

Quanex Building Products CORP  
Form 10-Q  
May 28, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended April 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number 1-33913**

**QUANEX BUILDING PRODUCTS CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**26-1561397**

(I.R.S. Employer Identification No.)

**1900 West Loop South, Suite 1500, Houston, Texas 77027**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(713) 961-4600**

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

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

<b>Class</b>	<b>Outstanding at May 25, 2010</b>
Common Stock, par value \$0.01 per share	37,856,680



**QUANEX BUILDING PRODUCTS CORPORATION  
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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**QUANEX BUILDING PRODUCTS CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>April 30,</b>	<b>October 31,</b>
	<b>2010</b>	<b>2009</b>
	<b>(In thousands except share amounts)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and equivalents	\$ 152,980	\$ 123,499
Accounts receivable, net of allowance of \$979 and \$1,696	80,203	80,171
Inventories	50,881	46,515
Deferred income taxes	14,525	20,611
Prepaid and other current assets	5,406	5,177
Current assets of discontinued operations	167	232
Total current assets	304,162	276,205
Property, plant and equipment, net	138,167	141,286
Deferred income taxes	34,470	42,923
Goodwill	25,189	25,189
Intangible assets, net	46,216	47,359
Other assets	15,501	9,114
Assets of discontinued operations		1,524
Total assets	\$ 563,705	\$ 543,600
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 69,666	\$ 67,010
Accrued liabilities	32,039	30,320
Current maturities of long-term debt	326	323
Current liabilities of discontinued operations	51	9
Total current liabilities	102,082	97,662
Long-term debt	1,824	1,943
Deferred pension and postretirement benefits	7,500	6,655
Non-current environmental reserves	10,920	1,767
Other liabilities	13,992	13,047
Total liabilities	136,318	121,074
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding none	379	378

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Common stock, \$0.01 par value, shares authorized 125,000,000; issued  
37,856,580 and 37,752,437, respectively

Additional paid-in-capital	235,991	233,452
Retained earnings	194,789	192,546
Accumulated other comprehensive income (loss)	(2,402)	(2,480)
	428,757	423,896
Less common stock held by Rabbi Trust, 102,125 shares	(1,370)	(1,370)
Total stockholders' equity	427,387	422,526
Total liabilities and stockholders' equity	\$ 563,705	\$ 543,600

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

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

	Three Months Ended		Six Months Ended	
	April 30,		April 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
<b>Net sales</b>	\$ 199,386	\$ 113,206	\$ 350,808	\$ 226,094
Cost and expenses:				
Cost of sales (exclusive of items shown separately below)	167,626	104,385	293,760	211,047
Selling, general and administrative	19,046	12,682	35,153	28,336
Impairment of goodwill and intangibles		45,263		182,562
Depreciation and amortization	7,035	7,864	14,369	16,511
<b>Operating income (loss)</b>	5,679	(56,988)	7,526	(212,362)
Interest expense	(103)	(110)	(227)	(232)
Other, net	1,427	178	1,505	298
Income (loss) from continuing operations before income taxes	7,003	(56,920)	8,804	(212,296)
Income tax benefit (expense)	(2,619)	16,948	(3,337)	52,050
Income (loss) from continuing operations	4,384	(39,972)	5,467	(160,246)
Income (loss) from discontinued operations, net of taxes	(71)	(174)	(960)	(313)
<b>Net income (loss)</b>	\$ 4,313	\$ (40,146)	\$ 4,507	\$ (160,559)
<b>Basic earnings per common share:</b>				
Earnings (loss) from continuing operations	\$ 0.12	\$ (1.07)	\$ 0.15	\$ (4.29)
Income (loss) from discontinued operations		(0.01)	(0.03)	(0.01)
Basic earnings (loss) per share	\$ 0.12	\$ (1.08)	\$ 0.12	\$ (4.30)
<b>Diluted earnings per common share:</b>				
Earnings (loss) from continuing operations	\$ 0.12	\$ (1.07)	\$ 0.14	\$ (4.29)
Income (loss) from discontinued operations	(0.01)	(0.01)	(0.02)	(0.01)
Diluted earnings (loss) per share	\$ 0.11	\$ (1.08)	\$ 0.12	\$ (4.30)
<b>Weighted-average common shares outstanding:</b>				
Basic	37,357	37,333	37,348	37,333
Diluted	37,892	37,333	37,835	37,333

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Cash dividends declared per share	\$	0.03	\$	0.03	\$	0.06	\$	0.06
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The accompanying notes are an integral part of the financial statements.

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

	<b>Six Months Ended</b>	
	<b>April 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(In thousands)</b>	
<b>Operating activities:</b>		
Net income (loss)	\$ 4,507	\$ (160,559)
(Income) loss from discontinued operations	960	313
Adjustments to reconcile net income (loss) to cash provided by operating activities from continuing operations:		
Gain on bargain purchase	(1,272)	
Impairment of goodwill and intangibles		182,562
Depreciation and amortization	14,404	16,546
Deferred income taxes	2,363	(34,730)
Stock-based compensation	2,252	1,403
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable	743	47,106
Decrease (increase) in inventory	(2,536)	26,979
Decrease (increase) in other current assets	(95)	(188)
Increase (decrease) in accounts payable	2,307	(43,190)
Increase (decrease) in accrued liabilities	2,412	(5,519)
Increase (decrease) in income taxes payable	12,005	(19,626)
Increase (decrease) in deferred pension and postretirement benefits	845	1,492
Other, net	1,706	2,339
Cash provided by (used for) operating activities from continuing operations	40,601	14,928
Cash provided by (used for) operating activities from discontinued operations	(361)	(328)
Cash provided by (used for) operating activities	40,240	14,600
<b>Investing activities:</b>		
Acquisitions, net of cash acquired	(1,590)	
Capital expenditures, net of retirements	(7,404)	(9,130)
Proceeds from property insurance claim	105	
Cash provided by (used for) investing activities from continuing operations	(8,889)	(9,130)
Cash provided by (used for) investing activities from discontinued operations	90	(438)
Cash provided by (used for) investing activities	(8,799)	(9,568)
<b>Financing activities:</b>		
Repayments of long-term debt	(115)	(163)
Common stock dividends paid	(2,264)	(2,260)
	364	

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Issuance of common stock from stock option exercises, including related tax benefits		
Funding from Separation		15,401
Other, net	(246)	(1,476)
Cash provided by (used for) financing activities from continuing operations	(2,261)	11,502
Cash provided by (used for) financing activities from discontinued operations	246	1,476
Cash provided by (used for) financing activities	(2,015)	12,978
Effect of exchange rate changes on cash and equivalents	30	(17)
Less: (Increase) decrease in cash and equivalents from discontinued operations	25	(710)
Increase (decrease) in cash and equivalents from continuing operations	29,481	17,283
Cash and equivalents at beginning of period	123,499	66,871
Cash and equivalents at end of period	\$ 152,980	\$ 84,154

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

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

<b>Six Months Ended April 30, 2010</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Rabbi Trust</b>	<b>Total Stockholders Equity</b>
						<b>(In thousands, except per share amounts)</b>
Balance at October 31, 2009	\$ 378	\$ 233,452	\$ 192,546	\$ (2,480)	\$ (1,370)	\$ 422,526
Net income (loss)			4,507			4,507
Common dividends (\$0.06 per share)			(2,264)			(2,264)
Stock-based compensation activity:						
Stock-based compensation earned		2,175				2,175
Stock options exercised		353				353
Restricted stock awards	1	(1)				
Stock-based compensation tax benefit		12				12
Other				78		78
Balance at April 30, 2010	\$ 379	\$ 235,991	\$ 194,789	\$ (2,402)	\$ (1,370)	\$ 427,387

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

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**QUANEX BUILDING PRODUCTS CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business and Basis of Presentation**

Quanex Building Products Corporation and its subsidiaries (Quanex or the Company) are managed on a decentralized basis and operate two business segments: Engineered Products and Aluminum Sheet Products. The Engineered Products segment produces engineered systems, products and components primarily serving the window and door industry, while the Aluminum Sheet Products segment produces mill finished and coated aluminum sheet serving the broader building products markets and secondary markets such as capital goods and transportation. The primary market drivers are residential housing starts and residential remodeling expenditures. Quanex believes it is a technological leader in the production of aluminum flat-rolled products, flexible insulating glass spacer systems, extruded vinyl profiles, and precision-formed metal and wood products that primarily serve the North American building products markets. The Company uses low-cost production processes, and engineering and metallurgical expertise to provide customers with specialized products for specific applications.

On December 12, 2007, Quanex Building Products Corporation was incorporated in the state of Delaware as a subsidiary of Quanex Corporation to facilitate the separation of Quanex Corporation's vehicular products and building products businesses. The separation occurred on April 23, 2008 through the spin-off of Quanex Corporation's building products business to its shareholders immediately followed by the merger of Quanex Corporation (consisting principally of the vehicular products business and all non-building products related corporate accounts) with a wholly-owned subsidiary of Gerdau S.A. (Gerdau). This is hereafter referred to as the Separation.

Effective with the Separation, the results of operations and cash flows related to the vehicular products business and non-building products related corporate items are reported as discontinued operations for all periods presented. There were no assets or liabilities of discontinued operations at April 30, 2010 and October 31, 2009 and no results of operations in 2009 related to the Separation. In January 2010, management committed to a plan to close its start-up facility in China due to the contraction of demand and the Company's ability to serve the overseas thin film solar panel market from its North American operations. Accordingly, the China assets and liabilities, results of operations and cash flows are reported as discontinued operations for all periods presented. Unless otherwise noted, all disclosures in the notes accompanying the consolidated financial statements reflect only continuing operations.

The interim unaudited consolidated financial statements of the Company include all adjustments which, in the opinion of management, are necessary for a fair presentation of the Company's financial position and results of operations. All such adjustments are of a normal recurring nature. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying footnotes. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as the Company's operating environment changes. Actual results could differ from estimates. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2009.

**2. New Accounting Pronouncements**

In February 2010, the Financial Accounting Standards Board (FASB) issued ASC Topic No. 2010-09, *Amendments to Certain Recognition and Disclosure Requirements*, which amends ASC Topic 855, *Subsequent Events*. Under this amended guidance, SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. This guidance was effective immediately and the Company adopted these new requirements for the period ended February 28, 2010. The adoption of this guidance did not have a material impact on the Company's Consolidated Financial Statements.

**Table of Contents****QUANEX BUILDING PRODUCTS CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS** (continued)

In January 2010, the FASB issued ASC Topic No. 2010-06, *Fair Value Measurements and Disclosures (ASC Topic 820) Improving Disclosures About Fair Value Measurements*. The ASC requires new disclosures about transfers into and out of Levels 1 (fair value determined based on quoted prices in active markets for identical assets and liabilities) and 2 (fair value determined based on significant other observable inputs) and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Except for the detailed Level 3 roll-forward disclosures, the new standard is effective for the Company for interim and annual reporting periods beginning after December 31, 2009 (February 1, 2010 for the Company). The requirement to provide detailed disclosures about the purchases, sales, issuances and settlements in the roll-forward activity for Level 3 fair value measurements is effective for the Company for interim and annual reporting periods beginning after December 31, 2010 (February 1, 2011 for the Company). Other than requiring additional disclosures, none that currently impact the Company, the adoption of this new guidance does not have a material impact on the Company's Consolidated Financial Statements.

In June 2008, the FASB ratified FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1), which was codified into ASC Topic 260 *Earnings per Share* (ASC 260.) This pronouncement addresses whether instruments granted in share-based payment awards are participating securities prior to vesting, and therefore, must be included in the earnings allocation in calculating earnings per share under the two-class method described in ASC 260. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend-equivalents be treated as participating securities in calculating earnings per share. This pronouncement is effective for financial statements issued for fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company), and interim periods within those fiscal years, and shall be applied retrospectively to all prior periods. The adoption of this pronouncement did not have a material impact on the Company's Consolidated Financial Statements.

In April 2008, the FASB issued FSP No. SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP SFAS 142-3), which was codified into ASC Topic 350 *Intangibles Goodwill and Other*, (ASC 350), and ASC Topic 275 *Risks and Uncertainties*, (ASC 275). The pronouncement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent is to improve the consistency between the useful life of a recognized intangible asset under ASC 350 and the period of expected cash flows used to measure the fair value of the asset under ASC Topic 805 *Business Combinations*, (ASC 805), and other applicable accounting literature. The pronouncement is effective for financial statements issued for the fiscal years beginning after December 15, 2008 (November 1, 2009 for the Company) and must be applied prospectively to intangible assets acquired after the effective date. The Company's adoption of the pronouncement did not have a material impact on the Company's Consolidated Financial Statements; however, any future acquisitions of intangibles could have a material impact on its results of operations or financial condition.

In February 2008, the FASB issued FSP No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which was codified into ASC 820 and delays the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until fiscal years beginning after November 15, 2008 (as of November 1, 2009 for the Company). The adoption of the nonfinancial asset and nonfinancial liabilities portion of this Statement did not have an impact on the Company's Consolidated Financial Statements, since the Company already applies its basic concepts in measuring fair values.

In December 2007, the FASB issued SFAS No. 141R *Business Combinations*, SFAS 141R, which was codified into ASC Topic 805 *Business Combinations* (ASC 805). This standard establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree, the goodwill acquired, contractual contingencies and any estimate or contingent consideration measured at their fair value at the acquisition date. Among other items, this standard requires acquisition costs to be expensed as incurred and gains to be recognized in bargain purchase business combinations. This statement also establishes disclosure requirements which will enable users to evaluate the nature and financial

effects of the business combination. In April 2009, the FASB issued FSP No. 141R-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP SFAS 141R-1). FSP SFAS No. 141R-1 was also codified into ASC 805. This staff position amends SFAS 141R to address application issues around the recognition, measurement and disclosure of assets and liabilities arising from contingencies in a business combination. These pronouncements apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008 (for acquisitions closed on or after November 1, 2009 for the Company). Early application is not permitted. The adoption of these pronouncements did not have a material impact on the Company's Consolidated Financial Statements. The Company is required to expense costs related to all acquisitions closed on or after November 1, 2009 and recognize gains in bargain purchase business combinations which in some instances may be material.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS 160) which was codified into ASC Topic 810 Consolidation, (ASC 810). This standard addresses the accounting and reporting framework for noncontrolling minority interests by a parent company and is effective for fiscal years beginning on or after December 15, 2008 (as of November 1, 2009 for the Company). The adoption of this standard did not have an impact on the Company's Consolidated Financial Statements; however, the Company will be required to account for noncontrolling minority interest acquisitions closed on or after November 1, 2009 under ASC 810.

**3. Goodwill and Acquired Intangible Assets***Goodwill*

Under ASC Topic 350 *Intangibles - Goodwill and Other* (ASC 350), goodwill is reviewed for impairment annually or more frequently if certain indicators arise. The Company elected to make August 31 the annual impairment assessment date for goodwill.

During the first fiscal quarter of 2009, based on a combination of factors, the Company concluded that there were sufficient indicators to require Quanex to perform an interim goodwill impairment analysis. The Company recorded an estimated non-cash goodwill impairment charge of \$125.4 million during the first quarter of fiscal 2009 and finalized its goodwill impairment analysis during the second quarter of fiscal 2009; at which time the Company recognized an additional non-cash goodwill impairment charge of \$45.3 million bringing the total impairment charge to \$170.7 million for the year ended October 31, 2009. The August 31, 2009 review of goodwill indicated that goodwill was not further impaired. As a result, there is \$25.2 million of goodwill remaining on the Company's balance sheet.

There were no changes in the carrying amount of goodwill for the six months ended April 30, 2010. All \$25.2 million of goodwill relates to the Engineered Products segment.

*Acquired Intangible Assets*

Intangible assets consist of the following (in thousands):

	As of April 30, 2010		As of October 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Customer relationships	\$ 21,200	\$ 5,762	\$ 21,200	\$ 5,232
Trademarks and trade names	33,530	8,420	33,150	7,709
Patents	11,560	5,892	11,560	5,610
Total	\$ 66,290	\$ 20,074	\$ 65,910	\$ 18,551

Based on a combination of factors, the Company determined that there were events and circumstances during the first quarter of 2009 that could indicate that its carrying amount of intangible assets may not be recoverable. Accordingly, intangible assets were tested for recoverability during the three months ended January 31, 2009. An impairment loss of \$11.9 million was recognized during the three months ended January 31, 2009 on certain Engineered Products trademarks, trade names and patents whose carrying amount was not recoverable and whose carrying amount exceeded fair value. The intangible asset impairment charge is included in Impairment of goodwill and intangibles in the accompanying consolidated statements of income. No impairment charges were recorded in 2010.

**Table of Contents****QUANEX BUILDING PRODUCTS CORPORATION****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

The aggregate amortization expense for the three and six month periods ended April 30, 2010 was \$0.8 million and \$1.5 million, respectively. The aggregate amortization expense for the three and six month periods ended April 30, 2009 was \$0.7 million and \$1.7 million, respectively. Estimated amortization expense for the next five years, based upon the amortization of pre-existing intangibles follows (in thousands):

<b>Fiscal Years Ending October 31,</b>	<b>Estimated Amortization</b>
2010 (remaining six months)	\$ 1,541
2011	\$ 3,082
2012	\$ 3,082
2013	\$ 3,020
2014	\$ 2,986

**4. Inventories**

Inventories consist of the following:

	<b>April 30, 2010</b>	<b>October 31, 2009</b>
	<b>(In thousands)</b>	
Raw materials	\$ 20,312	\$ 19,992
Finished goods and work in process	27,631	23,804
	47,943	43,796
Supplies and other	2,938	2,719
Total	\$ 50,881	\$ 46,515

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