,055)	25,776
Accumulated other comprehensive income (loss)	39	(3,520)	(3,481)
Total liabilities and parent company equity	724,557	(1,433)	723,124

See Note 9 for additional pension and postretirement benefit information.

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 Businesses). 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 Businesses). Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The Businesses are currently evaluating the impact of adopting SFAS 157 on their combined financial statements.

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)**

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 Businesses). The adoption of EITF 06-5 did not have a material impact on the Businesses' combined financial statements.

In September 2006, the FASB issued FASB Staff Position (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 Businesses). 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 Businesses have 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 condensed combined financial statements for January 31, 2007 have been adjusted to apply the new method retrospectively. The application of FSP AUG AIR-1 will effect the Businesses' fiscal 2007 interim period reporting but will not result in a cumulative effect adjustment to the Businesses' annual combined financial statements. The following tables illustrate the affect of applying the direct expensing method on individual line items in the condensed combined financial statements:

Condensed Combined Statement of Income for the Three Months Ended January 31, 2007	Before Application of FSP AUG AIR-1	Adjustment (In thousands)	After Application of FSP AUG AIR-1
Net sales	\$ 217,250	\$	\$ 217,250
Cost of sales	178,411	(951)	177,460
Operating income	23,162	951	24,113
Income tax expense	(8,636)	(342)	(8,978)
Net income	15,548	609	16,157

The effect of applying the direct expensing method retrospectively resulted in an increase in net income of \$0.6 million for the three months ended January 31, 2007. The adoption of FSP AUG AIR-1 does not have an impact on full year net income 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 Businesses adopted FIN 48 effective November 1, 2007. Consistent with its past practice, the Businesses continue to recognize interest and penalties as income tax expense. Upon

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adoption, the Businesses recorded the cumulative effect of the change in accounting principle of \$2.3 million as an increase to retained earnings. The impact of the adoption is more fully disclosed in Note 7.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS 154), which replaces Accounting Principles Board Opinion No. 20, *Accounting Changes* and FASB Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005 (as of November 1, 2006 for the Businesses) and requires retrospective application to prior period financial statements of voluntary changes in accounting principles, unless it is impractical to determine either the period-specific effects or the cumulative effect of the change. The impact of SFAS 154 will depend on the nature and extent of voluntary accounting changes or error corrections, if any, after the effective date. The adoption of SFAS 154 did not have a material impact on the Businesses' combined financial statements.

2. Short-term Investments

Short-term investments consist of the following:

	January 31, 2008	October 31, 2007	2006
	(In thousands)		
Auction rate securities	\$	\$ 40,000	\$
Commercial paper	4,750	4,750	
Total	\$ 4,750	\$ 44,750	\$

In the first quarter of fiscal 2007, the Businesses began investing in auction rate securities, which are highly liquid, variable-rate debt securities. While the underlying security has a long-term maturity, the interest rate is reset through an auction process, typically held every 7, 28 or 35 days, creating short-term liquidity. The securities trade at par, and interest is paid at the end of each auction period. The Businesses limit their investments in auction rate securities to securities that carry a AAA (or equivalent) rating from a recognized rating agency and limits the amount of credit exposure to any one issuer. The auction rate securities are recorded at cost, which approximates fair value due to their variable interest rates that are reset within a period of less than 35 days. During fiscal year 2007, the Businesses purchased \$101.1 million of auction rate securities and sold \$61.2 million of securities. Vehicular Products' \$40.0 million investment in auction rate securities as of October 31, 2007 were AAA-rated and were backed by guaranteed student loans. The weighted average interest rate of the auction rate securities as of October 31, 2007 was 5.9%.

The Businesses' commercial paper investment had a scheduled maturity in September 2007. The Businesses wrote down this investment to an estimated fair value of \$4.8 million as of October 31, 2007 and recorded a \$0.2 million impairment charge in Other, net during the fourth fiscal quarter of 2007.

During the three months ended January 31, 2008, the businesses sold \$40.0 million of auction rate securities and did not make any subsequent purchases during the quarter. During the first quarter of the previous year, the Businesses purchased \$40.0 million of auction rate securities. As of January 31, 2008, the Businesses had no auction rate security investments.

The auction rate securities and commercial paper investments were classified as available-for-sale and reported as current assets for periods in which such investments were held. The Businesses expected its short-term investments to be sold or settled within one year, regardless of legal maturity date.

3. Goodwill and Acquired Intangible Assets

Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. The Businesses perform an annual impairment test as of August 31 each

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year or more frequently if certain indicators arise. The August 31, 2007 and 2006 reviews of goodwill indicated that goodwill was not impaired. The August 31, 2005 impairment test revealed an impairment of the Vehicular Products Temroc business; as Temroc was sold in January 2006, see Note 16 Discontinued Operations for further discussion of this impairment.

On February 1, 2007, the Businesses purchased the assets of AAI resulting in the addition of \$6.7 million of goodwill, all of which is expected to be deductible for tax purposes.

The changes in the carrying amount of goodwill for the periods presented are as follows (in thousands):

	Goodwill Carrying Value
Balance at October 31, 2005 and 2006	\$
Acquisitions	6,680
Balance at October 31, 2007 and January 31, 2008	\$ 6,680

Intangible assets consist of the following (in thousands):

	As of January 31, 2008		As of October 31, 2007		As of October 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:						
Trademarks and trade names	300	15	\$ 300	\$ 11	\$	\$
Customer relationships	17,300	866	17,300	649		
Other intangibles	400	100	1,601	1,226	1,201	851
Total	\$ 18,000	\$ 981	\$ 19,201	\$ 1,886	\$ 1,201	\$ 851

Trade names and customer relationships as of January 31, 2008 include \$0.3 million and \$17.3 million, respectively, of gross carrying amount related to the acquisition of AAI during the second quarter of 2007. The intangible assets are being amortized over the period they are expected to contribute to the future cash flows of the Businesses; specifically, the AAI trade name and customer relationships are being amortized over an estimated useful life of 20 years. No residual value is estimated for the intangible assets.

The aggregate amortization expense for intangibles for the years ended October 31, 2007, 2006, and 2005 is \$1.0 million, \$0.3 million and \$0.3 million, respectively. The aggregate amortization expense for intangibles for the three months ended January 31, 2008, and 2007 is \$0.3 million, and \$0.1 million, respectively. Estimated amortization expense for the next five years for existing intangibles, including AAI intangible assets, follows (in thousands):

Fiscal Years Ending October 31,	Estimated Amortization
2008 (remaining nine months)	\$ 735
2009	980
2010	980
2011	905
2012	\$ 880

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Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)****4. Inventories**

Inventories consist of the following:

	January 31, 2008	October 31, 2007	2006
	(In thousands)		
Raw materials	\$ 13,323	\$ 12,007	\$ 9,421
Finished goods and work in process	73,171	63,557	60,308
	86,494	75,564	69,729
Supplies and other	25,373	23,066	17,572
Total	\$ 111,867	\$ 98,630	\$ 87,301

The values of inventories are based on the following accounting methods:

	January 31, 2008	October 31, 2007	2006
	(In thousands)		
LIFO	\$ 27,525	\$ 25,263	\$ 29,418
FIFO	84,342	73,367	57,883
Total	\$ 111,867	\$ 98,630	\$ 87,301

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, management 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 Businesses 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 \$43.7 million as of January 31, 2008 and \$43.7 million and \$32.4 million at October 31, 2007 and 2006, respectively.

During fiscal 2007 and fiscal 2006, there were LIFO liquidations that resulted in a reduction of the LIFO reserve (credit to cost of sales) of approximately \$0.8 million and \$0.3 million, respectively. There was no LIFO liquidation in

the three month periods ended January 31, 2008. The LIFO liquidations, which are included in the LIFO reserve amounts (\$43.7 million in 2007 and \$32.4 million in 2006), reduced the amount of expense recognized in the respective years compared to what would have been recognized had there been no liquidations.

LIFO reserve adjustments are treated as corporate expenses as this matches how management reviews the businesses. The LIFO reserve adjustments are calculated on a consolidated basis in a single consolidated pool using the dollar-value link chain method. The Quanex Corporation LIFO reserve has been allocated to the Businesses in total, however the resulting reserve that is recorded to reflect inventories at their LIFO values is not allocated to the segments. Management believes LIFO reserves to be a corporate item and thus performs all reviews of segment operations on a FIFO basis.

Since the adoption of LIFO inventory valuation in 1973, Quanex Corporation has completed multiple acquisitions. The acquisitions were integrated into Vehicular Products operations with some valuing inventory on a LIFO basis and others on a FIFO basis. The selection of the inventory valuation treatment of each acquisition depends on the facts and circumstances that existed at the time of the acquisition, including

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)**

expected inventory levels and pricing expected in the foreseeable future; this evaluation is applied on each transaction individually. As discussed above, management reviews all of the businesses on a FIFO basis for comparability, with the LIFO reserve treated as a corporate item.

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	January 31, 2008	October 31, 2007	October 31, 2006
	(In thousands)		
Land and land improvements	\$ 15,844	\$ 15,844	\$ 14,982
Buildings and building improvements	103,628	103,628	93,671
Machinery and equipment	556,224	555,530	502,016
Depreciable property, plant and equipment	675,696	675,002	610,669
Construction in progress	11,137	8,091	24,345
	686,833	683,093	635,014
Less: accumulated depreciation and amortization	(440,314)	(430,651)	(392,638)
Property, plant and equipment, net	\$ 246,519	\$ 252,442	\$ 242,376

Vehicular Products had commitments for the purchase or construction of capital assets amounting to approximately \$4.3 million at January 31, 2008.

6. Accrued Liabilities

Accrued liabilities consist of the following:

	January 31, 2008	October 31, 2007	October 31, 2006
	(In thousands)		
Payroll, payroll taxes and employee benefits	\$ 8,980	\$ 11,352	\$ 9,942
Accrued insurance and workers compensation	2,438	2,025	1,275
Environmental	1,635	1,394	1,091
Property and local tax	1,420	1,486	835
Other	1,529	5,537	2,769

Accrued liabilities	\$ 16,002	\$ 21,794	\$ 15,912
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Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)****7. Income Taxes**

Income taxes are provided on taxable income at the statutory rates applicable to such income.

Income tax expense (benefit) consists of the following:

	Years Ended October 31,		
	2007	2006	2005
	(In thousands)		
Current:			
Federal	\$ 44,770	\$ 47,768	\$ 66,227
State	3,545	3,294	1,747
	48,315	51,062	67,974
Deferred:	(6,868)	825	(333)
Income tax expense	41,447	51,887	67,641
Income taxes from discontinued operations		(44)	(873)
	\$ 41,447	\$ 51,843	\$ 66,768

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Businesses' net deferred tax liability are as follows:

	October 31,	
	2007	2006
	(In thousands)	
Deferred tax liabilities:		
Property, plant and equipment	\$ 28,006	\$ 31,586
Contingent interest	5,441	5,868
	33,447	37,454
Deferred tax assets:		
Postretirement benefit obligation	(2,424)	(2,787)
Other employee benefit obligations	(5,199)	(2,135)
Environmental accruals	(3,740)	(3,937)

Inventory	(1,910)	(1,494)
Capital loss carryforward	(4,870)	(5,119)
Other	(932)	(1,278)
	(19,075)	(16,750)
Valuation allowance	4,870	5,119
	(14,205)	(11,631)
Net deferred tax liability	\$ 19,242	\$ 25,823
Deferred income tax liabilities, non-current	\$ 25,776	\$ 32,626
Deferred income tax assets, current	(6,534)	(6,803)
Net deferred tax liability	\$ 19,242	\$ 25,823

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The sale of the stock of Temroc in January 2006 generated a capital loss carryforward which will expire in 2011. A corresponding valuation allowance was established in 2006 based on management's assessment that the capital loss will not be realized in the foreseeable future.

Income tax expense differs from the amount computed by applying the statutory federal income tax rate to income from continuing operations before income taxes for the following reasons:

	Years Ended October 31,		
	2007	2006	2005
	(In thousands)		
Income tax expense at statutory tax rate	\$ 41,531	\$ 51,769	\$ 64,020
Increase (decrease) in taxes resulting from:			
State income taxes, net of federal effect	2,083	1,909	4,114
U.S. tax benefit for manufacturing	(1,151)	(1,467)	
Change in deferred tax rate	(742)		
Other items, net	(274)	(324)	(493)
	\$ 41,447	\$ 51,887	\$ 67,641
Effective Tax Rate	34.9%	35.1%	37.0%

The change in the deferred tax rate is the result of an overall review of the rate given the changes in state income tax laws. The Internal Revenue Service completed an audit of the 2004 tax year with no material adjustments proposed.

As disclosed in Note 1, the Businesses adopted FIN 48 effective November 1, 2007. Upon adoption, the Businesses recorded the cumulative effect of the change in accounting principle of \$2.3 million as an increase to retained earnings. As a result, the Businesses recognized a \$17.7 million increase in the liability for unrecognized tax benefits, a \$3.8 million net reduction in deferred tax liabilities, and a \$16.1 million reduction in income taxes payable. Upon adoption on November 1, 2007, the Businesses' unrecognized tax benefits totaled \$17.7 million, of which \$15.7 million related to interest and penalties. The liabilities for unrecognized tax benefits at November 1, 2007, included \$3.8 million for which the disallowance of such items would not affect the annual effective tax rate. Non-current unrecognized tax benefits are recorded in Other liabilities in the Combined Balance Sheet.

The liability for the unrecognized tax benefits is primarily related to the Businesses' legal proceedings currently in Tax Court 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 more fully described in Note 15. The remainder of the liability is divided between federal and state tax issues regarding the interpretations of tax laws and regulations.

The Businesses file income tax returns in the U.S. federal and various state jurisdictions in the U.S. The Businesses are not currently under a tax examination, but in certain jurisdictions the statute of limitations has not yet expired. The Businesses generally remain subject to examination of their U.S. federal income tax returns for 2004 and later years. The Businesses generally remain subject to examination of their 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 of the states.

Judgment is required in assessing the future tax consequences of events that have been recognized in the Businesses financial statements or income tax returns. The final outcome of the future tax consequences of legal proceedings as well as the outcome of competent authority proceedings, changes in regulatory tax laws, or interpretation of those tax laws, changes in income tax rates, or expiration of statutes of limitation could

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)**

impact the Businesses' financial statements. The Businesses are subject to the effects of these matters occurring in various jurisdictions. Accordingly, the Businesses have unrecognized tax benefits recorded for which it is reasonably possible that the amount of the unrecognized tax benefit 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 January 31, 2008 were \$18.0 million, including \$3.9 million for which the disallowance of such items would not affect the annual effective tax rate. For the three months ended January 31, 2008, the Businesses recognized \$0.3 million in interest and penalties, which are reported as income tax expense in the Combined Statement of Income consistent with past practice.

Effective Tax Rate

The effective tax rate for the first quarter 2008 increased to 69.1% from 35.7% in fiscal 2007 as a result of the predominately nondeductible pretax loss on early extinguishment of the Businesses' Debentures coupled with transaction costs which are also nondeductible for tax purposes. The effect of these types of expenses was included in the estimated effective tax rate for the year.

8. Long-Term Debt and Financing Arrangements

Long-term debt consists of the following:

	January 31, 2008	October 31, 2007	October 31, 2006
	(In thousands)		
Credit Facility	\$	\$	\$
2.50% Convertible Senior Debentures due 2034	115,600	125,000	125,000
6.50% City of Huntington, Indiana Economic Development Revenue Bonds principal due 2010			1,665
Total debt	\$ 115,600	\$ 125,000	\$ 126,665
Less maturities due within one year included in current liabilities	115,600	125,000	
Long-term debt	\$	\$	\$ 126,665

Credit Facility

The Businesses' \$350.0 million Senior Unsecured Revolving Credit Facility (the Credit Facility) was executed on September 29, 2006 and replaced the Businesses' \$310.0 million Revolving Credit Agreement. The Credit Facility has a five-year term and is unsecured. The Businesses recorded a \$0.2 million loss in 2006 on early termination of the

previous Revolving Credit Agreement due to recognition of the remaining unamortized financing costs.

The Credit Facility expires September 29, 2011 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 \$100.0 million in the aggregate prior to maturity, subject to the receipt of additional commitments and the absence of any continuing defaults.

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Proceeds from the Credit Facility may be used to provide availability for working capital, capital expenditures, permitted acquisitions and general corporate purposes. Historically, the Businesses used the former bank agreement to provide initial funding for acquisitions.

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. Distributions are permitted so long as after giving effect to such dividend or stock repurchase, there is no event of default. As of January 31, 2008, the Businesses were in compliance with all current Credit Facility covenants. The Businesses had no borrowings under the Credit Facility as of January 31, 2008, October 31, 2007 or October 31, 2006. The aggregate availability under the Credit Facility was \$337.7 million at January 31, 2008, which is net of \$12.3 million of outstanding letters of credit.

Convertible Senior Debentures

On May 5, 2004, Quanex Corporation issued \$125.0 million of the Convertible Senior Debentures (the Debentures) in a private placement offering. The Debentures were subsequently registered in October 2004 pursuant to the registration rights agreement entered into in connection with the offering. In November 2006, Quanex Corporation filed a post-effective amendment to deregister all unsold securities under the registration statement as Quanex Corporation's obligation to maintain the effectiveness of such registration statement has expired; the SEC declared this post-effective amendment effective on November 22, 2006. The net proceeds from the offering, totaling approximately \$122.0 million, were used to repay a portion of the amounts outstanding under the former credit facility. The Debentures are general unsecured senior obligations, ranking equally in right of payment with all existing and future unsecured senior indebtedness, and senior in right of payment to any existing and future subordinated indebtedness. The Debentures are effectively subordinated to all senior secured indebtedness and all indebtedness and liabilities of subsidiaries, including trade creditors.

The Debentures are convertible into shares of Quanex Corporation common stock, upon the occurrence of certain events, at an adjusted conversion rate of 39.7230 shares of common stock per \$1,000 principal amount of notes. This conversion rate is equivalent to an adjusted conversion price of \$25.17 per share of common stock, subject to adjustment in some events such as a common stock dividend or an increase in the cash dividend. Adjustments to the conversion rate are made when the cumulative adjustments exceed 1% of the conversion rate. In January 2005, Quanex Corporation announced that it had irrevocably elected to settle the principal amount of the Debentures in cash when they become convertible and are surrendered by the holders thereof. Quanex Corporation retains 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. Based on the provisions of EITF Issue No. 01-6 *The Meaning of Indexed to a Company's Own Stock* and EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to and Potentially Settled in a Company's Own Stock*, the conversion feature of the Debenture is not subject to the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) and accordingly has not been bifurcated and accounted for separately as a derivative under SFAS 133.

The Debentures are only convertible under certain circumstances, including: (i) during any fiscal quarter if the closing price of Quanex Corporation's common stock for at least 20 trading days in the 30 trading-day period ending on the last trading day of the previous fiscal quarter is more than 120% of the conversion price per share of Quanex Corporation's common stock on such last trading day; (ii) if Quanex Corporation calls the Debentures for redemption;

or (iii) upon the occurrence of certain corporate transactions, as defined. Upon conversion, Quanex Corporation has the right to deliver common stock, cash or a combination of cash and common stock. Quanex Corporation may redeem some or all of the Debentures for cash any time on or after May 15, 2011 at the Debentures full principal amount plus accrued and unpaid interest, if any. Holders of the Debentures may require Quanex Corporation to purchase, in cash, all or a portion of the Debentures on May 15, 2011, 2014, 2019, 2024 and 2029, or upon a fundamental change, as defined, at the Debentures full

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)**

principal amount plus accrued and unpaid interest, if any. Excluding the first fiscal quarter of fiscal 2007, the Debentures have been convertible effective May 1, 2005 and continue to be convertible through the quarter ending April 30, 2008, as the closing price of Quanex Corporation's common stock exceeded the contingent conversion price during the applicable periods as described in (i) above. The Debentures have been classified as current on the Businesses' combined balance sheets since October 31, 2007 as it is reasonably expected that the Debentures will be settled within twelve months.

During the first fiscal quarter of 2008, certain holders elected to convert \$9.4 million principal of Debentures. The Businesses paid \$18.8 million to settle these conversions, including the premium which the Businesses opted to settle in cash. The Businesses 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. The loss is reported in Other, net in the Combined Statements of Income.

Other Debt Instruments

The Businesses' 6.50% City of Huntington, Indiana Economic Development Revenue Bonds were scheduled to mature in August 2010. On August 1, 2007, the Businesses elected to prepay these bonds without penalty as permitted by the indenture. Principal at payoff was \$1.7 million.

Additional Debt Disclosures

The Businesses' combined debt had a weighted average interest rate of 2.5% and 2.6% as of October 31, 2007 and October 31, 2006, respectively. All of the debt had a fixed interest rate at October 31, 2007 and 2006, and January 31, 2008. As of January 31, 2008, the Businesses have \$14.7 million in letters of credit and corporate guarantees, of which \$12.3 million in letters of credit fall under the Credit Facility sublimit.

Aggregate maturities of long-term debt at January 31, 2008, including the expectation that the Debentures will be settled within twelve months, are as follows (in thousands):

2008	\$ 115,600
2009	
2010	
2011	
2012	
Thereafter	
Total	\$ 115,600

9. Pension Plans and Other Postretirement Benefits

Vehicular Products has a number of retirement plans covering substantially all employees. The Businesses provide 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.

On October 31, 2007, the Businesses adopted the recognition and disclosure provisions of SFAS 158. See Note 1 for additional information regarding the impact of the adoption of SFAS 158.

Defined Benefit Plans

Vehicular Products has non-contributory, single employer defined benefit pension plans that cover substantially all non-union employees and union employees. For participants prior to January 1, 2007, these defined benefit pension plans pay benefits to employees at retirement using formulas based upon years of service and either compensation rates near retirement or a flat dollar multiplier, as applicable.

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VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION

NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)

Effective January 1, 2007, Quanex Corporation amended one of its defined benefit pension plans to reflect a new cash balance formula for all new salaried employees hired on or after January 1, 2007 and for any non-union employees who were not participating in a defined benefit plan prior to January 1, 2007. All new salaried employees and many of the employees converted from other defined contribution plans are eligible to receive credits equivalent to 4% of their annual eligible wages. Additionally, every year the participants will receive an interest related credit on their respective balance equivalent to the prevailing 30-year Treasury rate. As previously discussed, benefits for participants in this plan prior to January 1, 2007 are based on a more traditional formula for retirement benefits.

Vehicular Products also provides certain healthcare and life insurance benefits for eligible retired employees employed prior to January 1, 1993. Certain employees may become eligible for those benefits if they reach normal retirement age while working for Vehicular Products. Vehicular Products continues to fund benefit costs on a pay-as-you-go basis. For fiscal year 2007, the Businesses made benefit payments totaling \$0.4 million, compared to \$0.6 million and \$0.7 million in fiscal 2006 and 2005, respectively.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law on December 8, 2003. This Act introduces a Medicare prescription-drug benefit beginning in 2006 as well as a federal subsidy to sponsors of retiree health care plans that provide a benefit at least actuarially equivalent to the Medicare benefit. Management has concluded that Vehicular Products plans are at least actuarially equivalent to the Medicare benefit. The Businesses have not included the federal subsidy from the Act for those eligible. The impact to net periodic benefit cost and to benefits paid did not have a material impact on the combined financial statements.

Table of Contents**VEHICULAR PRODUCTS BUSINESSES OF QUANEX CORPORATION****NOTES TO UNAUDITED COMBINED FINANCIAL STATEMENTS (Continued)*****Funded Status and Net Periodic Benefit Cost***

The funded status of the defined benefit pension plans and other retiree benefit plans at the respective year-ends was as follows:

	Pension Benefits		Postretirement Benefits	
	2007	2006	October 31, 2007	2006
	(In thousands)			
Change in Benefit Obligation				
Benefit obligation at beginning of year(1)	\$ 70,811	\$ 65,268	\$ 7,103	\$ 7,445
Service cost	7,524	4,579	63	77
Interest cost	4,208	3,817	393	386
Amendments			(2)	
Actuarial loss (gain)	(4,379)	(870)	(525)	(230)
Benefits paid	(1,511)	(1,320)	(322)	(575)
Administrative expenses	(933)	(663)		
Benefit obligation at end of year(1)	\$ 75,720	\$ 70,811	\$ 6,710	\$ 7,103
Change in Plan Assets				
Fair value of plan assets at beginning of year	\$ 65,129	\$ 44,644		
Actual return on plan assets	9,829	7,700		
Employer contributions	508	14,768		
Benefits paid	(1,511)	(1,320)		
Administrative expenses	(933)	(663)		
Fair value of plan assets at end of year	\$ 73,022	\$ 65,129		
Funded Status	\$ (2,698)	\$ (5,682)	\$ (6,710)	\$ (7,103)

(1) For the pension benefit plans, the benefit obligation is the projected benefit obligation. For other retiree benefit plans, the benefit obligation is the accumulated postretirement benefit obligation.

	Pension Benefits		Postretirement Benefits	
	2007	2006	October 31, 2007	2006
	(In thousands)			

Reconciliation of Funded Status

Funded status at end of year	\$ (2,698)	\$ (5,682)	\$ (6,710)	\$ (7,103)
Unrecognized prior service cost (credit)	n/a	1,178	n/a	(351)
Unrecognized net actuarial loss (gain)	n/a	11,094	n/a	652
Net amount recognized	\$ (2,698)	\$ 6,590	\$ (6,710)	\$ (6,802)

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	Pension Benefits	Postretirement Benefits		
	2007	October 31, 2006		2006
		2007		
		(In thousands)		
Amounts Recognized in the Combined Balance Sheet:				
Other assets	\$ 1,054	\$ 4,725	\$	\$
Accrued liabilities		(92)	(523)	
Pension obligation / postretirement benefit	(3,750)	(1,115)	(6,189)	(6,802)
Minimum pension liability		3,071		
Net amount recognized	\$ (2,696)	\$ 6,589	\$ (6,712)	\$ (6,802)
Amounts Recognized in Accumulated Other Comprehensive Income (pretax):				
Net actuarial (gain) loss	\$ 3,964	n/a	\$ 918	n/a
Net prior service cost (credit)	1,773	n/a	(1,087)	n/a
Net transition obligation (asset)		n/a		n/a
Total	\$ 5,737	n/a	\$ (169)	n/a

The accumulated benefit obligation is the present value of pension benefits (whether vested or unvested) attributed to employee service rendered before the measurement date and based on employee service and compensation prior to that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. The accumulated benefit obligations of Vehicular Products pension plans as of the measurement dates in 2007 and 2006 were \$65.9 million and \$61.5 million, respectively. The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets were:

	2007	October 31, 2006
	(In thousands)	
Projected benefit obligation	\$ 1,783	\$ 20,436
Accumulated benefit obligation	1,783	20,436
Fair value of plan assets	1,655	19,314

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Components of the net periodic benefit cost were as follows:

	January 31,		October 31,		
	2008	2007	2007	2006	2005
	(In thousands)				
Pension Benefits:					
Service cost	\$ 2,070	\$ 1,431	\$ 7,524	\$ 4,579	\$ 4,191
Interest cost	1,158	1,003	4,208	3,817	3,416
Expected return on plan assets	(1,504)	(1,094)	(5,465)	(4,170)	(3,449)
Amortization of unrecognized transition asset					(46)
Amortization of unrecognized prior service cost	55	53	201	200	201
Amortization of unrecognized net loss	93	237	337	899	891
Net periodic benefit cost	\$ 1,872	\$ 1,630	\$ 6,805	\$ 5,325	\$ 5,204

	January 31,		October 31,		
	2008	2007	2007	2006	2005
	(In thousands)				
Postretirement Benefits:					
Service cost	\$ 16	\$ 19	\$ 63	\$ 77	\$ 80
Interest cost	99	97	393	386	399
Expected return on plan assets					
Amortization of unrecognized transition asset				(54)	(54)
Amortization of unrecognized prior service cost	(14)	(13)	(55)		
Amortization of unrecognized net loss					
Net periodic benefit cost	\$ 101	\$ 103	\$ 401	\$ 409	\$ 425

The amount of prior service cost and net actuarial gain for the defined benefit pension plans that is expected to be amortized from accumulated other comprehensive income and reported as a component of net periodic benefit cost during fiscal 2008 is \$199 thousand and \$9 thousand, respectively. The amount of prior service cost for the other retiree benefit plans that is expected to be amortized from accumulated other comprehensive income and reported as a component of net periodic benefit cost during fiscal 2008 is \$55 thousand.

Measurement Date and Assumptions

The Businesses use an October 31 measurement date for their defined benefit plans. The Businesses determine their actuarial assumptions on an annual basis. The assumptions for the pension benefit and

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postretirement benefits calculations, as well as assumed health care cost trend rates, for the years ended October 31, are as follows:

	Pension Benefits			Postretirement Benefits		
	2007	2006	October 31, 2005	2007	2006	2005
Weighted average assumptions to determine benefit obligation at year-end:						
Discount rate	6.40%	5.98%	5.75%	6.40%	5.98%	5.75%
Rate of compensation increase	4.00%	4.00%	4.00%	n/a	n/a	n/a
Weighted average assumptions to determine net periodic benefit costs:						
Discount rate	5.98%	5.75%	5.75%	5.98%	5.98%	5.75%
Expected return on plan assets	8.50%	8.50%	8.50%	n/a	n/a	n/a
Rate of compensation increase	4.00%	4.00%	4.00%	n/a	n/a	n/a
Health care cost trend rate assumed for next year	n/a	n/a	n/a	7.9%	9.0%	10.0%
Ultimate trend rate	n/a	n/a	n/a	4.5%	4.5%	5.0%
Year rate reaches ultimate trend rate	n/a	n/a	n/a	2011	2011	2011

The discount rate is used to calculate the present value of the projected benefit obligation for pension benefits and the accumulated postretirement benefit obligation for postretirement benefits. The rates are determined based on high-quality fixed income securities that match the duration of expected benefit payments. The Businesses use a portfolio of high quality corporate bonds (i.e. rated Aa- or better) that match the duration of the expected benefit payments to establish the discount rate for this assumption.

The expected return on plan assets is used to determine net periodic pension expense. The rate of return assumptions are based on projected long-term market returns for the various asset classes in which the plans are invested, weighted by the target asset allocations. The return assumption is reviewed annually.

The rate of compensation increase represents the long-term assumption for expected increases to salaries.

The health care cost trend rate represents the Businesses' expected annual rates of change in the cost of health care benefits. The trend rate noted above represents a forward projection of health care costs as of the measurement date. Our projection for fiscal year 2008 is an increase in health care costs of 7.9%. For measurement purposes, the annual increase in health care costs was assumed to decrease gradually to 4.5% percent by fiscal year 2011 and remain at that level thereafter.

Postretirement plan assumptions reflect our historical experience and our best judgments regarding future expectations. Assumed health care cost trend rates could have an effect on the amounts reported for post retirement benefit plans. A one-percentage point change in assumed health care cost trend rates would have the following effects

as of October 31, 2007:

**One
Percent
Increase** **One
Percent**