Risk Factors Comparison 2023-12-15 to 2022-12-16 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Any sustained decline in residential remodeling, replacement activities, or housing starts could have a material adverse effect on our business, financial condition and results of operations. The primary drivers of our business are residential remodeling, replacement activities and housing starts. The home building and residential construction industry is cyclical and seasonal, and product demand is based on numerous factors such as interest rates, general economic conditions, consumer confidence and other factors beyond our control. Declines in the number of housing starts and remodeling expenditures resulting from such factors could have a material adverse effect on our business, results of operations and financial condition. If the availability of critical raw materials were to become scarce or if the price of these items were to increase significantly, we might not be able to timely produce products for our customers or maintain our profit levels. We purchase from outside sources significant amounts of raw materials, such as butyl, titanium dioxide, vinyl resin, aluminum, steel, silicone and wood products for use in our manufacturing facilities. Because we do not have long- term contracts for the supply of many of our raw materials, their availability and price are subject to market fluctuation and may be subject to curtailment or change. Any of these factors could affect our ability to timely and cost- effectively manufacture products for our customers. Compliance with, or liabilities under, existing or future environmental laws and regulations could significantly increase our costs of doing business. We are subject to extensive federal, state and local laws and regulations concerning the discharge of materials into the environment and the prevention and / or remediation of chemical contamination. To satisfy such requirements, we must make capital and other expenditures on an ongoing basis. Future expenditures relating to environmental matters will necessarily depend upon whether such regulations and future governmental decisions or interpretations of these regulations apply to us and our facilities. It is likely that we will be subject to increasingly stringent environmental standards, and we will incur additional expenditures to comply with such standards. Furthermore, if we fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability. Our goodwill and indefinite- lived intangible assets may become impaired and could result in a charge to income. We evaluate our goodwill and indefinite- lived intangible assets at least annually to determine whether we must test for impairment. In making this assessment, we must use judgment to make estimates of future operating results and appropriate residual values. Actual future operating results and residual values associated with our operations could differ significantly from these estimates, which may result in an impairment charge in a future period, resulting in a decrease in net income from operations in the year of the impairment, as well as a decline in our recorded net worth. Goodwill totaled $ ~~137~~ **183** . ~~9~~ **0** million at October 31, ~~2022~~ **2023** . The results of goodwill impairment testing are described in the accompanying notes to the audited financial statements, Note ~~6~~ **7** , " Goodwill and Intangible Assets " of the accompanying financial statements in this Annual Report on Form 10- K. We may not be able to protect our intellectual property. We rely on a combination of copyright, patent, trade secrets, confidentiality procedures and contractual commitments to protect our proprietary information. However, these measures can only provide limited protection and unauthorized third parties may try to copy or reverse engineer portions of our products or may otherwise obtain and use our intellectual property. If we cannot protect our proprietary information against unauthorized use, we may not be able to retain a perceived competitive advantage and we may lose sales to the infringing sellers, which may have a material adverse effect on our financial condition, results of operations and cash flows. We are subject to various existing and contemplated laws, regulations and government initiatives that may materially impact the demand for our products, our profitability or our costs of doing business. Our business may be materially impacted by various governmental laws, regulations and initiatives that may artificially create, deflate, accelerate, or decelerate consumer demand for our products. For example, when the government issues tax credits designed to encourage increased homebuilding or energy- efficient window purchases, the credits may create a spike in demand that would not otherwise have occurred and our production capabilities may not be able to keep pace, which could materially impact our profitability. Likewise, when such laws, regulations or initiatives expire, our business may experience a material loss in sales volume or an increase in production costs as a result of the decline in consumer demand. Our operations outside the U. S. require us to comply with a number of U. S. and international anti- corruption regulations, violations of which could have a material adverse effect on our consolidated results of operations and consolidated financial condition. Our international operations require us to comply with a number of U. S. and international regulations, including the Foreign Corrupt Practices Act (FCPA) and the United Kingdom Bribery Act 2010. While we have implemented appropriate training and compliance programs to prevent violations of these anti- bribery regulations, we cannot ensure that our policies, procedures and programs will always protect us from reckless or criminal acts committed by our employees or agents. Allegations of violations of applicable anti- corruption laws, may result in internal, independent, or government investigations, and violations of anti- corruption laws may result in severe criminal or civil sanctions or other liabilities which could have a material adverse effect on our business, consolidated results of operations and financial condition. Failure to achieve and maintain effective internal controls could have a material adverse effect on our business and on our stock price. Effective internal controls are necessary for us to effectively monitor our business, prevent fraud or theft, remain in compliance with our credit facility covenants, and provide reliable financial reports, both to the public and to our lenders. If we fail to maintain the adequacy of our internal controls, both in accordance with current standards and as standards are modified over time, we could trigger an event of default under our credit facilities or lose the confidence of the investing community, both of which could result in a material adverse effect on our stock price, limit our ability to borrow funds, or result in the application of unfavorable commercial terms to borrowings then outstanding. The impact of foreign trade relations and associated tariffs could adversely impact our business.

We currently source a number of raw materials from international suppliers. Import tariffs, taxes, customs duties and / or other trading regulations imposed by the U. S. government on foreign countries, or by foreign countries on the U. S., could significantly increase the prices we pay for certain raw materials, such as aluminum and wood, that are critical to our ability to manufacture our products. In addition, we may be unable to find a domestic supplier to provide the necessary raw materials on an economical basis in the amounts we require. If the cost of our raw materials increases, or if we are unable to procure the necessary raw materials required to manufacture our products, then we could experience a negative impact on our operating results, profitability, customer relationships and future cash flows. Company Risks Our business, financial condition, and results of operations could be adversely affected by disruptions in the global economy caused by the ~~war~~ **wars** in Ukraine **and Gaza** . U. S. and global markets are experiencing volatility and disruption ~~following~~ **related to** the escalation of geopolitical tensions and the ~~start of the~~ military conflict ~~between Russia and~~ **currently ongoing in** Ukraine **and the Gaza Strip** . ~~This~~ **These** ~~conflict~~ **conflicts** ~~in Ukraine~~ could lead to market or operational disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions. Russia, Europe' s largest provider of natural gas, has significantly reduced the export of natural gas compared to the ~~same time last year~~ **beginning of the conflict** resulting in the increase in natural gas prices and the potential for natural gas shortages. In many European countries, including Germany, alternatives to natural gas have limited capacity. This has had and may continue to have a negative impact on the energy costs of our European manufacturing facilities and may also negatively impact our customers and their demand for our products. **In addition, one of the suppliers of a vapor barrier used in the production of our insulating glass spacers is located in Israel and may experience a disruption as a result of the ongoing conflict in Gaza.** If supply chain interruptions or other disruptions result in **the unavailability of raw materials or** an increase to the price of raw materials or other commodities, we could experience a negative impact on our operating results, profitability and future cash flows. Our business will suffer if we are unable to adequately address potential supplier or customer pricing pressures, both with respect to OEMs that have significant pricing leverage over suppliers, and to large suppliers who have significant pricing leverage over their customers. Our primary customers are OEMs, who have substantial leverage in setting purchasing and payment terms. In addition, many of our suppliers are large international conglomerates with numerous customers that are much larger than us, which lessens our leverage in pricing and supply negotiations. We attempt to manage this pricing pressure and to preserve our business relationships with suppliers and OEMs by negotiating reasonable price concessions when needed, and by reducing our production costs through various measures, which may include managing our purchase process to control the cost of our raw materials and components, maintaining multiple supply sources where possible, and implementing cost- effective process improvements. However, our efforts in this regard may not be successful and our operating margins could be negatively impacted. Our revenues could decline or we may lose business if our customers vertically integrate their operations, diversify their supplier base, or transfer manufacturing capacity to other regions. Certain of our businesses or product lines are largely dependent on a relatively few large customers. Although we believe we have an extensive customer base, if we were to lose one of these large customers or if one such customer were to materially reduce its purchases as a result of vertical integration, supplier diversification, or a shift in regional focus, our revenue, general financial condition and results of operations could be adversely affected. Our credit facility contains certain operational restrictions, reporting requirements, and financial covenants that limit the aggregate availability of funds. Our revolving credit facility contains certain financial covenants and other operating and reporting requirements that could present risk to our operating results or limit our ability to access capital for use in the business. For a full discussion of the various covenants and operating requirements imposed by our revolving credit facility and information related to the potential limitations on our ability to access capital, see Item 7, " Management' s Discussion and Analysis of Financial Conditions and Results of Operations- Liquidity and Capital Resources, " included elsewhere in this Annual Report on Form 10- K. We may not be able to successfully manage or integrate acquisitions, and if we are unable to do so, then our profitability could be adversely affected. We cannot provide assurance that we will successfully manage or integrate acquisition targets once we have purchased them. If we acquire a business for which we do not fully understand or appreciate the specific business risks, if we overvalue or fail to conduct effective due diligence on an acquisition, or if we fail to effectively and efficiently integrate a business that we acquire, then there could be a material adverse effect on our ability to achieve the projected growth and cash flow goals associated with the new business, which could result in an overall material adverse effect on our long- term profitability or revenue generation. If our information technology systems fail, or if we experience an interruption in our operations due to an aging information system infrastructure, then our results of operations and financial condition could be materially adversely affected. The failure of our information technology systems, our inability to successfully maintain, enhance and / or replace our information technology systems when necessary, or a significant compromise of the integrity or security of the data that is generated from our information technology systems, could adversely affect our results of operations and could disrupt business and prevent or severely limit our ability to respond to data requests from our customers, suppliers, auditors, shareholders, employees or government authorities. We are subject to data security and privacy risks that could negatively affect our results or operations. In addition to our own sensitive and proprietary business information, we collect transactional and personal information about our customers and employees. Any breach, including ransomware attacks or other cybersecurity breaches, of our or our service providers' network or other vendor systems, may result in the loss of confidential business and financial data, misappropriation of our consumers' or employees' personal information or a disruption of our business. Any of these outcomes could have a material adverse effect on our business or our vendor and customer relationships, and could also result in unwanted media attention, reputational damage, or the imposition of fines, lawsuits, or significant legal or remediation expenses. Epidemics, pandemics or other disease outbreaks could significantly disrupt our operations or those of our customers or suppliers. If the COVID- 19 coronavirus, or any other epidemic or pandemic, disrupts the worldwide economy, or if similar widespread disease outbreaks occur in the future, our business, financial condition and results of operations could be negatively affected to the extent such event harms the economy or region in which we operate. Our business could be materially and adversely affected by the occurrence of a widespread health epidemic or pandemic. In particular, any outbreak or resurgence of COVID- 19 such as the spread of the Omicron variant, Delta variant or any other future variants, or governmental imposition of mandatory or voluntary closures in areas where our manufacturing facilities, suppliers or customers are located, could severely disrupt our operations and result in (a) plant slowdowns or shutdowns, (b) difficulty obtaining necessary supplies, and (c) reduced customer orders and revenues. In addition to this potential direct impact on our facilities and operations, continuing outbreaks of the virus could negatively impact our industry and end markets as a whole, or result in a longer- term economic recession. Any of these factors could negatively affect our business, financial condition, cash flows, profitability, and results of operations. The COVID- 19 pandemic has had and may continue to create inefficiencies or interruptions in the supply chain as our suppliers may be forced to close their own plants or prove unable to obtain their own raw materials. If our suppliers are unable to timely meet our supply needs, it could impact our ability to provide our customers with high quality products on a timely basis, which could result in order cancellations, delivery refusals, price concessions, or other negative customer outcomes, any of which could negatively impact our business, revenues, financial condition, results of operations and liquidity. We could also be forced to pay higher prices for the supplies we purchase, which could negatively impact our results of operations and profitability. We may not have the right personnel in place to achieve our operating goals, and the rural location of some of our operations may make it difficult to locate or hire highly skilled employees. We operate in some rural areas and small towns where the competition for labor can be fierce, and where the pool of qualified employees may be very small. If we are unable to obtain or retain skilled workers and adequately trained professionals to conduct our business, we may not be able to manage our business to the necessary high standards. In addition, we may be forced to pay higher wages or offer other benefits that might impact our cost of labor and thereby negatively impact our profitability. Equipment failures or catastrophic loss at any of our manufacturing facilities could prevent us from producing our products. An interruption in production capabilities at any of our facilities due to equipment failure, catastrophic loss, or other reasons could result in our inability to manufacture products, which could severely affect delivery times, return or cancellation rates, and future sales, any of which could result in lower sales and earnings or the loss of customers. Although we have a disaster recovery plan in place, we currently have one plant which is the sole source for our insulating glass spacer business in the U. S. If that plant were to experience a catastrophic loss and our disaster recovery plan were to fail, it could have a material adverse effect on our results of operations or financial condition. Product liability claims and product replacements could harm our reputation, revenue generation and financial condition, or could result in costs related to litigation, warranty claims, or customer accommodations. We have, on occasion, found flaws and deficiencies in the manufacturing, design, testing or installation of our products, which may result from a product defect, a defect in a component part provided by our suppliers, or as a result of the product being installed incorrectly by our customer or an end user. The failure of products before or after installation could result in litigation or claims by our customers or other users of the products, or in the expenditure of costs related to warranty coverage, claim settlement, litigation, or customer accommodation. In addition, we are currently party to certain legal claims related to a commercial sealant product, and there is no assurance that we will prevail on those claims. We may be required to expend legal fees, expert costs, and other costs associated with defending the claims and / or lawsuits. We may elect to enter into legal settlements or be forced to pay any judgments that result from an adverse court decision. Any such settlements, judgments, fees and / or costs could negatively impact our profitability, results of operations, cash flows and financial condition. Our insurance coverage may be inapplicable or inadequate to cover certain liabilities, and our insurance policies may exclude coverage for certain matters. While we maintain a robust insurance program that is reasonably designed to cover our known and unknown risks, there is no assurance that our insurance carriers will voluntarily agree to cover every potential liability, or that our insurance policies include limits high enough to cover all liabilities associated with our business or products. In addition, coverage under our insurance policies may be unavailable in the future for certain products. For example, during a prior renewal of our insurance program, our insurance carriers excluded future coverage of a product line we no longer manufacture or sell. If our insurers refuse to cover claims, in whole or in part, or if we exhaust our available insurance coverage at some point in the future, then we might be forced to expend legal fees and settlement or judgment costs, which could negatively impact our profitability, results of operations, cash flows and financial condition. Climate change and related extreme weather events could disrupt our supply chain, decrease customer demand for our products, or damage our manufacturing facilities. We, along with many of our customers and suppliers, operate manufacturing facilities in areas at risk for extreme weather events such as hurricanes, tornadoes, drought, wildfires, winter storms, or floods. Ongoing climate change has increased the frequency and severity of these events and the related risk of a catastrophic weather event affecting one of our plants, or a plant owned by one of our customers or suppliers. If such an event occurs at a facility belonging to one of our customers, we could see reduced demand for our products. If such an event occurs at a facility belonging to us or one of our suppliers, we may be unable to timely and cost- effectively manufacture products for our customers. These declines in demand or impacts to our ability to manufacture our products could negatively impact our revenues, earnings, cash flow, and other operating results. Changes in taxation as well as the inherent difficulty in quantifying potential tax effects of business decisions could have a material adverse effect on the results of our operations, financial condition, or cash flows. We file income tax returns, including tax returns for our subsidiaries, with federal, state, local, and foreign jurisdictions. We consider the United States to be our most significant jurisdiction; however, all tax returns are subject to routine compliance review by the taxing authorities in the jurisdictions in which we file tax returns in the ordinary course of business. We make judgments regarding the utilization of existing deferred tax assets and the potential tax effects of various financial transactions and results of operations to estimate our obligations to taxing authorities. Tax obligations include income, franchise, real estate, sales and use, and employment- related taxes. These judgments include reserves for potential adverse outcomes regarding tax positions that have been taken. Changes in federal, state, or local tax laws, adverse tax audit results, or adverse tax rulings on positions taken could have a material adverse effect on the results of our operations, financial condition, or cash flows. **Bank failures or other events affecting financial institutions could adversely affect our liquidity and financial performance. The recent and potential future disruptions in access to bank deposits or lending commitments due to bank failures and banking industry instability could materially and adversely affect the Company' s liquidity, access to cash and credit, and the Company' s business, financial condition and results of operations, as well as those of the Company' s third- party suppliers or vendors. The recent closures of Silicon Valley Bank (SVB) and Signature Bank and their placement into receivership with the Federal Deposit Insurance Company (FDIC) along with the FDIC' s seizure and sale of First Republic Bank created market disruption and uncertainty with respect to the financial condition of a number of other banking institutions in the United States. While the Company does not have any direct exposure to SVB, Signature Bank, or First Republic Bank, the Company does maintain its cash at financial institutions, sometimes in balances that exceed the current FDIC insurance limits. If other banks and financial institutions enter receivership or become insolvent in the future due to financial conditions affecting the banking system and financial markets, the Company' s ability to access its cash and cash equivalents, including transferring funds, making payments or receiving funds, and the Company' s access to credit, as well as those of its third- party suppliers or vendors, may be threatened and could have a material adverse effect on the Company' s business and financial condition.** Risks Associated with Investment in Quanex Securities Our corporate governance documents and the provisions of Delaware law may delay or preclude a business acquisition or divestiture that stockholders may consider to be favorable, which might result in a decrease in the value of our common shares. Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it more difficult for a third party to acquire us without the consent of our Board of Directors. These provisions include restrictions on the ability of our stockholders to remove directors and supermajority voting requirements for stockholders to amend our organizational documents and limitations on action by our stockholders by written consent. In addition, our Board of Directors has the right to issue preferred stock without stockholder approval, which could be used to dilute the stock ownership of a potential hostile acquirer. Although we believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics, and thereby provide for an opportunity for us to receive a higher bid by requiring potential acquirers to negotiate with our Board of Directors, these provisions apply even if the offer may be considered beneficial by some stockholders. We have the ability to issue additional equity securities, which would lead to dilution of our issued and outstanding common stock. We are authorized to issue, without stockholder approval, 1, 000, 000 shares of preferred stock, no par value, in one or more series, which may give other stockholders dividend, conversion, voting, and liquidation rights, among other rights, which may be superior to the rights of holders of our common stock. The issuance of additional equity securities or securities convertible into equity securities would result in dilution of existing stockholders' equity interests. Our Board of Directors has no present intention to issue any such preferred shares, but has the right to do so in the future. In addition, we were authorized, by prior stockholder approval, to issue up to 125, 000, 000 shares of our common stock, $ 0. 01 par value per share, of which 37, ~~211~~ **176** , ~~056~~ **958** were issued at October 31, ~~2022~~ **2023** . These authorized shares can be issued, without stockholder approval, as securities convertible into either common stock or preferred stock.