BIOSANTE PHARMACEUTICALS INC
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May 03, 2002

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As filed with the Securities and Exchange Commission on May 3, 2002

Registration No. 333-64218

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

POST-EFFECTIVE AMENDMENT NO. 1
TO
FORM SB-2/A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

BIOSANTE PHARMACEUTICALS, INC.

(Name of Small Business Issuer in its Charter)

Delaware	**2836**	**58-2301143**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

111 Barclay Boulevard
Lincolnshire, Illinois 60069
Telephone No.: (847) 478-0500

Phillip B. Donenberg
Chief Financial Officer, Treasurer and Secretary
BioSante Pharmaceuticals, Inc.
111 Barclay Boulevard
Lincolnshire, Illinois 60069
Telephone No.: (847) 478-0500

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copy to:
Amy E. Culbert, Esq.
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45 South Seventh Street, Suite 3300
Minneapolis, Minnesota 55402
(612) 607-7287

Approximate date of commencement of proposed sale to the public:
From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or reinvestment plans, check the following box: ý

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Subject to Completion, dated May 3, 2002

The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

25,437,500 Shares

Common Stock

Selling stockholders of BioSante Pharmaceuticals, Inc. are offering 25,437,500 shares of common stock. BioSante will not receive any proceeds from the sale of shares offered by the selling stockholders.

The shares of common stock offered will be sold as described under the heading "Plan of Distribution," beginning on page 21.

Our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol "BTPH." On May 1, 2002, the last reported sale price of our common stock on the OTC Bulletin Board was $0.52 per share.

The common stock offered involves a high degree of risk. We refer you to "Risk Factors," beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2002

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In this prospectus, references to "BioSante," "the company," "we," and "our," unless the context otherwise requires, refer to BioSante Pharmaceuticals, Inc.

We own or have the rights to use various trademarks, trade names or service marks, including BioSante , Bio-Vant , NanoVant , CAP-Oral , Bio-Air , Bio-T-Gel , Bio-E-Gel , Bio-E/P-Gel , LibiGel and LibiGel-E/T

You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus is accurate as of the date on the front cover. You should not assume that the information contained in this prospectus is accurate as of any other date.

SUMMARY

The items in the following summary are described in more detail later in this prospectus. This summary provides an overview of selected information and does not contain all the information you should consider. Therefore, you should also read the more detailed information contained in this prospectus, including the financial statements.

Our Company

We are a development stage biopharmaceutical company that is developing a pipeline of hormone replacement products to treat hormone deficiencies in men and women. We also are engaged in the development of our proprietary calcium phosphate, nanoparticulate-based platform technology, or CAP, for vaccine adjuvants, proprietary novel vaccines, drug delivery systems and to purify the milk of transgenic animals.

To enhance the value of our current pharmaceutical portfolio, we are pursuing the following corporate growth strategies:

- accelerate the development of our hormone replacement products;

continue to develop our nanoparticle-based platform technology, or CAP, and seek assistance in such development through corporate partner sub-licenses;

license or otherwise acquire other drugs that will add value to our current product portfolio; and

implement business collaborations or joint ventures with other pharmaceutical and biotechnology companies.

Our primary focus is to build a pipeline of hormone replacement products for the treatment of human hormone deficiencies. Symptoms of hormone deficiency in men include impotence, lack of sex drive, muscle weakness and osteoporosis, and in women, menopausal symptoms, such as hot flashes, vaginal atrophy, decreased libido and osteoporosis.

Our proposed hormone replacement products, which we license on an exclusive basis from Antares Pharma Inc., are gel formulations of testosterone, estradiol, a combination of estradiol and testosterone and a combination of estradiol and a progestogen. The gels are designed to be absorbed quickly through the skin after application on the arms, shoulders, abdomen or thighs, delivering the hormone to the bloodstream evenly and in a non-invasive, painless manner. Human clinical trials have begun on four of our hormone replacement products, a necessary step in the process of obtaining United States Food and Drug Administration, or FDA, approval to market the products.

The following is a list of our hormone replacement gel products in development:

LibiGel a transdermal testosterone gel in Phase II clinical development for treatment of female sexual dysfunction.

Bio-T-Gel a transdermal testosterone gel in development for testosterone deficiency in men.

Bio-E-Gel a transdermal gel containing estradiol in development for estrogen deficiency in women, including menopausal symptoms.

Bio-E/P-Gel a transdermal gel containing estrogen and progestogen in development for estrogen deficiency.

LibiGel-E/T a transdermal gel containing estrogen and testosterone in development for treatment of female sexual dysfunction.

Our CAP technology, which we license on an exclusive basis from the University of California, is based on the use of extremely small, solid, uniform particles, which we call "nanoparticles," as immune

system boosters, for drug delivery and to purify the milk of transgenic animals. We have identified four potential initial applications for our CAP technology:

the creation of improved versions of current vaccines by the "adjuvant" activity of our proprietary nanoparticles that enhance the ability of a vaccine to stimulate an immune response;

the development of new, unique vaccines against diseases for which there currently are few or no effective methods of prevention (*e.g.*, genital herpes);

the creation of inhaled and oral forms of drugs that currently must be given by injection (*e.g.*, insulin); and

the purification of the milk of transgenic animals, in which protein pharmaceuticals are grown by selectively isolating biologically active therapeutic proteins from the transgenic milk.

The following is a list of our CAP products in development:

Bio-Vant CAP adjuvant technology new proprietary CAP technology in development for improved versions of current vaccines and new vaccines against cancer, viral and bacterial infections and autoimmune diseases.

Bio-Air advanced proprietary technology using CAP as a delivery system for inhalable versions of therapies that currently must be injected.

CAP-Oral an advanced delivery system using proprietary CAP technology for oral administration of therapies that currently must be injected.

CAP biotechnology production use of CAP technology in a new patented process for extracting therapeutic proteins from transgenic milk.

Our company, which was initially formed as a corporation organized under the laws of the Province of Ontario on August 29, 1996, was continued as a corporation under the laws of the State of Wyoming on December 19, 1996 and was reincorporated under the laws of the State of Delaware on June 26, 2001.

Our principal executive offices are located at 111 Barclay Boulevard, Suite 280, Lincolnshire, Illinois 60069, and our telephone number is (847) 478-0500. Our web site is located at *www.biosantepharma.com*. Our web site, and the information contained on that site, or connected to that site, are not intended to be part of this prospectus.

Summary Consolidated Financial Data

The selected statement of operations data shown below for the years ended December 31, 1999, 2000 and 2001 and the balance sheet data as of December 31, 2000 and 2001 are derived from our audited financial statements included elsewhere in this prospectus. The selected statement of operations data shown below for the period from August 29, 1996 (date of incorporation) to December 31, 1996 and for the years ended December 31, 1997 and 1998 and the balance sheet data as of December 31, 1997, 1998 and 1999 are derived from our audited financial statements not included elsewhere in this prospectus. When you read this selected consolidated financial data, it is important that you also read the historical financial statements and related notes included in this prospectus, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

	Period from August 29, 1996 (date of incorporation) to December 31, 1996	Year Ended December 31,				
		1997	1998	1999	2000	2001
	(in thousands, except per share and share data)					
Statement of Operations Data:						
Licensing income	$	$	$	$	$	$ 1,747
Interest income	53	144	123	199	228	174
Total income	53	144	123	199	228	1,921
Expenses:						

	Period from August 29, 1996 (date of incorporation) to December 31, 1996					
Research and development		336	1,400	661	1,888	2,142
General and administration	547	1,618	1,112	853	1,679	2,299
Depreciation and amortization	1	52	140	91	98	93
Loss on disposal of capital assets		28	130			
Total expenses	548	2,034	2,782	1,605	3,665	4,533
Loss before other expenses	(495)	(1,890)	(2,659)	(1,406)	(3,437)	(2,611)
Cost of acquisition of Structured Biologicals, Inc.	375					
Purchased in-process research and development	5,377					
Total other expenses	5,752					
Net loss	$ (6,247)	$ (1,890)	$ (2,659)	$ (1,406)	$ (3,437)	$ (2,611)
Basic and diluted net loss per share	$ (0.26)	$ (0.05)	$ (0.08)	$ (0.03)	$ (0.06)	$ (0.04)
Weighted average number of shares outstanding	24,366	35,962	34,858	49,424	57,537	64,853

	As of December 31,				
	1997	1998	1999	2000	2001
	(in thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 1,750	$ 2,841	$ 5,275	$ 2,612	$ 4,502
Working capital	356	2,099	5,004	1,735	3,666
Total assets	2,450	3,449	5,780	3,067	4,979
Convertible debenture current				500	
Stockholders' equity	1,034	2,631	5,451	2,126	4,051

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RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks and uncertainties described below in addition to the other information contained in this prospectus, including the section entitled "Cautionary Statement Concerning Forward-Looking Statements" before deciding whether to invest in shares of our common stock. If any of the following risks actually occur, our business, financial condition or operating results could be harmed. In that case, the trading price of our common stock could decline, and you may lose part or all of your investment. These risks and uncertainties described below are not the only ones facing BioSante. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also impair our business operations and adversely affect the market price of our common stock.

Risks Relating to Our Company

We have a history of operating losses, expect continuing losses and may never achieve profitability.

We have incurred losses in each year since our amalgamation in 1996 and expect to incur substantial and continuing losses for the foreseeable future. We incurred a net loss of $2,611,361 for the year ended December 31, 2001, and as of December 31, 2001, our accumulated deficit was $18,251,033.

All of our revenue to date has been derived from interest earned on invested funds and license fees. We have not commercially introduced any products. We expect to incur substantial and continuing losses for the foreseeable future as our own product development programs expand and various preclinical and clinical trials commence. The amount of these losses may vary significantly from year-to-year and quarter-to-quarter and will depend on, among other factors:

the timing and cost of product development;

the progress and cost of preclinical and clinical development programs;

the costs of licensure or acquisition of new products;

the timing and cost of obtaining necessary regulatory approvals; and

the timing and cost of obtaining third party reimbursement.

In order to generate revenues, we must successfully develop and commercialize our own proposed products or products in the late-stage human clinical development phase or already on the market that we may in-license or otherwise acquire, or enter into collaborative agreements with others who can successfully develop and commercialize them. Even if our proposed products and the products we may license or otherwise acquire are commercially introduced, they may never achieve market acceptance and we may never generate revenues or achieve profitability.

We will need to raise substantial additional capital in the future to fund our operations and we may be unable to raise such funds when needed and on acceptable terms.

We currently do not have sufficient resources to complete the commercialization of any of our proposed products. Therefore, we may need to raise substantial additional capital to fund our operations sometime in the future. We cannot be certain that any financing will be available when needed. If we fail to raise additional financing as we need it, we may have to delay or terminate our own product development programs or pass on opportunities to in-license or otherwise acquire new products that we believe may be beneficial to our business.

Our cash on hand as of December 31, 2001 was $4,502,387. We believe this cash will be sufficient to fund our operations through December 2002. We have based this estimate on assumptions that may prove to be wrong. As a result, we may need to obtain additional financing prior to that time. In

addition, we may need to raise additional capital at an earlier time to fund our ongoing research and development activities, acquire new products or take advantage of other unanticipated opportunities. Any additional equity financings may be dilutive to our existing shareholders, and debt financing, if available, may involve restrictive covenants on our business. In addition, insufficient funds may require us to delay, scale back or eliminate some or all of our programs designed to facilitate the commercial introduction of our proposed products, prevent commercial introduction of our products altogether or restrict us from acquiring new products that we believe may be beneficial to our business.

We are a development stage company with a short operating history, making it difficult for you to evaluate our business and your investment.

We are in the development stage and our operations and the development of our proposed products are subject to all of the risks inherent in the establishment of a new business enterprise, including:

the absence of an operating history;

the lack of commercialized products;

insufficient capital;

expected substantial and continual losses for the foreseeable future;

limited experience in dealing with regulatory issues;

the lack of manufacturing experience and limited marketing experience;

an expected reliance on third parties for the development and commercialization of some of our proposed products;

a competitive environment characterized by numerous, well-established and well-capitalized competitors; and

reliance on key personnel.

Because we are subject to these risks, you may have a difficult time evaluating our business and your investment in our company.

Our proposed products are in the research and development stages and will likely not be commercially introduced for several years, if at all.

Our proposed products are in the research and development stages and will require further research and development, preclinical and clinical testing and investment prior to commercialization in the United States and abroad. We cannot assure you that any of our proposed products will:

be successfully developed;

prove to be safe and efficacious in clinical trials;

meet applicable regulatory standards;

demonstrate substantial protective or therapeutic benefits in the prevention or treatment of any disease;

be capable of being produced in commercial quantities at reasonable costs; or

be successfully marketed.

We do not anticipate that any of our proposed products will receive the requisite regulatory approvals for commercialization in the United States or abroad until approximately late 2003, or later,

if at all, and we cannot assure you that any of our proposed products, if approved and marketed, will generate significant product revenue and provide an acceptable return on our investment.

Our strategy to acquire products in the late-stage development phase or products already on the market is risky and the market for acquiring these products is competitive.

We may acquire, through outright purchase, license, joint venture or other methods, products in the late-stage development phase and assist in the final development and commercialization of those products or products already on the market. There are a number of companies that have similar strategies to ours, many of whom have substantially greater resources than us. It is difficult to determine the value of a product that has not been fully developed or commercialized, and the possibility of significant competition for these products may tend to increase the cost to us of these products beyond the point at which we will experience an acceptable return on our investment. We cannot assure you that we will be able to acquire any products on commercially acceptable terms or at all, that any product we may acquire will be approved by the FDA or if approved, will be marketable, or that even if marketed, that we will be able to obtain an acceptable return on our investment.

If we purchase any products, we could issue common or preferred stock that would dilute our existing stockholders' percentage ownership, incur substantial debt or assume contingent liabilities by paying cash for such products. For example, we paid a $1.0 million upfront license fee for our hormone replacement products in June 2000. In September 2000, we sublicensed some of these products to a Canadian company and in connection with this transaction and subject to our achieving certain milestones we agreed to sell shares of our common stock to this licensee in the future at a premium of the then market value of our common stock. Purchases of new products also involve numerous other risks, including:

problems assimilating the purchased products;

unanticipated costs associated with the purchase;

incorrect estimates made in the accounting for acquisitions; and

risks associated with entering markets in which we have no or limited prior experience.

If we fail to obtain regulatory approval to commercially manufacture or sell any of our future products, or if approval is delayed, we will be unable to generate revenue from the sale of our products.

We must obtain regulatory approval to sell any of our products in the United States and abroad. In the United States, we must obtain the approval of the FDA for each product or drug that we intend to commercialize. The FDA approval process is typically lengthy and expensive, and approval is never certain. Products to be commercialized abroad are subject to similar foreign government regulation.

Generally, only a very small percentage of newly discovered pharmaceutical products that enter preclinical development are approved for sale. Because of the risks and uncertainties in biopharmaceutical development, our proposed products could take a significantly longer time to gain regulatory approval than we expect or may never gain approval. If regulatory approval is delayed or never obtained, our management's credibility, the value of our company and our operating results and liquidity would be adversely affected.

To obtain regulatory approval to market our products, costly and lengthy preclinical studies and clinical trials may be required, and the results of the studies and trials are highly uncertain.

As part of the FDA approval process, we must conduct preclinical studies on animals and clinical trials on humans on each of our proposed products. We expect the number of preclinical studies and clinical trials that the FDA will require will vary depending on the product, the disease or condition the

product is being developed to address and regulations applicable to the particular product. We may need to perform multiple preclinical studies using various doses and formulations before we can begin clinical trials, which could result in delays in our ability to obtain any regulatory approvals or to market any of our products. Furthermore, even if we obtain favorable results in preclinical studies on animals, the results in humans may be different.

After we have conducted preclinical studies in animals, we must demonstrate that our products are safe and effective for use on human patients in order to receive regulatory approval for commercial sale. The data obtained from preclinical and clinical testing are subject to varying

interpretations that could delay, limit or prevent regulatory approval. Adverse or inconclusive clinical results would prevent us from filing for regulatory approval of our products. Additional factors that could cause delay or termination of our clinical trials include:

slow patient enrollment;

longer treatment time required to demonstrate efficacy;

adverse medical events or side effects in treated patients; and

lack of effectiveness of the product being tested.

If we fail to obtain an adequate level of reimbursement for our products by third party payors, there may be no commercially viable markets for our products.

Our ability to commercialize our products successfully will depend in part upon the price we may be able to charge for our products and on the extent to which reimbursement for the cost of our products and related treatment will be available from government health administration authorities, private health insurers and other third party payors. We currently have limited expertise obtaining reimbursement. We will need to seek additional reimbursement expertise unless we enter into collaborations with other companies with the necessary expertise. Even if we are able to obtain reimbursement from third party payors, we cannot be certain that reimbursement rates will be high enough to allow us to profit from sales of our products and realize an acceptable return on our investment in product development.

We license the technology underlying our hormone replacement products and our CAP technology from third parties and may lose the rights to license them.

We license the technology underlying our proposed hormone replacement products from Antares Pharma, Inc. and our CAP technology from the University of California. We may lose our right to license these technologies if we breach our obligations under the license agreements. Although we intend to use our reasonable best efforts to meet these obligations, if we violate or fail to perform any term or covenant of the license agreements or with respect to the University of California's license agreement within 60 days after written notice from the University of California, the other party to these agreements may terminate these agreements or certain projects contained in these agreements. The termination of these agreements, however, will not relieve us of our obligation to pay any royalty or license fees owing at the time of termination. Our failure to retain the right to license the technology underlying our proposed hormone replacement products or CAP technology could harm our business and future operating results. For example, if we were to enter into an outlicense agreement with a third party under which we agree to outlicense our hormone replacement technology or CAP technology for a license fee, the termination of the main license agreement with Antares Pharma, Inc. or the University of California could either, depending upon the terms of the outlicense agreement, cause us to breach our obligations under the outlicense agreement or give the other party a right to terminate that agreement, thereby causing us to lose future revenue generated by the outlicense fees.

We do not have any facilities appropriate for clinical testing, we lack significant manufacturing experience and we have very limited sales and marketing personnel. We may, therefore, be dependent upon others for our clinical testing, manufacturing, sales and marketing.

Our current facilities do not include accommodation for the testing of our proposed products in animals or in humans for the clinical testing required by the FDA. We do not have a manufacturing facility that can be used for full-scale production of our products. In addition, at this time, we have very limited sales and marketing personnel. In the course of our development program, we will therefore be required to enter into arrangements with other companies or universities for our animal testing, human clinical testing, manufacturing, and sales and marketing activities. If we are unable to retain third parties for these purposes on acceptable terms, we may be unable to successfully develop, manufacture and market our proposed products. In addition, any failures by third parties to adequately perform their responsibilities may delay the submission of our proposed products for regulatory approval, impair our ability to deliver our products on a timely basis or otherwise impair our competitive position. Our dependence on third parties for the development, manufacture, sale and marketing of our products also may adversely affect our profit margins.

If we are unable to protect our proprietary technology, we may not be able to compete as effectively.

The pharmaceutical industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Our success will depend, in part, upon our ability to obtain, enjoy and enforce protection for any products we develop or acquire under United States and foreign patent laws and other intellectual property laws, preserve the confidentiality of our trade secrets and operate without infringing the proprietary rights of third parties.

Where appropriate, we seek patent protection for certain aspects of our technology. In February 2000, we filed a patent application relating to our CAP technology. However, our owned and licensed patents and patent applications may not ensure the protection of our intellectual property for a number of other reasons:

We do not know whether our patent applications will result in actual patents. For example, we may not have developed a method for treating a disease or manufacturing a product before others have developed similar methods.

Competitors may interfere with our patent process in a variety of ways. Competitors may claim that they invented the claimed invention before us or may claim that we are infringing on their patents and therefore we cannot use our technology as claimed under our patent. Competitors may also contest our patents by showing the patent examiner that the invention was not original or novel or was obvious.

We are in the research and development stage and are in the process of developing proposed products. Even if we receive a patent, it may not provide much practical protection. If we receive a patent with a narrow scope, then it will be easier for competitors to design products that do not infringe on our patent. Even if the development of our proposed products is successful and approval for sale is obtained, there can be no assurance that applicable patent coverage, if any, will not have expired or will not expire shortly after this approval. Any expiration of the applicable patent could have a material adverse effect on the sales and profitability of our proposed product.

Enforcing patents is expensive and may require significant time by our management. In litigation, a competitor could claim that our issued patents are not valid for a number of reasons. If the court agrees, we would lose those patents.

We also may support and collaborate in research conducted by government organizations or universities. We cannot guarantee that we will be able to acquire any exclusive rights to

technology or products derived from these collaborations. If we do not obtain required licenses or rights, we could encounter delays in product development while we attempt to design around other patents or we may be prohibited from developing, manufacturing or selling products requiring these licenses. There is also a risk that disputes may arise as to the rights to technology or products developed in collaboration with other parties.

It also is unclear whether our trade secrets will provide useful protection. While we use reasonable efforts to protect our trade secrets, our employees or consultants may unintentionally or willfully disclose our proprietary information to competitors. Enforcing a claim that someone else illegally obtained and is using our trade secrets, like patent litigation, is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Finally, our competitors may independently develop equivalent knowledge, methods and know-how.

Claims by others that our products infringe their patents or other intellectual property rights could adversely affect our financial condition.

The pharmaceutical industry has been characterized by frequent litigation regarding patent and other intellectual property rights. Patent applications are maintained in secrecy in the United States until the patents are issued and also are maintained in secrecy for a period of time outside the United States. Accordingly, we can conduct only limited searches to determine whether our technology infringes any patents or patent applications of others. Any claims of patent infringement would be time-consuming and could likely:

result in costly litigation;

divert the time and attention of our technical personnel and management;

cause product development delays;

require us to develop non-infringing technology; or

require us to enter into royalty or licensing agreements.

Although patent and intellectual property disputes in the pharmaceutical industry often have been settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and often require the payment of ongoing royalties, which could hurt our gross margins. In addition, we cannot be sure that the necessary licenses would be available to us on satisfactory terms, or that we could redesign our products or processes to avoid infringement, if necessary. Accordingly, an adverse determination in a judicial or administrative proceeding, or the failure to obtain necessary licenses, could prevent us from developing, manufacturing and selling some of our products, which could harm our business, financial condition and operating results.

Because we are developing new products, we may fail to gain market acceptance for our products and our business could suffer.

None of the products we propose to develop or are developing have yet been approved for marketing by regulatory authorities in the United States or elsewhere. Even if our proposed products ultimately are approved for sale, there can be no assurance that they will be commercially successful.

Risks Relating to Our Industry

Because our industry is very competitive and many of our competitors have substantially greater capital resources and more experience in research and development, manufacturing and marketing than us, we may not succeed in developing our proposed products and bringing them to market.

Competition in the pharmaceutical industry is intense. Potential competitors in the United States are numerous and include pharmaceutical, chemical and biotechnology companies, most of which have substantially greater capital resources and more experience in research and development, manufacturing and marketing than us. Academic institutions, hospitals, governmental agencies and other public and private research organizations also are conducting research and seeking patent protection and may develop and commercially introduce competing products or technologies on their own or through joint ventures. We cannot assure you that our competitors will not succeed in developing similar technologies and products more rapidly than we do or that these competing technologies and products will not be more effective than any of those that we currently are developing or will develop.

We are dependent upon key personnel, many of whom would be difficult to replace.

Our success will be largely dependent upon the efforts of Stephen M. Simes, our Vice Chairman, President and Chief Executive Officer, and other key employees. We are not the stated beneficiary of key person life insurance on any of our key personnel. Our future success also will depend in large part upon our ability to identify, attract and retain other highly qualified managerial, technical and sales and marketing personnel. Competition for these individuals is intense. The loss of the services of any of our key personnel, the inability to identify, attract or retain qualified personnel in the future or delays in hiring qualified personnel, could make it more difficult for us to manage our business and meet key objectives, such as the timely introduction of our proposed products, which would harm our business, financial condition and operating results.

Risks Relating to Our Common Stock

Because our common stock is traded on the OTC Bulletin Board, your ability to sell your shares in the secondary trading market may be limited.

Our common stock currently is traded on the over-the-counter market on the OTC Bulletin Board. Consequently, the liquidity of our common stock is impaired, not only in the number of shares that are bought and sold, but also through delays in the timing of transactions, and

coverage by security analysts and the news media, if any, of our company. As a result, prices for shares of our common stock may be lower than might otherwise prevail if our common stock was quoted on the Nasdaq Stock Market or traded on a national securities exchange, like The New York Stock Exchange or American Stock Exchange.

Because our shares are "penny stocks," you may have difficulty selling them in the secondary trading market.

Federal regulations under the Securities Exchange Act of 1934 regulate the trading of so-called "penny stocks," which are generally defined as any security not listed on a national securities exchange or Nasdaq, priced at less than $5.00 per share and offered by an issuer with limited net tangible assets and revenues. Since our common stock currently trades on the OTC Bulletin Board at less than $5.00 per share, our common stock is a "penny stock" and may not be traded unless a disclosure schedule explaining the penny stock market and the risks associated therewith is delivered to a potential purchaser prior to any trade.

In addition, because our common stock is not listed on Nasdaq or any national securities exchange and currently trades at less than $5.00 per share, trading in our common stock is subject to Rule 15g-9

under the Exchange Act. Under this rule, broker-dealers must take certain steps prior to selling a "penny stock," which steps include:

obtaining financial and investment information from the investor;

obtaining a written suitability questionnaire and purchase agreement signed by the investor; and

providing the investor a written identification of the shares being offered and the quantity of the shares.

If these penny stock rules are not followed by the broker-dealer, the investor has no obligation to purchase the shares. The application of these comprehensive rules will make it more difficult for broker-dealers to sell our common stock and our stockholders, therefore, may have difficulty in selling their shares in the secondary trading market.

Sales of a substantial number of shares of our common stock in the public market, including the shares offered under this prospectus and under other registration statements, could lower our stock price and impair our ability to raise funds in new stock offerings.

Future sales of a substantial number of shares of our common stock in the public market, including the shares offered under this prospectus and and under other registration statements, or the perception that such sales could occur, could adversely affect the prevailing market price of our common stock and could make it more difficult for us to raise additional capital through the sale of equity securities. We filed this registration statement pursuant to subscription agreements with the holders of the common stock and warrants purchased in our April 2001 private placement. We are required under these subscription agreements to use our reasonable best efforts to cause this registration statement to remain effective until the earlier of (1) the sale of all the shares of our common stock covered by this registration statement; or (2) such time as the selling stockholders named in this registration statement become eligible to resell the shares of BioSante common stock and the shares of BioSante common stock issuable upon exercise of warrants pursuant to Rule 144(k) under the Securities Act.

Our stock price may be volatile and your investment in our common stock could suffer a decline in value.

Our common stock has been listed on the OTC Bulletin Board since May 2000. The market price of our common stock may fluctuate significantly in response to a number of factors, some of which are beyond our control. These factors include:

progress of our products through the regulatory process;

results of preclinical studies and clinical trials;

announcements of technological innovations or new products by us or our competitors;

government regulatory action affecting our products or our competitors' products in both the United States and foreign countries;

developments or disputes concerning patent or proprietary rights;

actual or anticipated fluctuations in our operating results;

changes in our financial estimates by securities analysts;

general market conditions for emerging growth and pharmaceutical companies;

broad market fluctuations; and

economic conditions in the United States or abroad.

We may incur significant costs from class action litigation due to our expected stock volatility.

In the past, following periods of large price declines in the public market price of a company's stock, holders of that stock occasionally have instituted securities class action litigation against the company that issued the stock. If any of our stockholders were to bring this type of lawsuit against us, even if the lawsuit is without merit, we could incur substantial costs defending the lawsuit. The lawsuit also could divert the time and attention of our management, which would hurt our business. Any adverse determination in litigation could also subject us to significant liabilities.

Provisions in our charter documents and Delaware law could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.

Provisions of our certificate of incorporation and bylaws, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions include:

authorizing the issuance of "blank check" preferred that could be issued by our Board of Directors to increase the number of outstanding shares and thwart a takeover attempt; and

prohibiting cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.

We refer you to "Description of Securities Undesignated Preferred Stock; Anti-Takeover Provisions of Delaware Law" for more information on the specific provisions of our certificate of incorporation, our bylaws and Delaware law that could discourage, delay or prevent a change of control of our company.

Our directors and executive officers own a sufficient number of shares of our capital stock to control our company, which could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.

Our directors and executive officers own or control approximately 50.5% of our outstanding voting power. Accordingly, these stockholders, individually and as a group, may be able to influence the outcome of stockholder votes, involving votes concerning the election of directors, the adoption or amendment of provisions in our certificate of incorporation and bylaws and the approval of certain mergers or other similar transactions, such as a sale of substantially all of our assets. Such control by existing stockholders could have the effect of delaying,

deferring or preventing a change in control of our company.

Exercise of outstanding options and warrants will dilute existing stockholders and could decrease the market price of our common stock.

As of April 1, 2002, we had issued and outstanding 63,218,798 shares of common stock, 4,666,024 shares of our Class C stock and outstanding options and warrants to purchase 24,210,157 additional shares of common stock. The existence of the outstanding options and warrants may adversely affect the market price of our common stock and the terms under which we could obtain additional equity capital.

We do not intend to pay any cash dividends in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.

We do not intend to pay any cash dividends in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.

We likely will issue additional equity securities which will dilute your share ownership.

We likely will issue additional equity securities to raise capital and through the exercise of options and warrants that are outstanding or may be outstanding. These additional issuances will dilute your share ownership.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements concerning our financial condition, results of operations and business, including, without limitation, statements pertaining to:

- our substantial and continuing losses;
- our raising of additional capital through future equity financings;
- our spending capital on research and development programs, pre-clinical studies and clinical trials, regulatory processes, establishment of marketing capabilities and licensure or acquisition of new products; and
- our existing cash and whether and how long these funds will be sufficient to fund our operations.

These and other forward-looking statements are primarily in the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Conditions and Results of Operations" and "Business." Generally, you can identify these statements because they use phrases like "anticipates," "believes," "expects," "future," "intends," "plans," and similar terms. These statements are only predictions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which are unforeseen. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face as described in the section entitled "Risk Factors" and elsewhere in this prospectus.

We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are unable to predict accurately or over which we have no control. The risk factors listed in the section entitled "Risk Factors," as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in the section entitled "Risk Factors" and elsewhere in this prospectus could negatively impact our business, operating results, financial condition and stock price.

We are not obligated to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as otherwise required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in

this prospectus and other statements made from time to time from us or our representatives, might not occur. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

USE OF PROCEEDS

BioSante will not receive any of the proceeds from the sale of shares offered under this prospectus by the selling stockholders. This offering is intended to satisfy our obligations to register, under the Securities Act of 1933, the resale of the shares of our common stock, including shares of our common stock that will be issued to the selling stockholders upon the exercise of warrants held by them, that we issued to the selling stockholders in April 2001 and other registration rights obligations we owe to previous investors in BioSante. The net proceeds from our sale of these shares to the selling stockholders in May 1999 and in April 2001 has been and will be used for general corporate purposes, including working capital.

DIVIDEND POLICY

We never have declared or paid cash dividends on our common stock or our class C special stock. We currently intend to retain all future earnings for the operation and expansion of our business. We do not anticipate declaring or paying cash dividends on our common stock or class C special stock in the foreseeable future. Any payment of cash dividends on our common stock or class C special stock will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by our Board of Directors.

SELLING STOCKHOLDERS

All of the selling stockholders named below acquired or have the right to acquire upon the exercise of warrants the shares of our common stock being offered under this prospectus directly from us in a private transaction in May 1999 or in April 2001. The following table sets forth information known to BioSante with respect to the beneficial ownership of BioSante common stock as of April 1, 2002 as provided by the selling stockholders. In accordance with the rules of the SEC, beneficial ownership includes the shares issuable pursuant to warrants and options that are exercisable within 60 days of April 1, 2002. Shares issuable pursuant to warrants and options are considered outstanding for computing the percentage of the person holding the warrants and options but are not considered outstanding for computing the percentage of any other person.

The percentage of beneficial ownership for the following table is based on 63,218,798 shares of common stock outstanding as of April 1, 2002. To our knowledge, except as indicated in the footnotes to this table, each person named in the table has sole voting and investment power with respect to all shares of common stock shown in the table to be beneficially owned by such person.

Except as set forth below, none of the selling stockholders has had any position, office or other material relationship with BioSante within the past three years. The table assumes that the selling stockholders will sell all of the shares offered by them in this offering. However, BioSante is unable to determine the exact number of shares that will actually be sold or when or if these sales will occur. BioSante will not receive any of the proceeds from the sale of the shares offered under this prospectus.

	Shares Beneficially Owned Prior to the Offering				Shares Beneficially Owned After Completion of the Offering	
Selling Stockholder	Shares Subject to Options, Warrants, and Class C Special Stock	Total Shares Beneficially Owned	Percentage	Number of Shares Being Offered	Number	Percentage
Edward S. Loeb Revocable Trust	187,500	562,500	*	312,500	250,000	*
Sherwin and Sheri Zuckerman	500,000	1,500,000	2.4%	750,000	750,000	1.2%
	151,250	453,750	*	203,750	250,000	*

	Shares Beneficially Owned Prior to the Offering			Shares Beneficially Owned After Completion of the Offering		
The Levenstein & Resnick Profit Sharing Plan & Trust by Gary I. Levenstein						
James S. Levy	31,250	93,750	*	93,750		
James S. Levy Trust	125,000	375,000	*	125,000	250,000	*
Stephen M. Simes(1)	3,031,771	3,945,630	6.0%	125,000	3,820,630	5.8%
Stephen M. Simes Revocable Trust	62,500	187,500	*	187,500		
Irving B. Harris Trust	583,334	1,750,001	2.8%	1,000,001	750,000	1.2%
Virginia H. Polsky Trust	291,666	874,999	1.4%	499,999	375,000	*
Roxanne H. Frank Trust	388,889	1,166,666	1.9%	666,666	500,000	*
Couderay Partners	388,889	1,166,666	1.9%	666,666	500,000	*
Jerome Kahn, Jr. Revocable Trust	97,223	291,668	*	166,668	125,000	*
Fred Holubow(2)	287,500	662,500	1.0%	312,500	350,000	*
Mitchell I. Dolins Revocable Trust	225,000	675,000	1.1%	300,000	375,000	*
Sheldon M. Bulwa	125,000	375,000	*	250,000	250,000	*
Morningstar Trust(3)	325,000	1,125,000	1.8%	475,000	650,000	1.0%

Faye Morgenstern(3)	100,000	300,000	*	300,000		

)

Loss per share, basic	$(0.09)	$(0.11)
Diluted loss per common share:		
From continuing operations	$(0.09)	$(0.03)
From discontinued operations	—	(0.08)
Loss per share, diluted	$(0.09)	$(0.11)
Weighted-average common shares outstanding:		
Basic	35,079	37,003
Diluted	35,079	37,003
Cash dividends per share	$0.04	$0.04

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

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

	Three Months Ended January 31,	
	2015	2014
	(In thousands)	
Net loss	$(3,071)	$(3,900)
Other comprehensive (loss) income:		
Foreign currency translation adjustments (loss) gain (pretax)	(2,849)	55
Foreign currency translation adjustments tax benefit	—	14
Change in pension from net unamortized gain adjustment (pretax)	—	122
Change in pension from net unamortized gain tax benefit	29	—
Other comprehensive (loss) income, net of tax	(2,820)	191
Comprehensive loss	$(5,891)	$(3,709)

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

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

	Three Months Ended January 31,	
	2015	2014
	(In thousands)	
Operating activities:		
Net loss	$(3,071)	$(3,900)
Adjustments to reconcile net loss to cash used for operating activities:		
Depreciation and amortization	8,208	10,294
Stock-based compensation	1,264	1,090
Deferred income tax benefit	(3,239)	(1,885)
Excess tax benefit from share-based compensation	(60)	(1)
Asset impairment charges	—	510
Other, net	(478)	728
Changes in assets and liabilities, net of effects from acquisitions:		
Decrease in accounts receivable	15,323	26,654
Increase in inventory	(2,920)	(15,998)
Increase in other current assets	(12)	(594)
Decrease in accounts payable	(10,298)	(10,894)
Decrease in accrued liabilities	(10,934)	(15,027)
(Decrease) increase in income taxes payable	(58)	26
Increase in deferred pension and postretirement benefits	520	915
Increase (decrease) in other long-term liabilities	13	(1,087)
Other, net	(5)	(2,315)
Cash used for operating activities	(5,747)	(11,484)
Investing activities:		
Acquisitions, net of cash acquired	—	(5,161)
Capital expenditures	(7,321)	(6,748)
Proceeds from property insurance claim	513	400
Proceeds from disposition of capital assets	—	303
Cash used for investing activities	(6,808)	(11,206)
Financing activities:		
Repayments of other long-term debt	(23)	(26)
Common stock dividends paid	(1,448)	(1,490)
Issuance of common stock	—	331
Excess tax benefit from share-based compensation	60	1
Purchase of treasury stock	(42,748)	—
Cash used for financing activities	(44,159)	(1,184)
Effect of exchange rate changes on cash and cash equivalents	254	(55)
Decrease in cash and cash equivalents	(56,460)	(23,929)
Cash and cash equivalents at beginning of period	120,384	49,736
Cash and cash equivalents at end of period	$63,924	$25,807

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

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

Three Months Ended January 31, 2015	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	(In thousands, no per share amounts shown except in verbiage)					
Balance at October 31, 2014	$376	$249,600	$202,319	$ (5,708)	$(25,667)	$ 420,920
Net loss	—	—	(3,071)	—	—	(3,071)
Foreign currency translation adjustment	—	—	—	(2,849)	—	(2,849)
Common dividends ($0.04 per share)	—	—	(1,448)	—	—	(1,448)
Purchase of treasury stock	—	—	—	—	(43,404)	(43,404)
Stock-based compensation activity:						
Expense related to stock-based compensation	—	1,264	—	—	—	1,264
Tax benefit from share-based compensation	—	60	—	—	—	60
Restricted stock awards granted	—	(1,273)	—	—	1,273	—
Recognition of unrecognized tax benefit (Note 8)	—	—	10,003	—	—	10,003
Other	—	(154)	(43)	29	(1)	(169)
Balance at January 31, 2015	$376	$249,497	$207,760	$ (8,528)	$(67,799)	$ 381,306

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

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QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Basis of Presentation

Quanex Building Products Corporation manufactures components primarily for the window and door (fenestration) industry, which include (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products for original equipment manufacturers (OEMs), as well as certain non-fenestration components, which include solar panel sealants, wood flooring and furniture moldings. Quanex Building Products Corporation serves a primary customer base in North America and also serves customers in international markets through operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

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

The accompanying interim condensed consolidated financial statements include the accounts of Quanex Building Products Corporation. All intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The consolidated balance sheet as of October 31, 2014 was derived from audited financial information, but does not include all disclosures required by U.S. GAAP. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014. In our opinion, the accompanying financial statements contain all adjustments (which consist of normal recurring adjustments, except as disclosed herein) necessary to fairly present our financial position, results of operations and cash flows for the interim periods. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or for any future periods.

In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. We review our estimates on an on-going basis, including those related to impairment of long lived assets and goodwill, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Discontinued Operations

Prior to April 1, 2014, we had two reportable business segments: (1) Engineered Products and (2) Aluminum Sheet Products. On April 1, 2014, we sold our interest in a limited liability company which held the assets of the Nichols Aluminum business (Nichols), the sole operating segment included in our Aluminum Sheet Products reportable segment, to Aleris International, Inc.

(Aleris), a privately held Delaware corporation which provides aluminum rolled products and extrusions, aluminum recycling and specification aluminum alloy production. We received net proceeds of $107.4 million, which is net of a working capital adjustment of $2.6 million which we paid in June 2014, resulting in a gain on the transaction of $24.1 million, net of related taxes of $15.1 million.

Nichols represented a significant portion of our assets and operations. We accounted for this sale as a discontinued operation. We revised our financial statements and removed the results of operations of Nichols from net income (loss) from continuing operations, and presented separately as income (loss) from discontinued operations, net of taxes, for each of the accompanying condensed consolidated statements of income (loss). Unless noted otherwise, the notes to the consolidated financial statements pertain to our continuing operations.

For cash flow statement presentation, the sources and uses of cash for Nichols are presented as operating, investing and financing cash flows, as applicable, combined with such cash flows for continuing operations for the three months ended January 31, 2014, as permitted by U.S. GAAP.

We have historically purchased rolled aluminum product from Nichols. We expect to continue to purchase aluminum from Nichols in the normal course of business. We considered whether these aluminum purchases and the services provided under a transition services agreement for the period from April 1, 2014 to May 31, 2014 constituted significant continuing involvement with Nichols. Since these purchases are in the normal course of business and the services provided were for a relatively short period and are customary for similar transactions, we determined that this involvement was not deemed significant and did not preclude accounting for the transaction as a discontinued operation. Our purchases of aluminum product from Nichols for the three-month periods ended January 31, 2015 and 2014 were $4.5 million and $3.5 million, respectively.

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

In November 2013, Nichols experienced a fire at its Decatur, Alabama facility, which damaged a cold mill used to roll aluminum sheet to a desired thickness. The loss was insured, subject to a $0.5 million deductible. We capitalized $6.5 million to rebuild the asset, which was returned to service as of March 31, 2014. We incurred costs of $2.3 million associated with this loss, including an impairment of $0.5 million related to retirement of the asset, moving costs, outside service costs, clean-up and the deductible. To date, we have received insurance proceeds of $5.3 million. We have revised our estimate of total insurance proceeds expected related to this loss to approximately $6.8 million, resulting in an expected gain on involuntary conversion of $4.4 million of which we have recognized $2.9 million. We estimate the remaining gain on involuntary conversion at $1.5 million and that this gain will be recognized during fiscal 2015, when and to the extent that insurance proceeds are received, which will result in an increase in income from discontinued operations, net of tax.

Income from discontinued operations for the three months ended January 31, 2015 was reduced by $0.3 million, net of tax, associated with a health insurance claim amount reimbursable to the stop-loss insurance provider.

The following table summarizes the operating results for Nichols for the three-month period ended January 31, 2014:

	Three Months Ended January 31, (In thousands, except per share amounts)
Net sales	$ 79,491
Operating loss	(4,251)
Loss before income taxes	(4,268)
Income tax benefit	1,579
Net loss	$ (2,689)
Basic loss per common share	$ (0.08)
Diluted loss per common share	$ (0.08)

Product Sales

We produce a wide variety of products that are used in the fenestration industry, including: window and door systems design, engineering and fabrication; accessory trim profiles with real wood veneers and wood grain laminate finishes; window spacer systems; extruded vinyl products; metal fabrication; and astragals, thresholds and screens. In addition, we produce certain non-fenestration products, including: wood and aluminum grilles, flooring and furniture moldings, solar edge tape and other products. Historically, we have presented product sales information at the reportable segment level, and we attribute our net sales based on the location of the customer. We currently have one reportable operating segment, which includes this breadth of product offerings across the fenestration and non-fenestration spectrum, but for which there are common economic and other characteristics that meet the criteria for aggregation, as discussed in Note 14, "Segment Information".

The following table summarizes our product sales for the three-month periods ended January 31, 2015 and 2014 into general groupings to provide additional information to our shareholders.

	Three Months Ended January 31,	
	2015	2014
Product Group:	(In thousands)	
United States - fenestration	$96,191	$97,424
International - fenestration	17,776	18,623

United States - non-fenestration	9,474	7,191
International - non-fenestration	4,452	3,141
Total sales	$127,893	$126,379

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

2. Acquisitions

On December 31, 2013, we acquired certain vinyl extrusion assets of Atrium Windows and Doors, Inc. (Atrium) at a facility in Greenville, Texas, for $5.2 million in cash (Greenville). We accounted for this transaction as a business combination resulting in an insignificant gain on the purchase. We entered into a supply agreement with Atrium related to the products produced at Greenville. We believe this acquisition expanded our vinyl extrusion capacity and positioned us with a platform from which to better serve our customers in the southern United States.

The purchase price has been allocated to the fair value of the assets acquired and liabilities assumed, as indicated in the table below.

	As of Date of Opening Balance Sheet (In thousands)
Net assets acquired:	
Inventories	$161
Prepaid and other current assets	145
Property, plant and equipment	4,695
Intangible assets	290
Deferred income tax liability	(50)
Net assets acquired	$5,241
Consideration:	
Cash, net of cash and cash equivalents acquired	$5,161
Gain recognized on bargain purchase	$80

We used recognized valuation techniques to determine the fair value of the assets and liabilities, including the income approach for customer relationships, with a discount rate that reflects the risk of the expected future cash flows. The gain on bargain purchase of approximately $0.1 million is included in "Other, net" on our condensed consolidated statement of income (loss) for the three months ended January 31, 2014.

Pro forma results of operations were omitted because this acquisition was not deemed to be material to our results of operations for the three months ended January 31, 2014.

3. Inventories

Inventories consisted of the following at January 31, 2015 and October 31, 2014:

	January 31, 2015	October 31, 2014
	(In thousands)	
Raw materials	$38,133	$36,751
Finished goods and work in process	26,614	25,558
Supplies and other	1,063	806
Total	65,810	63,115
Less: Inventory reserves	5,979	5,757
Inventories, net	$59,831	$57,358

Fixed costs related to excess manufacturing capacity, if any, have been expensed in the period they were incurred and, therefore, are not capitalized into inventory.

Our inventories at January 31, 2015 and October 31, 2014 were valued using the following costing methods:

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

	January 31, 2015	October 31, 2014
	(In thousands)	
LIFO	$6,908	$5,122
FIFO	52,923	52,236
Total	$59,831	$57,358

During interim periods, we estimate a LIFO reserve based on our expectations of year-end inventory levels and costs. If our calculations indicate that an adjustment at year-end will be required, we record a proportionate share of this amount during the period. At year-end, we calculate the actual LIFO reserve and record an adjustment for the difference between the annual calculation and any estimates recognized during the interim periods. Because the interim projections are subject to many factors beyond our control, the results could differ significantly from the year-end LIFO calculation. We recorded no interim LIFO allocation for the three-month periods ended January 31, 2015 and 2014.

For inventories valued under the LIFO method, replacement cost exceeded the LIFO value by approximately $1.4 million at January 31, 2015 and October 31, 2014.

4. Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill for the three months ended January 31, 2015 was as follows:

	Three Months Ended January 31, 2015
	(In thousands)
Beginning balance as of November 1, 2014	70,546
Foreign currency translation adjustment	(1,744)
Balance as of the end of the period	$68,802

During the fourth quarter of 2014, we evaluated our goodwill balances for indicators of impairment and performed an annual goodwill impairment test to determine the recoverability of these assets. Three of our reporting units had goodwill at October 31, 2014 which totaled $55.2 million, $12.6 million and $2.8 million. We determined that our goodwill was not impaired and there have been no triggering events to indicate impairment during the three months ended January 31, 2015, so no additional testing was deemed necessary.

Identifiable Intangible Assets

Amortizable intangible assets consisted of the following as of January 31, 2015 and October 31, 2014:

	January 31, 2015		October 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(In thousands)			
Customer relationships	$53,083	$20,722	$53,083	$19,700
Trademarks and trade names	44,722	21,036	44,722	20,343
Patents and other technology	25,244	13,702	25,244	13,228
Other	1,392	1,092	1,392	1,020
Total	$124,441	$56,552	$124,441	$54,291

We do not estimate a residual value associated with these intangible assets. Included in intangible assets as of January 31, 2015 were customer relationships of $0.2 million associated with the Greenville acquisition. These assets have estimated remaining useful lives of four years. See Note 2, "Acquisitions", included herewith.
We had aggregate amortization expense of $2.3 million for each of the three-month periods ended January 31, 2015 and 2014.

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

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

	Estimated Amortization Expense
2015 (remaining nine months)	$6,916
2016	8,713
2017	8,607
2018	8,360
2019	7,571
Thereafter	27,722
Total	$67,889

5. Debt and Capital Lease Obligations

Debt consisted of the following at January 31, 2015 and October 31, 2014:

	January 31, 2015	October 31, 2014
	(In thousands)	
Revolving Credit Facility	$—	$—
City of Richmond, Kentucky Industrial Building Revenue Bonds	600	600
Capital lease obligations	158	185
Total debt	758	785
Less: Current maturities of long-term debt	190	199
Long-term debt	$568	$586

On January 28, 2013, we entered into a Senior Unsecured Revolving Credit Facility (the Credit Facility) that has a five-year term and permits aggregate borrowings at any time of up to $150.0 million, with a letter of credit sub-facility, a swing line sub-facility and a multi-currency sub-facility. Borrowings denominated in United States dollars bear interest at a spread above the London Interbank Borrowing Rate (LIBOR) or a base rate derived from the prime rate. Foreign denominated borrowings bear interest at a spread above the LIBOR applicable to such currencies. Subject to customary conditions, we may request that the aggregate commitments under the Credit Facility be increased by up to $100.0 million, with total commitments not to exceed $250.0 million.

The Credit Facility requires us to comply with certain financial covenants, the terms of which are defined therein. Specifically, we must not permit, on a quarterly basis, our ratio of consolidated EBITDA to consolidated interest expense as defined (Minimum Interest Coverage Ratio), to fall below 3.00:1 or our ratio of consolidated funded debt to consolidated EBITDA, as defined (Maximum Consolidated Leverage Ratio), to exceed 3.25:1. The Maximum Consolidated Leverage Ratio is the ratio of consolidated EBITDA to consolidated interest expense, in each case for the previous four consecutive fiscal quarters. EBITDA is defined by the indenture to include pro forma EBITDA of acquisitions and to exclude certain items such as goodwill and intangible asset impairments and certain other non-cash charges and non-recurring items. Subject to our compliance with the covenant requirements, the amount available under the Credit Facility is a function of: (1) our trailing twelve-month EBITDA; (2) the Minimum Interest Coverage Ratio and Maximum Consolidated Leverage Ratio allowed under the Credit Facility; and (3) the aggregate amount of our outstanding debt and letters of credit. As of January 31, 2015, we were in compliance with the financial covenants set forth in the Credit Facility.

As of January 31, 2015, the amount available to us for use under the Credit Facility was $124.7 million and we had outstanding letters of credit of $6.0 million. For the three-month period ended January 31, 2015, we did not borrow any amounts under the Credit Facility, and thus had no outstanding borrowings at January 31, 2015. Our current borrowing rate under the Credit Facility was 3.25% and 1.20% for the swing-line sub facility and the revolver, respectively, at January 31, 2015. As of October 31, 2014, the amount available to us for use under the Credit Facility was $140.7 million and we had outstanding letters of credit of $6.1 million. Our borrowing rate under the Credit Facility was 3.25% and 1.20% for the swing-line sub facility and the revolver, respectively, at October 31, 2014.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Retirement Plans

Pension Plan

Our non-contributory, single employer defined benefit pension plan covers a majority of our employees. Employees of acquired companies are covered after a transitional period. The net periodic pension cost for this plan for the three-month periods ended January 31, 2015 and 2014 was as follows:

	Three Months Ended January 31,	
	2015	2014
	(In thousands)	
Service cost	$881	$920
Interest cost	253	263
Expected return on plan assets	(461)	(423)
Amortization of net loss	—	—
Net periodic benefit cost	$673	$760

During 2014, we contributed approximately $4.1 million to fund our plan, and we expect to make a contribution to our plan in September 2015.

Other Plans

We also have a supplemental benefit plan covering certain executive officers and a non-qualified deferred compensation plan covering members of the Board of Directors and certain key employees. As of January 31, 2015 and October 31, 2014, our liability under the supplemental benefit plan was approximately $1.8 million and $1.9 million, respectively, and under the deferred compensation plan was approximately $3.4 million for both periods. In January 2014, we paid $3.3 million related to the deferred compensation plan as a result of the separation of our former chief executive officer in July 2013. We record the current portion of liabilities under these plans under the caption "Accrued Liabilities," and the long-term portion was included under the caption "Other Liabilities" in the accompanying balance sheets.

7. Warranty Obligations

We accrue warranty obligations as we recognize revenue associated with certain products. We make provisions for our warranty obligations based upon historical experience of costs incurred for such obligations adjusted, as necessary, for current conditions and factors. During January 2014, we reduced our warranty accrual by $2.8 million for certain products associated with our insulating glass business that were discontinued in a prior year and for which claim activity for a particular customer had ceased. There are significant uncertainties and judgments involved in estimating our warranty obligations, including changing product designs, differences in customer installation processes and future claims experience which may vary from historical claims experience. Therefore, the ultimate amount we incur as warranty costs in the near and long-term may not be consistent with our current estimate.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

A reconciliation of the activity related to our accrued warranty, including both the current and long-term portions (reported in accrued liabilities and other liabilities, respectively, on the accompanying condensed consolidated balance sheet) follows:

	Three Months Ended January 31, 2015
	(In thousands)
Beginning balance as of November 1, 2014	$671
Provision for warranty expense	226
Change in accrual for preexisting warranties	317
Warranty costs paid	(76)
Total accrued warranty as of the end of the period	$1,138
Less: Current portion of accrued warranty	757
Long-term portion of accrued warranty	$381

The increase in the warranty accrual during the three months ended January 31, 2015 was primarily attributable to a specific claim related to our vinyl extrusion products stemming from a change in formulation.

8. Income Taxes

To determine our income tax expense for interim periods, consistent with accounting standards, we apply the estimated annual effective income tax rate to year-to-date results. Our estimated annual effective tax rates from continuing operations for the three months ended January 31, 2015 and 2014, were a benefit of 47.6% and expense of 33.5%, respectively. The increase in the 2015 effective tax rate is attributable to a discrete benefit item resulting from the reassessment of our uncertain tax position related to the liability associated with the tax benefit recorded in conjunction with the 2008 spin-off of Quanex from a predecessor company. Excluding this item, the effective tax rate was 34.1%. The decrease in the 2014 effective rate is attributable to the change in the tax status of our facility in the United Kingdom (UK). On November 1, 2013, the assets of our UK branch were contributed to a newly formed wholly-owned UK subsidiary. This change resulted in a U.S. taxable charge and was booked as a discrete item in the first quarter. Without the discrete item, the 2014 effective tax rate was a benefit of 38.7%.

As of January 31, 2015, our unrecognized tax benefit (UTB) relates to certain state tax items regarding the interpretation of tax laws and regulations. The total UTB at October 31, 2014 included the UTB associated with the 2008 spin-off and totaled $11.4 million. Of this amount, $4.6 million was recorded as a liability for uncertain tax positions and $6.8 million was recorded as deferred income taxes (non-current assets) on the accompanying condensed consolidated balance sheet. During the three months ended January 31, 2015, we reassessed our unrecognized tax benefit related to the 2008 spin-off of Quanex from a predecessor company and recognized the full benefit of the tax positions taken. This reduced the liability for uncertain tax positions by $4.0 million and increased deferred income taxes (non-current assets) by $6.8 million and resulted in a non-cash increase in retained earnings of $10.0 million and an increase in income tax benefit of $0.8 million. At January 31, 2015, $0.5 million is recorded as a liability for uncertain tax positions. The disallowance of the UTB would not materially affect the annual effective tax rate.

We evaluate the likelihood of realization of our deferred tax assets by considering both positive and negative evidence. We believe there is no need for a valuation allowance of the federal net operating losses. We will continue to evaluate our position throughout the year. We maintain a valuation allowance for certain state net operating losses which totaled $1.4 million at January 31, 2015.

Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. The final outcome of the future tax consequences of legal proceedings, if any, as well as the outcome of competent authority proceedings, changes in regulatory tax laws, or interpretation of those tax laws could impact our financial statements. We are subject to the effect of these matters occurring in various jurisdictions. We do not believe any of the UTB will be recognized within the next twelve months.

Our federal income tax returns for the tax years ended October 31, 2011 and 2012 were examined by the Internal Revenue Service and no adjustments were made.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Contingencies

Environmental

We are subject to extensive laws and regulations concerning the discharge of materials into the environment and the remediation of chemical contamination. We accrue our best estimates of our remediation obligations and adjust these accruals when further information becomes available or circumstances change.

We are currently not subject to any remediation activities. Prior to April 1, 2014, we had remediation activities associated with one of our subsidiaries, Nichols Aluminum-Alabama, LLC, a component business unit of Nichols. As discussed in Note 1, "Nature of Operations and Basis of Presentation - Discontinued Operations", on April 1, 2014, we sold Nichols and the liabilities associated with this on-going remediation effort were assumed by Aleris International, Inc.

Spacer Migration

We were notified by certain customers through our German operation that the vapor barrier employed on certain spacer products manufactured prior to March 2014 may fail and permit spacer migration in certain extreme circumstances. This product does not have a specific customer warranty, but we have received claims from customers related to this issue, which we continue to investigate. We incurred expense of $1.8 million during 2014 associated with this issue, including an accrual of $1.2 million at October 31, 2014 for any asserted claim that we deem to be reasonably possible and estimable. The balance of this accrual at January 31, 2015 was $0.9 million, reflecting net claim payments of $0.2 million and a translation adjustment of approximately $0.1 million. We cannot estimate any future liability with regard to unasserted claims. We will investigate any future claims, but we are not obligated to honor any future claims.

Litigation

From time to time, we, along with our subsidiaries, are involved in various litigation matters arising in the ordinary course of our business. Although the ultimate resolution and impact of such litigation is not presently determinable, we believe that the eventual outcome of such litigation will not have a material adverse effect on our overall financial condition, results of operations or cash flows.

10. Derivative Instruments

Our derivative activities are subject to the management, direction, and control of the Chief Financial Officer and Chief Executive Officer. Certain transactions in excess of specified levels require further approval from the Board of Directors.

The nature of our business activities requires the management of various financial and market risks, including those related to changes in foreign currency exchange rates. We have historically used foreign currency forwards and options to mitigate or eliminate certain of those risks at our subsidiaries. We use foreign currency contracts to offset fluctuations in the value of accounts receivable and accounts payable balances that are denominated in currencies other than the United States dollar, including the Euro, British Pound and Canadian Dollar. Currently, we do not enter into derivative transactions for speculative or trading purposes. We are exposed to credit loss in the event of nonperformance by the counterparties to our derivative transactions. We attempt to mitigate this risk by monitoring the creditworthiness of our counterparties and limiting our exposure to individual counterparties. In addition, we have established master netting agreements in certain cases to facilitate the settlement of gains and losses on specific derivative contracts.

We have not designated any of our derivative contracts as hedges for accounting purposes in accordance with the provisions under the Accounting Standards Codification topic 815 "Derivatives and Hedging" (ASC 815). Therefore, changes in the fair value of these contracts and the realized gains and losses are recorded in the condensed

consolidated statements of income (loss) for the three-month periods ended January 31, 2015 and 2014 as follows (in thousands):

		Three Months Ended January 31,	
Location of Gain or (Loss):		2015	2014
Other, net	Foreign currency derivatives	$652	$114

We have chosen not to offset any of our derivative instruments in accordance with the provisions of ASC 815. Therefore, the assets and liabilities are presented on a gross basis on our accompanying condensed consolidated balance sheets.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The fair values of our outstanding derivative contracts as of January 31, 2015 and October 31, 2014 were as follows (in thousands):

	January 31, 2015	October 31, 2014
Prepaid and other current assets:		
Foreign currency derivatives	$34	$69
Accrued liabilities:		
Foreign currency derivatives	$(7)	$—

The following table summarizes the notional amounts and fair value of outstanding derivative contracts at January 31, 2015 and October 31, 2014 (in thousands):

		Notional as indicated		Fair Value in $	
		January 31, 2015	October 31, 2014	January 31, 2015	October 31, 2014
Foreign currency derivatives:					
Sell EUR, buy USD	EUR	6,227	$4,907	$32	$68
Sell CAD, buy USD	USD	259	331	(6)	1
Sell GBP, buy USD	GBP	911	—	2	—
Buy EUR, sell GBP	EUR	263	—	(1)	—

For the classification in the fair value hierarchy, see Note 11, "Fair Value Measurement of Assets and Liabilities", included herewith.

11. Fair Value Measurement of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to Level 1 and the lowest priority to Level 3. The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes the assets and liabilities measured on a recurring basis based on the fair value hierarchy (in thousands):

	January 31, 2015				October 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Short-term investments	$10,000	$—	$—	$10,000	$69,975	$—	$—	$69,975
Foreign currency derivatives	—	34	—	34	—	69	—	69
Total assets	$10,000	$34	$—	$10,034	$69,975	$69	$—	$70,044
Liabilities								
Foreign currency derivatives	$—	$7	$—	$7	$—	$—	$—	$—
Total liabilities	$—	$7	$—	$7	$—	$—	$—	$—

We held short-term investments (with an original maturity of three months or less) in commercial paper at January 31, 2015 and October 31, 2014. We have included these investments as cash and cash equivalents in the accompanying condensed consolidated balance sheets. These investments are measured at fair value based on active market quotations and are therefore classified as Level 1. All of our derivative contracts are valued using quoted market prices from brokers or exchanges and are classified within Level 2 of the fair value hierarchy.

We had approximately $2.4 million of certain property, plant and equipment that was recorded at fair value on a non-recurring basis and classified as Level 3 as of January 31, 2015 and October 31, 2014. The fair value was based on broker opinions.

Carrying amounts reported on the balance sheet for cash, cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. Our outstanding debt was variable rate debt that re-prices frequently, thereby limiting our exposure to significant change in interest rate risk. As a result, the fair value of our debt instruments approximates carrying value at January 31, 2015 and October 31, 2014 (Level 3 measurement).

12. Stock-Based Compensation

We have established and maintain an Omnibus Incentive Plan (2008 Plan) that provides for the granting of restricted stock awards, stock options, restricted stock units, performance share awards and other stock-based and cash-based awards. The 2008 Plan is administered by the Compensation and Management Development Committee of the Board of Directors.

The aggregate number of shares of common stock originally authorized for grant under the 2008 Plan was 2,900,000. At our annual shareholder meeting held in February 2011, the shareholders approved an amendment which increased the aggregate number of shares available for grant by 2,400,000 shares; and at our annual shareholder meeting held in February 2014, the shareholders approved an amendment which increased the aggregate number of shares available for grant under the 2008 Plan by an additional 2,350,000 shares. Any officer, key employee and/or non-employee director or any of our affiliates is eligible for awards under the 2008 Plan. Our initial grant of awards under the 2008 Plan was on April 23, 2008. Our practice is to grant stock options and restricted stock units to non-employee directors on the last business day of each fiscal year, with an additional grant of options to each director on the date of his or her first anniversary of service. Once we receive approval from the Board of Directors in December, we grant stock options, restricted stock awards, restricted stock units and/or performance shares to officers, management and key employees. Occasionally, we may make additional grants to key employees at other times during the year.

Restricted Stock Awards

Restricted stock awards are granted to key employees and officers annually, and typically cliff vest over a three-year period with service and continued employment as the only vesting criteria. The recipient of the restricted stock awards is entitled to all of the rights of a shareholder, except that the awards are nontransferable during the vesting period. The fair value of the restricted stock award is established on the grant date and then expensed over the vesting period resulting in an increase in additional paid-in-capital. Shares are generally issued from treasury stock at the time of grant.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

A summary of non-vested restricted stock awards activity during the three months ended January 31, 2015 is presented below:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Non-vested at October 31, 2014	220,800	$17.42
Granted	68,800	20.28
Cancelled	—	—
Vested	(33,500)	15.08
Non-vested at January 31, 2015	256,100	$18.49

The total weighted average grant-date fair value of restricted stock awards that vested during the three-month periods ended January 31, 2015 and 2014 was $0.5 million and $0.4 million, respectively. As of January 31, 2015, total unrecognized compensation cost related to unamortized restricted stock awards was $2.7 million. We expect to recognize this expense over the remaining weighted average vesting period of 1.8 years.

Stock Options

Stock options are awarded to key employees, officers and non-employee directors. Director stock options vest immediately while employee and officer stock options typically vest ratably over a three-year period with service and continued employment as the vesting conditions. Our stock options may be exercised up to a maximum of ten years from the date of grant. The fair value of the stock options is determined on the grant date and expensed over the vesting period resulting in an increase in additional paid-in-capital.

We use a Black-Scholes pricing model to estimate the fair value of stock options. A description of the methodology for the valuation assumptions was disclosed in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

The following table provides a summary of assumptions used to estimate the fair value of our stock options issued during the three-month periods ended January 31, 2015 and 2014.

	Three Months Ended January 31,	
	2015	2014
Weighted-average expected volatility	47.7%	55.7%
Weighted-average expected term (in years)	5.8	5.9
Risk-free interest rate	1.6%	1.8%
Expected dividend yield over expected term	1.0%	1.0%
Weighted average grant date fair value	$8.40	$8.52

The following table summarizes our stock option activity for the three months ended January 31, 2015:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at October 31, 2014	2,588,389	$16.21		
Granted	123,900	20.28		
Exercised	—	—		

Forfeited/Expired	(167)	15.08		
Outstanding at January 31, 2015	2,712,122	$16.40	6.1	$7,698
Vested or expected to vest at January 31, 2015	2,685,313	$16.36	6.1	$7,688
Exercisable at January 31, 2015	2,244,900	$15.87	5.6	$7,320

Intrinsic value is the amount by which the market price of the common stock on the date of exercise exceeds the exercise price of the stock option. There were no stock options exercised during the three months ended January 31, 2015. The total intrinsic

value of stock options exercised during the three months ended January 31, 2014, was $0.1 million. The weighted-average grant date fair value of stock options that vested during the three months ended January 31, 2015 and 2014, was $2.2 million and $2.8 million, respectively. As of January 31, 2015, total unrecognized compensation cost related to stock options was $2.7 million. We expect to recognize this expense over the remaining weighted average vesting period of 1.7 years.

Restricted Stock Units

Restricted stock units may be awarded to key employees and officers from time to time, and annually to non-employee directors. The director restricted stock units vest immediately but are payable only upon the director's cessation of service, whereas restricted stock units awarded to employees and officers typically cliff vest after a three-year period with service and continued employment as the vesting conditions. Restricted stock units are not considered outstanding shares and do not have voting rights, although the holder does receive a cash payment equivalent to the dividend paid, on a one-for-one basis, on our outstanding common shares. Once the criteria is met, each restricted stock unit is payable to the holder in cash based on the market value of one share of our common stock. Accordingly, we record a liability for the restricted stock units on our balance sheet and recognize any changes in the market value during each reporting period as compensation expense.

The following table summarizes non-vested restricted stock unit activity during the three months ended January 31, 2015:

	Restricted Stock Units	Weighted Average Grant Date Fair Value per Share
Non-vested at October 31, 2014	83,500	$15.08
Vested	(83,500)	15.08
Non-vested at January 31, 2015	—	$—

During the three-month period ended January 31, 2015, we paid $1.7 million to settle certain restricted stock units. No restricted stock units were settled during the three-month period ended January 31, 2014.

Performance Share Awards

Historically, we have granted performance units to key employees and officers annually. These awards cliff vest after a three-year period with service and performance measures such as relative total shareholder return and earnings per share growth as vesting conditions. These awards were treated as a liability and marked to market based upon our assessment of the achievement of the performance measures, with the assistance of third-party compensation consultants.

For the annual grants which occurred in December 2014 and 2013, we granted performance shares rather than performance units. These performance share awards have the same performance measures (relative total shareholder return and earnings per share growth). However, the number of shares earned is variable depending on the metrics achieved, and the settlement method is 50% in cash and 50% in our common stock.

To account for these awards, we have bifurcated the portion subject to a market condition (relative total shareholder return) and the portion subject to an internal performance measure (earnings per share growth). We have further bifurcated these awards based on the settlement method, as the portion expected to settle in stock (equity component) and the portion expected to settle in cash (liability component).

To value the shares subject to the market condition, we utilized a Monte Carlo simulation model to arrive at a grant-date fair value. This amount will be expensed over the three-year term of the award with a credit to additional paid-in-capital. To value the shares subject to the internal performance measure, we used the value of our common

stock on the date of grant as the grant-date fair value per share. This amount is being expensed over the three-year term of the award, with a credit to additional paid-in-capital, and could fluctuate depending on the number of shares ultimately expected to vest based on our assessment of the probability that the performance conditions will be achieved. For both performance conditions, the portion of the award expected to settle in cash is recorded as a liability and is being marked to market over the three-year term of the award, and can fluctuate depending on the number of shares ultimately expected to vest.

In conjunction with the annual grants in December 2014 and 2013, we awarded 137,400 and 148,800 performance shares, respectively, of which 0% to 200% of these shares may ultimately vest, depending on the achievement of the performance conditions. During 2014, 7,000 of the performance shares issued in December 2013 were forfeited. For the three-month periods ended January 31, 2015 and 2014, we have recorded $0.4 million and $0.2 million of compensation expense, respectively, related to these performance share awards.

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Performance share awards are not considered outstanding shares and do not have voting rights, although dividends are accrued over the performance period and will be payable in cash based upon the number of performance shares ultimately earned.

The performance shares are excluded from the diluted weighted-average shares used to calculate earnings per share until the performance criteria is probable to result in the issuance of contingent shares.

Treasury Shares

On September 5, 2014, our Board cancelled our existing stock repurchase program and approved a new stock repurchase program authorizing us to use up to $75.0 million to repurchase shares of our common stock. For the period from September 5, 2014 through October 31, 2014, we purchased 1,316,326 shares at a cost of $24.2 million under the new program. During the three months ended January 31, 2015, we purchased an additional 2,297,161 shares at a cost of $43.4 million.

We record treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Shares are generally issued from treasury stock at the time of grant of restricted stock awards, and upon the exercise of stock options and upon the issuance of performance shares. On the subsequent issuance of treasury shares, we record proceeds in excess of cost as an increase in additional paid in capital.

The following table summarizes the treasury stock activity during the three months ended January 31, 2015:

	Three Months Ended January 31, 2015
Beginning balance as of November 1, 2014	1,417,700
Restricted stock awards granted	(68,800)
Shares purchased	2,297,161
Balance at end of period	3,646,061

During February 2015, we completed our stock repurchase program. We purchased an additional 378,742 shares at a cost of $7.4 million. From inception of the program, we purchased 3,992,229 shares at a cost of $75.0 million.

13. Other Income (Expense)

Other income (expense) included under the caption "Other, net" on the accompanying condensed consolidated statements of income (loss), consisted of the following for the three-month periods ended January 31, 2015 and 2014:

	Three Months Ended January 31,	
	2015	2014
	(In thousands)	
Foreign currency transaction gains (losses)	$(834)	$(104)
Foreign currency derivative gains (losses)	652	114
Interest income	31	6
Other	—	80
Other (expense) income	$(151)	$96

14. Segment Information

We have four operating segments which we aggregate into one reportable segment, in accordance with ASC Topic 280-10-50, “Segment Reporting” (ASC 280). This aggregation is based on factors including, but not limited to: (1) similar nature of products serving the building products industry, primarily the fenestration business; (2) similar production processes, although there are some differences in the amount of automation amongst operating plants; (3) similar types or classes of customers, namely the primary original equipment manufacturers (OEMs) in the window

and door industry; (4) similar distribution methods for product delivery, although the extent of the use of third-party distributors will vary amongst the businesses; (5) similar regulatory environment; and (6) converging long-term economic similarities. The primary market drivers of our business are residential remodeling and replacement activity (R&R) and new home construction.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Prior to April 1, 2014, we presented two reportable operating segments: (1) Engineered Products and (2) Aluminum Sheet Products. In addition, we recorded LIFO inventory adjustments, corporate office charges and inter-segment eliminations as Corporate & Other. On April 1, 2014, we sold Nichols, the sole operating segment included in our Aluminum Sheet Products reportable segment. To account for Nichols as a discontinued operation, we reclassified certain costs from Corporate & Other to Nichols, including a portion of the LIFO reserve, as well as insurance accruals related to incurred but not reported workers compensation claims, to properly reflect these direct expenses as a component of the disposal group.

The following table reconciles our segment presentation as previously reported in our Quarterly Report on Form 10-Q for the three months ended January 31, 2014, to the current presentation (in thousands).

Three Months Ended January 31, 2014	As Previously Reported	Discontinued Operations	Reclassification	Current Presentation
Engineered Products				
Net sales	$126,379	$—	$—	$126,379
Inter-segment sales	—	—	—	—
Depreciation and amortization	7,644	—	900	8,544
Operating loss	7,491	—	(8,353)	(862)
Capital expenditures	$4,578	$—	$420	$4,998
Aluminum Sheet Products				
Net sales	$75,983	$(75,983)	$—	$—
Inter-segment sales	3,508	(3,508)	—	—
Depreciation and amortization	1,750	(1,750)	—	—
Operating loss	(4,251)	4,251	—	—
Capital expenditures	$1,750	$(1,750)	$—	$—
Corporate & Other				
Net sales	$—	$—	$—	$—
Inter-segment sales	(3,508)	3,508	—	—
Depreciation and amortization	900	—	(900)	—
Operating loss	(8,353)	—	8,353	—
Capital expenditures	$420	$—	$(420)	$—

15. Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common shares include the weighted average of additional shares associated with the incremental effect of dilutive employee stock options, non-vested restricted stock as determined using the treasury stock method prescribed by U.S. GAAP and contingent shares associated with performance share awards, if dilutive.

Basic and diluted loss per share was $(0.09) and $(0.11) for the three months ended January 31, 2015 and 2014, respectively. The computation of diluted earnings per share excludes outstanding stock options and other common stock equivalents when their inclusion would be anti-dilutive. This is always the case when an entity incurs a net loss. During the three-month periods ended January 31, 2015 and 2014, 472,497 and 528,397 of common stock equivalents, respectively, and 101,579 and 83,594 shares of restricted stock, respectively, were excluded from the computation of

diluted earnings per share. There were no potentially dilutive contingent shares related to performance share awards for these periods.

For the three-month periods ended January 31, 2015 and 2014, we had 762,572 and 1,083,988 securities, respectively, that were potentially dilutive in future earnings per share calculations. Such dilution will be dependent on the excess of the market price of our stock over the exercise price and other components of the treasury stock method.

16. New Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide

That a Performance Target Could be Achieved after the Requisite Service Period. This amendment requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition that affects vesting or as a nonvesting condition that affects the grant-date fair value of an award, and provides explicit guidance for those awards. This guidance becomes effective for fiscal years beginning on or after December 15, 2015. We expect to adopt this guidance during fiscal 2017, and we are currently evaluating the impact on our consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, “Revenue from Contracts with Customers.” This guidance prescribes a methodology to determine when revenue is recognizable and constitutes a principles-based approach to revenue recognition based on the consideration to which the entity expects to be entitled in exchange for goods or services. In addition, this guidance requires additional disclosure in the notes to the financial statements with regard to the methodology applied. This pronouncement becomes effective for annual reporting periods beginning after December 15, 2016, and will essentially supersede and replace existing revenue recognition rules in U.S. GAAP, including industry-specific guidance. We expect to adopt this pronouncement in fiscal 2018, and we are currently evaluating the impact on our consolidated financial statements.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This new guidance clarifies the definition of a discontinued operation as a disposal of a component of any entity, or a group of such components, which represent a strategic shift that has or will have a major effect on an entity’s operations and financial results. This guidance should result in fewer applications of discontinued operations accounting treatment. However, if such accounting treatment is required, the guidance requires additional footnote disclosures with regard to the major classes of line items constituting pretax profit or loss of the discontinued operation, a reconciliation of the major classes of assets and liabilities of the discontinued operation, and additional disclosure with regard to cash flows of the discontinued operation. This guidance becomes effective for fiscal years beginning on or after December 15, 2014. We expect to adopt this guidance during fiscal 2016, and we are currently evaluating the impact on our consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists, which provides guidance related to the presentation of current and deferred income taxes on the balance sheet. In general, an entity must present an unrecognized tax benefit related to a net operating loss carryforward, similar tax loss or tax credit carryforward, as a reduction of a deferred tax asset, except in prescribed circumstances through which liability presentation would be appropriate. This guidance became effective for fiscal years beginning after December 15, 2013. We adopted this guidance on November 1, 2014 with no material impact on our consolidated financial statements.

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

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are “forward-looking” statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words “expect,” “believe,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward looking statements are (1) all statements which address future operating performance, (2)events or developments that we expect or anticipate will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and (3) statements expressing general outlook about future operating results. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations. As and when made, we believe that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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

For information on additional factors that could cause actual results to differ materially, please refer to the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

About Third-Party Information

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

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of January 31, 2015, and for the three-month periods ended January 31, 2015 and 2014, included elsewhere herein. For additional information pertaining to our business, including risk factors which should be considered before investing in our common stock, refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2014.

Our Business

Quanex Building Products Corporation manufactures components primarily for the window and door (fenestration) industry, which include (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products for original equipment manufacturers (OEMs), as well as certain non-fenestration components, which include solar panel sealants, wood flooring and furniture moldings. Quanex Building Products Corporation serves a primary customer base in North America and also serves customers in international markets through operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

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

We have four operating segments which we aggregate into one reportable business segment.

Recent Transactions and Events

Prior to April 1, 2014, we had two reportable business segments: (1) Engineered Products and (2) Aluminum Sheet Products. On April 1, 2014, we sold our interest in a limited liability company which held the assets of the Nichols Aluminum business (Nichols), the sole operating segment included in our Aluminum Sheet Products reportable segment, to Aleris International, Inc.

(Aleris), a privately held Delaware corporation which provides aluminum rolled products and extrusions, aluminum recycling and specification aluminum alloy production. We received net proceeds of $107.4 million, which was net of a working capital adjustment of $2.6 million which we paid in June 2014, resulting in a gain on the transaction of $24.1 million, net of related taxes of $15.1 million. We expect to continue to purchase aluminum product from Nichols, which has historically totaled approximately $12.0 million annually. Our purchases of aluminum product from Nichols for the three-month periods ended January 31, 2015 and 2014 were $4.5 million and $3.5 million, respectively.

In November 2013, Nichols experienced a fire at its Decatur, Alabama facility, which damaged a cold mill used to roll aluminum sheet to a desired thickness. The loss was insured, subject to a $0.5 million deductible. We capitalized $6.5 million to rebuild the asset, which was returned to service as of March 31, 2014. We incurred costs of $2.3 million associated with this loss, including an impairment of $0.5 million related to retirement of the asset, moving costs, outside service costs, clean-up and the deductible. To date, we have received insurance proceeds of $5.3 million. We revised our estimate of total insurance proceeds expected related to this loss to approximately $6.8 million, resulting in an expected gain on involuntary conversion of $4.4 million, of which we have recognized $2.9 million. We estimate the remaining gain on involuntary conversion at $1.5 million and we expect this gain will be recognized during fiscal 2015, when and to the extent that insurance proceeds are received, which will result in an increase in income from discontinued operations, net of tax.

In December 2013, we acquired certain vinyl extrusion assets of Atrium Windows and Doors, Inc. (Atrium) at a facility in Greenville, Texas, for $5.2 million in cash (Greenville). We accounted for this transaction as a business combination resulting in an insignificant gain on the purchase. We entered into a supply agreement with Atrium related to the products manufactured at Greenville. We believe this acquisition expanded our vinyl extrusion capacity and positioned us with a platform from which to better serve our customers in the southern United States.

Market Overview and Outlook

We believe the primary drivers of our operating results continue to be new home construction and residential remodeling and replacement (R&R) activity. We believe that housing starts and window shipments are indicators of activity levels in the home building industry, and we use this data, as published by or derived from third-party sources, to evaluate the market.

Activity levels in the building products industry in the United States have increased annually since the recovery began in 2010, as evidenced by an increase in housing starts and window shipments. The National Association of Homebuilders (NAHB) has forecasted calendar-year housing starts to increase from 1.0 million units in 2014 to 1.2 million units in 2015 and 1.5 million units in 2016, reflecting increasing consumer confidence and a healthier economy. Ducker Worldwide, LLC (Ducker), a consulting

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and research firm, indicated that window shipments in the R&R market are expected to increase from 27.7 million units in 2014 to 28.5 million units in 2015 and 29.9 units in 2016, with new construction window shipments forecasted to increase at a higher pace. Derived from reports published by Ducker, the overall growth in window shipments for the trailing twelve-month period ended December 31, 2014 was 6.1%. During this period, growth in new construction increased 7.3%, while growth in R&R activity increased 5.3%. In recent years, growth in new construction has outpaced the growth in R&R, with a greater portion of the new construction associated with multi-family housing, although the growth rates for R&R, as published by Ducker, appear to be improving. According to the July 31, 2014 publication, "Multifamily Mid-Year Outlook 2014" by the Federal Home Loan Mortgage Corporation, a public government-sponsored enterprise, the economic recession has resulted in an estimated 3.9 million delayed household formations. With supply of single-family homes tight and rising home prices, we believe this delay in household formation has contributed to the growth in multi-family housing.

Higher energy efficiency standards in Europe are impacting the industry. We continue to be optimistic about our growth prospects in Europe, particularly in the United Kingdom, Germany and Scandinavian countries, where the push for higher energy efficiency standards has been the greatest. Older technology cold-edge spacers are still a dominant force in these regions and garner a larger portion of the total market share in Europe relative to the United States. We operate warm-edge spacer plants in the United Kingdom and Germany. We have encountered some spacer migration issues under extreme conditions for some spacer products sold by our German subsidiary. This issue was related to a vapor barrier that was discontinued in early 2014. We remain confident that we can become the provider of choice in Europe and the other markets we serve as demand for more energy-efficient warm edge spacers grows and eventually displaces cold edge spacers.

There are various internal and external factors that impact our operating results and challenge our growth prospects in the markets that we serve. Our business is subject to seasonality, as activity levels generally decline during the first half of the fiscal year and increase for the second half of the fiscal year. In addition, we utilize several commodities in our business for which pricing can fluctuate, including polyvinyl resin (PVC) and petroleum products. We typically include surcharges in our customer contracts which allow us to pass a portion of these price fluctuations onto our customers. However, during 2014 we were limited in our ability to recoup some of the increase in resin costs for certain customers of our vinyl extrusion products through surcharges due to contractual constraints. We renegotiated these customer contracts for the calendar year 2015. In addition, the price of crude oil per barrel has changed dramatically in recent months from a high of more than $100 per barrel to approximately $50 per barrel. Although we benefit from lower commodity prices associated with these petroleum products used in our business, our customer contracts may require concessions if oil prices per barrel decline below a designated threshold. Our profitability depends upon our ability to negotiate price, meet our customer’s product and delivery demands, manage our cost structure and efficiently operate our facilities.

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Results of Operations

Three Months Ended January 31, 2015 Compared to Three Months Ended January 31, 2014

	Three Months Ended January 31,			
	2015	2014	Change $	Change %
	(Dollars in millions)			
Net sales	$127.9	$126.3	$1.6	1 %
Cost of sales (excluding depreciation and amortization)	105.8	96.2	9.6	10 %
Selling, general and administrative	19.5	22.5	(3.0)	(13)%
Depreciation and amortization	8.2	8.5	(0.3)	(4)%
Operating loss	$(5.6)	$(0.9)	$(4.7)	522 %
Interest expense	(0.1)	(0.1)	—	— %
Other, net	(0.2)	0.1	(0.3)	(300)%
Income tax benefit (expense)	2.8	(0.3)	3.1	(1,033)%
Loss from continuing operations	$(3.1)	$(1.2)	$(1.9)	158 %
Loss from discontinued operations, net of tax	—	(2.7)	$2.7	(100)%
Net loss	$(3.1)	$(3.9)	$0.8	(21)%

Net Sales. Net sales increased $1.6 million, or 1%, for the three months ended January 31, 2015 compared to the same period in 2014. The fenestration market grew throughout 2014 and continued to grow in 2015. The year-over-year growth in window shipments as derived from preliminary data provided by Ducker for the calendar quarters ended December 31, 2014 and 2013 was 10%, and, for the trailing twelve months then ended, 6%. By comparison, our sales growth was 1% and 3%, respectively, as adjusted for certain foreign and other results to be more comparable to Ducker. To some extent, the disparity between our growth rate and that of the broader market reflects timing of the recovery in the building products industry, as Quanex benefited from a 12% growth rate for the first quarter of 2014 compared to Ducker's reported 6% growth for the same period. For the first quarter of 2015, net sales increased $0.4 million as a result of an increase in volume. Volume lost at one of our large customers was more than offset by the Greenville acquisition volume and growth with other customers. In addition, we benefited from favorable pricing, which contributed incremental sales of $0.8 million, with the remainder of the overall sales increase associated with product mix. We expect our growth rates to continue to converge with the Ducker growth rates throughout 2015.

Cost of Sales. The increase in cost of sales of $9.6 million, or 10%, for the three months ended January 31, 2015 compared to the same period in 2014 exceeded a 1% increase in net sales as discussed above. Of the increase in cost of goods sold, $2.8 million relates to the reversal of a warranty reserve during the first quarter of 2014 with regard to certain spacer product for which claim activity had ceased. In addition, our 2015 results were impacted by higher medical and worker's compensation claims, for which several large claims contributed incremental expense of $1.2 million, as well as higher freight expense and an increase in the cost of resin used in our vinyl products. Our labor and overhead efficiency decreased in 2015, as we absorbed more cost in 2014 associated with the inventory build. By comparison, the seasonal build in 2015 has been at a slower pace, due to sufficient inventory on hand.

Selling, General and Administrative. Our selling, general and administrative expenses decreased by $3.0 million, or 13%, for the three months ended January 31, 2015 compared to the same period in 2014. This decrease reflects severance and other expense incurred to reduce the size of our information technology group and sales and marketing organization during the first quarter of 2014 as we realigned our cost structure associated with the cessation of an ERP project in August 2013. In addition, we incurred transaction costs during 2014 associated with the Greenville acquisition in December 2013 and the sale of Nichols (finalized in April 2014). Compared to the first quarter of 2014, we experienced a decrease in expense in 2015 associated with long-term incentive plans tied to the performance of our common stock and a decrease in professional service fees. These cost reductions were partially offset by higher medical insurance costs and higher incentive accruals based on earnings.

Depreciation and Amortization. Depreciation and amortization expense decreased $0.3 million, or 4%, for the three months ended January 31, 2015 compared to the same period in 2014. The results for the first quarter of 2014 included $0.3 million associated with the run-off of depreciation associated with an ERP project that was ceased in August 2013 as well as the impact of other asset retirements. These decreases in expense year-over-year were partially

offset by incremental depreciation and amortization expense associated with fixed and intangible assets placed into service during the trailing twelve months ended January 31, 2015, including the assets purchased in conjunction with the Greenville acquisition.

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Interest Expense. Interest expense was consistent at $0.1 million for the three-month periods ended January 31, 2015 and 2014.

Other, net. The increase in other net expense of $0.3 million for the three months ended January 31, 2015 compared to the same period in 2014 was due primarily to net foreign exchange transaction losses.

Income Taxes. We recorded an income tax benefit of $2.8 million for the three months ended January 31, 2015, an effective rate of 47.6%, which included a discrete benefit of $0.8 million associated with the reversal of a liability for tax benefit associated with an uncertain tax position which stems from the 2008 spin-off of Quanex from a predecessor company. Excluding this discrete item, the effective tax rate would have been a benefit of 34.1%. For the three months ended January 31, 2014, we recorded income tax expense of $0.3 million, an effective rate of 33.5%, which included a discrete expense item of $0.7 million associated with the incorporation of the U.K. subsidiary. Excluding this discrete item, the effective tax rate would have been a benefit of 38.7%. The remaining difference in the effective rates between these periods relates to the impact of the foreign tax rate differential and permanent items.

Income (Loss) from Discontinued Operations, Net of Tax. Discontinued operations represents the operating results of Nichols which was sold effective April 1, 2014. For the three-months ended January 31, 2014, we recorded a loss of $2.7 million associated with Nichols which is due to seasonality, largely due to the fact that maintenance costs are incurred early in the fiscal year, as well as the impact of higher aluminum commodity prices and lower throughput. The result for the three-months ended January 31, 2015 was income of less than $0.1 million reflecting a gain of $0.5 million, pretax, from the involuntary conversion associated with a fire at the Nichols cold mill in November 2013, offset by a loss of $0.5 million, pretax, associated with an amount payable to our health insurance stop-loss provider related to a trailing claim.

Liquidity and Capital Resources

Overview

Our principal sources of funds are cash on hand, cash flow from operations, and borrowings under our $150 million Senior Unsecured Revolving Credit Facility (the Credit Facility). As of January 31, 2015, we had $63.9 million of cash and cash equivalents, $124.7 million of availability under the Credit Facility and outstanding debt of $0.8 million, of which no amounts were outstanding under our Credit Facility.

Cash and cash equivalents decreased by $56.5 million during the three months ended January 31, 2015 due primarily to the purchase of treasury shares, capital investments into our manufacturing facilities, dividends paid and on-going operational activities.

Analysis of Cash Flow

The following table summarizes our cash flow results for the three months ended January 31, 2015 and 2014:

	Three Months Ended January 31,	
	2015	2014
	(In millions)	
Cash flows used in operating activities	$(5.7)	$(11.5)
Cash flows used in investing activities	$(6.8)	$(11.2)
Cash flows used in financing activities	$(44.2)	$(1.2)

Operating Activities. Cash used for operating activities for the three-month period ended January 31, 2015 improved by approximately $5.7 million compared to the three-month period ended January 31, 2014. This is largely attributable to the Nichols business which was sold on April 1, 2014, which contributed a net loss of $2.7 million for the three-months ended January 31, 2014, but for which there was no activity for the same period in 2015. We combine the Nichols discontinued operations with our continuing operations for cash flow presentation as permitted by U.S. GAAP. We typically use cash during the first half of the fiscal year to build inventory, pay annual incentives and settle accounts payable, while collecting trade receivables earned during the busy season (second half of the fiscal year). The timing of these activities impacted our year-over-year operating cash flow. In addition, we paid $1.1 million to fund our pension plan during the three months ended January 31, 2014. No such funding payment was required for the same period in 2015. Working capital was $139.3 million, $114.4 million and $186.2 million as of January 31, 2015, October 31, 2014 and January 31, 2014, respectively.

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Investing Activities. Cash used for investing activities for the three months ended January 31, 2015 decreased by approximately $4.4 million compared to the three-month period ended January 31, 2014. This decrease was due to a decrease in cash used for acquisitions, as $5.2 million was invested in the Greenville purchase in 2014, partially offset by a slight increase in cash invested in capital expenditures.

Financing Activities. Cash used for financing activities was $44.2 million for the three-month period ended January 31, 2015, of which $42.7 million was used to purchase treasury stock and $1.4 million was used to pay dividends. We used $1.2 million for financing activities for the three months ended January 31, 2014, of which $1.5 million was used to pay dividends, partially offset by proceeds received from stock option exercises.

Liquidity Requirements

Our strategy for deploying cash is to invest in organic growth opportunities, develop our infrastructure and make strategic acquisitions. Other uses of cash include paying cash dividends to our shareholders and opportunistically repurchasing our common stock. Any excess cash and cash equivalents are invested in commercial paper with terms of three months or less. Our investments are diversified across multiple institutions that we believe are financially sound. We intend to remain in commercial paper, highly rated money market funds, financial institutions and treasuries following a prudent investment philosophy. From time to time, to prepare for potential disruption in the money markets, we may temporarily move funds into operating bank accounts of highly-rated financial institutions to meet on-going operational liquidity requirements. We did not experience any material losses on our cash and marketable securities investments during the three-month periods ended January 31, 2015 and 2014. We maintain cash balances in foreign countries which total $4.2 million as of January 31, 2015. We consider these funds to be permanently reinvested in these countries.

Senior Credit Facility

On January 28, 2013, we entered into a $150 million senior unsecured revolving credit facility that has a five-year term, maturing on January 28, 2018, and which permits aggregate borrowings at any time of up to $150 million, with a letter of credit sub-facility, a swing line sub-facility and a multi-currency sub-facility. Borrowings denominated in U.S dollars bear interest at a spread above LIBOR or a base rate derived from the prime rate. Foreign denominated borrowings bear interest at a spread above LIBOR applicable to such currencies. Subject to customary conditions, we may request that the aggregate commitments under the Credit Facility be increased by up to $100 million, with total commitments not to exceed $250 million.

The Credit Facility requires us to comply with certain financial covenants, the terms of which are defined therein. Specifically, we must not permit, on a quarterly basis, our ratio of consolidated EBITDA to consolidated interest expense as defined (Minimum Interest Coverage Ratio), to fall below 3.00:1, or our ratio of consolidated funded debt to consolidated EBITDA as defined (Maximum Consolidated Leverage Ratio), to exceed 3.25:1. The Maximum Consolidated Leverage Ratio is the ratio of consolidated EBITDA to consolidated interest expense, in each case for the previous four consecutive fiscal quarters. EBITDA is defined by the indenture to include pro forma EBITDA of acquisitions and to exclude certain items such as goodwill and intangible asset impairments and certain other non-cash charges and non-recurring items. Subject to our compliance with the covenant requirements, the amount available under the Credit Facility is a function of: (1) our trailing twelve month EBITDA; (2) the Minimum Interest Coverage Ratio and Maximum Consolidated Leverage Ratio allowed under the Credit Facility; and (3) the aggregate amount of our outstanding debt and letters of credit. As of January 31, 2015, we were in compliance with the financial covenants set forth in the Credit Facility, as indicated in the table below:

	Required		Actual
Minimum Interest Coverage Ratio	No less than	3.00:1	74.26:1
Maximum Consolidated Leverage Ratio	No greater than	3.25:1	0.17:1

The Credit Facility also contains certain limitations on additional indebtedness, asset or equity sales and acquisitions. The payment of dividends and other distributions is permitted, provided there is no event of default after giving effect to such transactions. If the counterparties to the Credit Facility were unable to fulfill their commitments, the funds available to us could be reduced. However, we have no reason to believe that such liquidity will be unavailable or reduced.

We believe that we have sufficient funds and adequate financial resources available to meet our anticipated liquidity needs. We also believe our cash balances and cash flow from operations will be sufficient in the next twelve months and foreseeable future to finance our anticipated working capital requirements, capital expenditures, debt service requirements, and dividends.

As of January 31, 2015, the amount available to us for use under the Credit Facility was limited to $124.7 million and we had outstanding letters of credit of $6.0 million. For the three-month period ended January 31, 2015, we did not borrow any

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amount under the Credit Facility, and thus had no outstanding borrowings at January 31, 2015. Our current borrowing rate under the Credit Facility was 3.25% and 1.20% for the swing-line sub facility and the revolver, respectively, at January 31, 2015.

Repurchases of Outstanding Securities

On September 5, 2014, our Board cancelled our existing stock repurchase program and approved a new stock repurchase program authorizing us to use up to $75.0 million to repurchase shares of our common stock. These purchases will be made in open market transactions or privately negotiated transactions in compliance with the Securities and Exchange Commission rule 10b5-1, subject to market conditions, applicable legal requirements and other relevant factors. As of January 31, 2015, we have purchased 3,613,487 shares valued at $67.6 million, an average price of $18.72 per share, of which $2.6 million had not settled and is recorded as a current liability in the accompanying balance sheet. Upon completion of the stock repurchase program during February 2015, our cumulative purchases pursuant to this plan were 3,992,229 shares totaling $75.0 million, an average price of $18.79 per share.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. 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 our operating environment changes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and that we believe provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. We must use our judgment with regard to uncertainties in order to make these estimates. Actual results could differ from these estimates.

For a description of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the fiscal year ended October 31, 2014. Our critical accounting policies and estimates have not changed materially during the three months ended January 31, 2015, except with regard to our critical accounting policy associated with income taxes pertaining to the reassessment of the liability for tax benefit associated with an uncertain tax position stemming from the 2008 spin-off of Quanex from its predecessor company. See a description in the accompanying Notes to Unaudited Condensed Consolidated Financial Statements, Note 8, "Income Taxes", contained elsewhere herein.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any other recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our consolidated financial statements upon adoption. See Note 16, "New Accounting Pronouncements", contained elsewhere herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of our exposure to various market risks contains “forward looking statements” regarding our estimates, assumptions and beliefs concerning our exposure. Although we believe these estimates and assumptions are reasonable in light of information currently available to us, we cannot provide assurance that these estimates will not materially differ from actual results due to the inherent unpredictability of interest rates, foreign currency rates and commodity prices as well as other factors. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

Our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Based upon the balances of the variable rate debt at January 31, 2015, a hypothetical 1.0% increase or decrease in interest rates would result in a $0.01 million additional pretax charge or credit to our operating results.

Foreign Currency Rate Risk

Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in the Euro, the British Pound and the Canadian dollar. From time to time, we enter into foreign exchange contracts associated with our operations to manage a portion of the foreign currency rate risk.

The notional and fair market values of these positions at January 31, 2015 and October 31, 2014, were as follows:

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		Notional as indicated		Fair Value in $	
		January 31, 2015	October 31, 2014	January 31, 2015	October 31, 2014
Foreign currency derivatives:		(In thousands)			
Sell EUR, buy USD	EUR	6,227	$4,907	$32	$68
Sell CAD, buy USD	USD	259	331	(6)	1
Sell GBP, buy USD	GBP	911	—	2	—
Buy EUR, sell GBP	EUR	263	—	(1)	—

At January 31, 2015 and October 31, 2014, we held foreign currency derivative contracts hedging cross-border intercompany and commercial activity for our insulating glass spacer business. Although these derivatives hedge our exposure to fluctuations in foreign currency rates, we do not apply hedge accounting and therefore, the change in the fair value of these foreign currency derivatives is recorded directly to other income and expense in the accompanying consolidated statements of income (loss). To the extent the gain or loss on the derivative instrument offsets the gain or loss from the remeasurement of the underlying foreign currency balance, changes in exchange rates should have no effect. See Note 10, "Derivative Instruments", contained elsewhere herein.

Commodity Price Risk

We purchase polyvinyl resin (PVC) as the significant raw material consumed in the manufacture of vinyl extrusions. We have a monthly resin adjuster in place with a majority of our customers and our resin supplier that is adjusted based upon published industry indices for resin prices for the prior month. This adjuster effectively shares the base pass-through price changes of PVC with our customers commensurate with the market at large. Our long-term exposure to changes in PVC prices is somewhat mitigated due to the contractual component of the resin adjuster program; however, there is a level of exposure to short-term volatility due to a one month lag and not all of our customer contracts include cost adjusters adequate to recover all exposure to such fluctuations. From time to time, we may lock in customer pricing for less than one year or make other customer concessions which result in us becoming exposed to fluctuations in resin pricing.

We maintain an oil-based materials surcharge on one of our major product lines. The surcharge is intended to offset the rising cost of products which are highly correlated to the price of oil, including butyl and other oil-based raw materials. The surcharge is in place with the majority of our customers who purchase these products and is adjusted monthly based upon the 90 day average published price for Brent crude. The oil-based raw materials purchased by us are subject to similar pricing schemes. Therefore, our long-term exposure to changes in oil-based raw material prices is significantly reduced under this surcharge program.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (1934 Act) as of January 31, 2015. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of January 31, 2015, the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

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

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On September 5, 2014, our Board of Directors approved a stock repurchase program authorizing us to use up to $75.0 million to repurchase shares of our common stock. For the period from September 5, 2014 through October 31, 2014, we purchased 1,316,326 shares at a cost of $24.2 million under this program. During the three months ended January 31, 2015, we purchased an additional 2,297,161 shares at a cost of $43.4 million.

Set forth below is a table summarizing the program and the repurchase of shares during the quarter ended January 31, 2015.

	Periods Ended (a) Total Number of Shares Purchased	Periods Ended (b) Average Price Paid per Share	Periods Ended (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Periods Ended (d) Maximum US Dollars Remaining that May Yet Be Used to Purchase Shares Under the Plans or Programs
November 1, 2014 through November 30, 2014	371,416	$20.02	371,416	$43,323,038
December 1, 2014 through December 31, 2014	837,000	$18.63	837,000	$27,726,974
January 1, 2015 through January 31, 2015	1,088,745	$18.71	1,088,745	$7,356,422
Total	2,297,161	$18.89	2,297,161	

During February 2015, we completed our stock repurchase program. We purchased an additional 378,742 shares at a cost of $7.4 million. From inception of the program, we purchased 3,992,229 shares at a cost of $75.0 million.

Item 6. Exhibits

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

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SIGNATURES

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

QUANEX BUILDING PRODUCTS CORPORATION

Date: March 3, 2015

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

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EXHIBIT INDEX

Exhibit Number	Description of Exhibits
3.1	Certificate of Incorporation of the Registrant dated as of December 12, 2007, filed as Exhibit 3.1 of the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on January 11, 2008, and incorporated herein by reference.
3.2	Amended and Restated Bylaws of the Registrant dated as of August 25, 2011, filed as Exhibit 3.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) filed with the Securities and Exchange Commission on August 29, 2011, and incorporated herein by reference.
4.1	Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of Amendment No. 1 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.
4.2	Credit Agreement dated as of January 28, 2013, among the Company; certain of its subsidiaries as guarantors; Wells Fargo Bank, National Association, as administrative agent; Wells Fargo Securities, LLC, as lead arranger and syndication agent; and the lenders parties thereto, filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913)as filed with the Securities and Exchange Commission on January 30, 2013, and incorporated herein by reference.
*31.1	Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).
*31.2	Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).
*32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.INS	XBRL Instance Document
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

† Management Compensation or Incentive Plan

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