

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 July 31, 1994

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 1-5725

QUANEX CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

38-1872178

(State or other jurisdiction of
incorporation or organization)

(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 X No

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

Class	Outstanding at July 31, 1994
----- Common Stock, par value \$0.50 per share	----- 13,356,338

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	July 31, 1994	October 31, 1993
	----- (Unaudited)	----- (Audited)
ASSETS		

Current assets:		
Cash and equivalents.....	\$ 30,245	\$ 42,247
Short-term investments.....	47,163	47,655
Accounts and notes receivable, net.....	82,546	72,266
Inventories.....	86,029	76,899
Deferred income taxes.....	4,541	3,875
Prepaid expenses.....	817	468
	-----	-----
Total current assets.....	251,341	243,410
Property, plant and equipment.....	488,914	459,154
Less accumulated depreciation and amortization.....	(235,818)	(216,808)
	-----	-----
Net property, plant and equipment.....	253,096	242,346
Goodwill, net.....	33,253	33,964
Other assets.....	8,177	9,147
	-----	-----
	\$ 545,867	\$ 528,867
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current liabilities:		
Accounts payable.....	\$ 66,597	\$ 62,349
Income taxes payable.....	950	-
Accrued expenses.....	37,580	32,504
Current maturities of long-term debt.....	115	219
	-----	-----
Total current liabilities.....	105,242	95,072
Long-term debt.....	128,400	128,476
Deferred pension credits.....	15,141	13,923
Deferred postretirement welfare benefits.....	49,934	47,559
Deferred income taxes.....	19,725	18,061
	-----	-----
Total liabilities.....	318,442	303,091
Stockholders' equity:		
Preferred stock, no par value.....	86,250	86,250
Common stock, \$.50 par value.....	6,678	6,657
Additional paid-in capital.....	85,979	85,218
Retained earnings.....	50,906	49,635
Unearned compensation.....	(404)	-
Adjustment for minimum pension liability.....	(1,984)	(1,984)
	-----	-----
Total stockholders' equity.....	227,425	225,776
	-----	-----
	\$ 545,867	\$ 528,867
	=====	=====

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1994	1993	1994	1993
	(Unaudited)			
Net sales.....	\$ 181,088	\$ 153,500	\$ 502,845	\$ 456,300
Cost and expenses:				
Cost of sales.....	157,554	136,584	444,598	411,375
Selling, general and administrative expense.....	11,378	9,873	32,266	30,783
	12,156	7,043	25,981	14,142
Operating income.....				
Other income (expense):				
Interest expense.....	(3,484)	(3,492)	(10,461)	(10,268)
Capitalized interest.....	996	586	2,613	1,262
Other, net.....	292	480	1,388	3,598
	9,960	4,617	19,521	8,734
Income before income taxes.....				
Income tax expense.....	(4,183)	(1,939)	(8,199)	(3,668)
	5,777	2,678	11,322	5,066
Net income.....				
Preferred dividends.....	(1,484)	(1,484)	(4,451)	(4,451)
	\$ 4,293	\$ 1,194	\$ 6,871	\$ 615
Net income attributable to common stockholders.....	\$ 4,293	\$ 1,194	\$ 6,871	\$ 615
Primary earnings (loss) per common share.....	\$ 0.32	\$ 0.09	\$ 0.51	\$ 0.05
Weighted average shares outstanding.....	13,465	13,346	13,442	13,532

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)

	Nine Months Ended July 31,	
	1994	1993
	(Unaudited)	
Operating activities:		
Net income.....	\$ 11,322	\$ 5,066
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization.....	21,885	22,758
Facilities realignment accrual.....	(1,128)	(2,326)
Deferred income taxes.....	1,664	1,126
Pension costs.....	1,218	917
Postretirement welfare benefits.....	2,375	1,631
	-----	-----
	37,336	29,172
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease (increase) in accounts and notes receivable.....	(16,670)	3,505
Decrease (increase) in inventory.....	(9,130)	(2,985)
Increase (decrease) in accounts payable.....	4,248	(10,734)
Increase (decrease) in accrued expenses.....	5,076	239
Other, net.....	(65)	615
	-----	-----
Cash provided (used) by operating activities.....	20,795	19,812
Investment activities:		
Capital expenditures, net of retirements.....	(30,213)	(26,997)
Decrease (increase) in short-term investments.....	492	-
Proceeds from the sale of Bellville Tube Division and Viking Metallurgical Subsidiary.....	6,390	15,500
Other, net.....	387	3,445
	-----	-----
Cash provided (used) by investment activities.....	(22,944)	(8,052)
	-----	-----
Cash provided (used) by operating and investment activities.....	(2,149)	11,760
Financing activities:		
Repayments of long-term debt.....	(180)	(71)
Dividends paid.....	(10,051)	(10,135)
Purchases of Quanex common stock.....	-	(4,996)
Other, net.....	378	158
	-----	-----
Cash used by financing activities.....	(9,853)	(15,044)
	-----	-----
Increase (decrease) in cash and equivalents.....	(12,002)	(3,284)
Cash and equivalents at beginning of period.....	42,247	96,858
	-----	-----
Cash and equivalents at end of period.....	\$ 30,245	\$ 93,574
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest.....	\$ 7,090	\$ 7,075
Income taxes.....	\$ 6,500	\$ 2,250

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The interim consolidated financial statements of Quanex Corporation and subsidiaries are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. All significant accounting policies conform to those previously set forth in the Company's fiscal 1993 Annual Report on Form 10-K, which is incorporated by reference. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1994 classifications.

2. Inventories

Inventories consist of the following:	July 31, 1994	October 31, 1993
	-----	-----
	(In thousands)	
Inventories valued at lower of cost (principally LIFO method) or market:		
Raw materials	\$30,847	\$25,474
Finished goods and work in process	45,674	42,610
	-----	-----
	76,521	68,084
Other	9,508	8,815
	-----	-----
	\$86,029	\$76,899
	=====	=====

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$13 million at July 31, 1994, and \$10 million at October 31, 1993.

3. Long-term Debt and Financing Arrangements

At July 31, 1994, the Company had \$125 million outstanding under its unsecured long-term Note Agreement (Senior Notes Agreement). The debt bears interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes Agreement will mature on August 23, 2000, and requires annual repayments of \$20,833,000 beginning on August 23, 1995.

At July 31, 1994, the Company had no amounts outstanding under its unsecured \$48 million Revolving Credit and Letter of Credit Agreement (Bank Agreement). The Bank Agreement consists of a revolving line of credit (Revolver), which expires March 31, 1997, and includes up to \$20 million for standby letters of credit, limited to the undrawn amount available under the Revolver. All borrowings under the Revolver bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate.

All of the above agreements contain customary affirmative and negative covenants which the Company must meet. As of July 31, 1994, the Company was in compliance with all of the covenants.

4. Income Taxes

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes", effective November 1, 1993. This Statement supersedes SFAS No. 96, "Accounting for Income Taxes", which was adopted by the Company in 1989. It was not necessary for the Company to record any adjustments for the cumulative effect of adopting SFAS No. 109.

Deferred income taxes typically reflect (a) the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) alternative minimum tax, operating loss and tax credit carryforwards. Significant components of the Company's net deferred tax liability as of November 1, 1993 are as follows:

	November 1, 1993
	----- (\$000)
Deferred tax liabilities:	
Tax over book depreciation	\$ 38,690
Other	4,917
	----- 43,607 -----
Deferred tax assets:	
Employee benefit obligations	26,695
Reserves not currently deductible	2,726
	----- 29,421 -----
Net deferred tax liability	\$ 14,186 =====

At July 31, 1994, \$4,541,000 of deferred tax assets were classified as a current asset and included in "Deferred income taxes" on the Consolidated Balance Sheet. No valuation allowance was required for deferred tax assets at either November 1, 1993 or July 31, 1994.

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Industry Segment Information

Quanex is principally a specialty metals producer. The Company's operations primarily consist of four segments: hot rolled steel bars, cold finished steel bars, steel tubes, and aluminum building products.

Three Months Ended July 31, 1994 -----	Hot Rolled Steel Bars -----	Cold Finished Steel Bars -----	Steel Tubes -----	Alum. Bldg. Products -----
(in thousands)				
Units shipped:				
To unaffiliated companies.....	108.9 Tons	45.8 Tons	19.9 Tons	43,994 Lbs.
Intersegment.....	5.0	-	-	-
Total.....	----- 113.9 Tons =====	----- 45.8 Tons =====	----- 19.9 Tons =====	----- 43,994 Lbs. =====
Net Sales:				
To unaffiliated companies.....	\$ 57,167	\$ 40,251	\$ 24,693	\$ 58,977
Intersegment(2)	2,681	-	-	-
Total.....	----- \$ 59,848 =====	----- 40,251 =====	----- 24,693 =====	----- 58,977 =====
Operating income (loss).....	----- \$ 7,719 =====	----- \$ 2,147 =====	----- \$ 1,055 =====	----- \$ 4,953 =====

Three Months Ended July 31, 1994 -----	Other(1) -----	Consoli- dated -----
(in thousands)		
Units shipped:		
To unaffiliated companies.....		
Intersegment.....		
Total.....		
Net Sales:		
To unaffiliated companies.....	\$ -	\$ 181,088
Intersegment(2)	(2,681)	-
Total.....	----- (2,681) =====	----- 181,088 =====
Operating income (loss).....	----- \$ (3,718) =====	----- \$ 12,156 =====

Three Months Ended July 31, 1993 -----	Hot Rolled Steel Bars -----	Cold Finished Steel Bars -----	Steel Tubes -----	Alum. Bldg. Products -----
Units shipped:				
To unaffiliated companies.....	106.5 Tons	47.4 Tons	17.4 Tons	28,497 Lbs.
Intersegment.....	6.1	-	-	-
Total.....	----- 112.6 Tons =====	----- 47.4 Tons =====	----- 17.4 Tons =====	----- 28,497 Lbs. =====
Net Sales:				
To unaffiliated companies.....	\$ 50,553	\$ 38,815	\$ 23,544	\$ 40,588
Intersegment(2)	3,186	-	-	-
Total.....	----- \$ 53,739 =====	----- 38,815 =====	----- 23,544 =====	----- 40,588 =====
Operating income (loss).....	----- \$ 5,255 =====	----- \$ 1,718 =====	----- \$ 1,043 =====	----- \$ 2,120 =====

Three Months Ended July 31, 1993 -----	Other(1) -----	Consoli- dated -----
Units shipped:		
To unaffiliated companies.....		
Intersegment.....		
Total.....		
Net Sales:		
To unaffiliated companies.....	\$ -	\$ 153,500
Intersegment(2)	(3,186)	-

Total.....	(3,186)	153,500
Operating income (loss).....	\$ (3,093)	\$ 7,043

Nine Months Ended July 31, 1994	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Alum. Bldg. Products
Units shipped:				
To unaffiliated companies.....	332.6 Tons	138.9 Tons	59.2 Tons	104,080 Lbs.
Intersegment.....	19.5	-	-	-
Total.....	352.1 Tons	138.9 Tons	59.2 Tons	104,080 Lbs.
Net Sales:				
To unaffiliated companies.....	\$ 170,136	\$ 120,677	\$ 76,865	\$ 135,167
Intersegment(2)	10,597	-	-	-
Total.....	\$ 180,733	120,677	76,865	135,167
Operating income (loss).....	\$ 22,101	\$ 6,430	\$ 4,171	\$ 3,232

Nine Months Ended July 31, 1994	Other(1)	Consoli- dated
Units shipped:		
To unaffiliated companies.....		
Intersegment.....		
Total.....		
Net Sales:		
To unaffiliated companies.....	\$ -	\$ 502,845
Intersegment(2)	(10,597)	-
Total.....	(10,597)	502,845
Operating income (loss).....	\$ (9,953)	\$ 25,981

Nine Months Ended July 31, 1993	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes(3)	Alum. Bldg. Products
Units shipped:				
To unaffiliated companies.....	312.4 Tons	132.6 Tons	92.9 Tons	74,730 Lbs.
Intersegment.....	18.8	-	-	-
Total.....	331.2 Tons	132.6 Tons	92.9 Tons	74,730 Lbs.
Net Sales:				
To unaffiliated companies.....	\$ 146,393	\$ 108,204	\$ 93,845	\$ 101,693
Intersegment(2)	9,709	-	-	-
Total.....	\$ 156,102	108,204	93,845	101,693
Operating income (loss).....	\$ 15,119	\$ 4,562	\$ 6,724	\$ (2,608)

Nine Months Ended July 31, 1993	Other(1)	Consoli- dated
Units shipped:		
To unaffiliated companies.....		
Intersegment.....		
Total.....		
Net Sales:		
To unaffiliated companies.....	\$ 6,165	\$ 456,300
Intersegment(2)	(9,709)	-
Total.....	(3,544)	456,300
Operating income (loss).....	\$ (9,655)	\$ 14,142

(1)Included in "Other" are intersegment eliminations, Viking Metallurgical Corporation (for the nine months ended July 31, 1993), and corporate

expenses.

(2) Intersegment sales are conducted on an arm's-length basis.

(3) Includes Bellville Tube Division which was sold during the second quarter of fiscal 1993.

(6)

RESULTS OF OPERATIONS

The Company classifies its operations into four business segments: hot rolled steel bars, cold finished steel bars, steel tubes and aluminum building products. The Company's products are marketed to the industrial machinery and capital equipment industries, the transportation industry, the energy processing industry and the home building and remodeling industries.

Results for the first three quarters of fiscal 1994 reflect improved market conditions in the Company's hot rolled and cold finished steel bar businesses, higher average selling prices at those businesses, and lower costs per unit at those businesses resulting from higher volume and the effects of cost reduction programs. Results for the Company's steel tube businesses reflect the absence of operating income from Bellville Tube Division, which was sold in fiscal 1993, and continuing downward pricing pressure from imports on certain products. Weakness in the steel tube businesses' primary markets, which include power generation, petrochemical and refining industries, also continued to depress results. Results for the Company's aluminum building products business also improved. Unit volume in the third quarter of 1994 increased significantly over the prior year period due to improved demand and market penetration. However, prices continued to be affected by excess supplies of aluminum ingot. Also affecting the aluminum building products business for the nine months ended July 31, 1994, was the loss of sales related to a fire that occurred at the Company's Lincolnshire facility during the fourth quarter of fiscal 1993 and continued to impact the first two quarters of fiscal 1994.

Improved results also reflected the continued recovery in the United States economy, which has resulted in increased prices and demand. Continued improved financial results will be dependent upon, among other things, whether improvements in the economy are sustained and whether such improvements will continue to be felt in the Company's businesses. The Company currently expects that its results for the steel bar businesses for the fourth quarter ending October 31, 1994 should continue to reflect strong demand. The steel tube business is expected to continue to experience volume and pricing pressures related to higher levels of imported tubing. Further improved results in the Company's aluminum building products business are expected to be largely dependent upon increasing unit volume and higher margins between selling prices and scrap costs.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

The following table sets forth selected operating data for the Company's four businesses:

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1994	1993	1994	1993
	(In thousands)			
Hot Rolled Steel Bars:				
Units shipped (Tons).....	113.9	112.6	352.1	331.2
Net Sales.....	\$ 59,848	\$ 53,739	\$180,733	\$156,102
Operating income.....	\$ 7,719	\$ 5,255	\$ 22,101	\$ 15,119
Depreciation and amortization..	\$ 3,285	\$ 3,200	\$ 9,855	\$ 9,590
Identifiable assets.....	\$165,571	\$149,763	\$165,571	\$149,763
Cold Finished Steel Bars:				
Units shipped (Tons).....	45.8	47.4	138.9	132.6
Net Sales.....	\$ 40,251	\$ 38,815	\$120,677	\$108,204
Operating income.....	\$ 2,147	\$ 1,718	\$ 6,430	\$ 4,562
Depreciation and amortization..	\$ 311	\$ 310	\$ 985	\$ 941
Identifiable assets.....	\$ 49,806	\$ 44,285	\$ 49,806	\$ 44,285
Steel Tubes:				
Units shipped (Tons).....	19.9	17.4	59.2	92.9
Net Sales.....	\$ 24,693	\$ 23,544	\$ 76,865	\$ 93,845
Operating income.....	\$ 1,055	\$ 1,043	\$ 4,171	\$ 6,724
Depreciation and amortization..	\$ 488	\$ 562	\$ 1,515	\$ 2,268
Identifiable assets.....	\$ 40,032	\$ 36,064	\$ 40,032	\$ 36,064
Aluminum Building Products:				
Units shipped (Pounds).....	43,994	28,497	104,080	74,730
Net Sales.....	\$ 58,977	\$ 40,588	\$135,167	\$101,693
Operating income.....	\$ 4,953	\$ 2,120	\$ 3,232	\$ (2,608)
Depreciation and amortization..	\$ 3,280	\$ 3,009	\$ 9,271	\$ 9,123
Identifiable assets.....	\$219,600	\$194,701	\$219,600	\$194,701

Consolidated net sales for the quarter and nine months ended July 31, 1994, were \$181.1 million and \$502.8 million, respectively, representing an increase in third quarter sales of \$27.6 million, or 18.0%, and an increase in year-to-date sales of \$46.5 million, or 10.2%, when compared to the three and nine month periods last year. The increase is due to improvements in the economy and increases in demand in the Company's hot rolled and cold finished steel bar business which has resulted in higher average selling prices in the Company's steel businesses. Sales of aluminum products have increased due to improved demand and a larger customer base which resulted in a higher market share. The Company realized these year-to-date increases in sales despite the absence of \$11.5 million and \$25.8 million in sales, respectively, during the first and second quarters of fiscal 1993 from businesses sold last year.

Net sales from the Company's hot rolled steel bar business for the quarter and nine months ended July 31, 1994, were \$59.8 million and \$180.7 million, respectively, as compared to \$53.7 million and \$156.1 million, respectively, for the same 1993 periods. These results represent increases of \$6.1 million, or 11.4%, and \$24.6 million, or 15.8%, respectively, as compared to the 1993 periods. These increases are attributable to improved demand, particularly in the automotive and truck markets, and higher average selling prices. The Company's hot rolled steel bar business is currently operating near capacity.

Net sales from the Company's cold finished steel bar business for the quarter and nine months ended July 31, 1994, were \$40.3 million and \$120.7 million, respectively, as compared to \$38.8 million and \$108.2 million, respectively, for the same 1993 periods. This represents increases of

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

\$1.4 million, or 3.7%, and \$12.5 million, or 11.5%, respectively, as compared to the same 1993 periods. The increase for the three months ended July 31, 1994, as compared to the same prior period, is primarily due to increased average selling prices of 7%. Volume for the same three month period comparison was down slightly principally related to some equipment outages. The increase for the nine months ended July 31, 1994, as compared to the same prior year period is due to both improved demand and higher selling prices.

Net sales from the Company's steel tube business for the quarter and nine months ended July 31, 1994, were \$24.7 million and \$76.9 million, respectively, as compared to \$23.5 million and \$93.8 million, respectively, for the same 1993 periods. This represents an increase of \$1.1 million, or 4.9%, and a decrease of \$17.0 million, or 18.1%, respectively, as compared to the same 1993 periods. However, net sales for the nine months ended July 31, 1993, included revenues from Bellville Tube Division that was sold in April of 1993. Excluding the net sales of Bellville Tube Division from the 1993 data, net sales increased by \$2.6 million, or 3.5%, for the nine months ended July 31. The steel tube business was adversely affected during the quarter and year-to-date by increased foreign competition and lower prices for certain products. The increased pressure from imports on certain products was partially offset by improved demand and prices in automotive related business. Weakness in primary markets, which include power generation, petrochemical and refining industries, continues to depress revenues.

Net sales from the Company's aluminum building products business for the quarter and nine months ended July 31, 1994, were \$59.0 million and \$135.2 million, respectively, as compared to \$40.6 million and \$101.7 million, respectively, for the comparative 1993 periods. This represents increases of \$18.4 million, or 45.3%, and \$33.5 million, or 32.9%, respectively, as compared to the 1993 periods. This increase is attributable to improved demand related to the economy and a larger customer base which resulted in a higher market share.

Consolidated operating income for the quarter and nine months ended July 31, 1994, was \$12.2 million and \$26.0 million, respectively, as compared to \$7.0 million and \$14.1 million, respectively, for the comparative 1993 periods. This represents increases of \$5.1 million, or 72.6%, and \$11.8 million, or 83.7%, respectively, as compared to the same 1993 periods. This increase is principally due to higher net sales combined with lower costs per unit for the Company's hot rolled steel bars, cold finished steel bars, and aluminum building products businesses, primarily related to operating at higher levels of volume and cost reduction programs. Included in the nine months ended July 31, 1993, is \$3.1 million of operating income from the Company's Bellville Tube Division and Viking Metallurgical subsidiary which were sold during fiscal 1993.

Operating income from the Company's hot rolled steel bar business for the quarter and nine months ended July 31, 1994, was \$7.7 million and \$22.1 million, respectively, as compared to \$5.3 million and \$15.1 million, respectively, for the comparative 1993 periods. This represents increases of \$2.5 million, or 46.9%, and \$7.0 million, or 46.2%, respectively, as compared to the 1993 periods. This increase is due to higher net sales as well as lower variable production costs per ton.

Operating income from the Company's cold finished steel bar business for the quarter and nine months ended July 31, 1994, was \$2.1 million and \$6.4 million, respectively, as compared to \$1.7 million and \$4.6 million, respectively, for the same 1993 periods. This represents increases of \$429 thousand, or 25.0%, and \$1.9 million, or 40.9%, respectively, as compared to the 1993 periods. This increase is primarily due to higher net sales and lower variable costs per ton.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

Operating income from the Company's steel tube business for the quarter and nine months ended July 31, 1994, was \$1.1 million and \$4.2 million, respectively, as compared to \$1.0 million and \$6.7 million, respectively, for the comparative 1993 periods. This represents an increase of \$12 thousand, or 1.2%, and a decrease of \$2.6 million, or 38.0%, respectively, as compared to the 1993 periods. Operating income for the nine months ended July 31, 1993 included income from the Company's Bellville Tube Division, which was sold in April of 1993. After excluding the impact of the Bellville Tube Division, operating income for the nine months ended July 31, 1994, was essentially flat as compared to the same period in 1993 notwithstanding increased sales. Operating income in the steel tube business reflected reduced margins due to continuing pricing pressures from imports.

Operating income from the Company's aluminum building products business for the quarter and nine months ended July 31, 1994, was \$5.0 million and \$3.2 million, respectively, as compared to operating income of \$2.1 million and an operating loss of \$2.6 million, respectively, for the comparative 1993 periods. This represents improvements of \$2.8 million and \$5.8 million, respectively, as compared to the 1993 periods. These improved results are due to higher sales, slightly improved margins between selling prices and raw material costs, and cost reductions.

Selling, general and administrative expenses for the quarter and nine months ended July 31, 1994, were \$11.4 million and \$32.3 million, respectively, as compared to \$9.9 million and \$30.8 million, respectively, for the comparative 1993 periods. The increases were due principally to operating at higher levels of volume. Selling, general and administrative expenses as a percentage of net sales did not change significantly as compared to the prior year periods.

Interest expense was relatively flat as compared to the same prior year periods.

Net income attributable to common shareholders for the quarter and nine months ended July 31, 1994, was \$4.3 million and \$6.9 million, respectively, as compared to \$1.2 million and \$615 thousand, respectively, for the 1993 periods. This represents increases of \$3.1 million and \$6.3 million, respectively, as compared to the same 1993 periods, after deducting preferred dividends of \$1.5 million and \$4.5 million, respectively, from both periods. The improvement is primarily attributable to improved operating income.

Included in net income for the nine months ended July 31, 1994 are two unusual items which were classified as "other, net" in the income statement. Based on interest rates during the second fiscal quarter ended April 30, 1994, the Company accrued the maximum potential loss of \$1.7 million on its interest rate swap contracts to be settled in August 1995. Offsetting this charge was \$1.0 million in income relating to partial reimbursement of a business interruption loss for the fire which occurred at the Company's Lincolnshire facility in August 1993. Included in net income for the nine months ended July 31, 1993 is a \$1.4 million gain on the settlement of financing contracts. Interest income, classified as "other, net", was \$677 thousand and \$2.2 million, respectively, for the quarter and nine months ended July 31, 1994, as compared to \$1.1 million and \$4.1 million, respectively, excluding the gain on the settlement of financing contracts, for the comparative 1993 periods. The decrease in interest income is primarily due to lower yields on the Company's short-term investments and lower average cash available for investment in 1994 as compared to 1993 as a result of the Company's investment of cash in its businesses.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

Net income attributable to common stockholders continues to be affected by dividend obligations associated with the \$86.3 million in preferred stock issued in the third quarter of fiscal 1992, the proceeds of which have not yet been fully deployed. Until the Company's excess cash is invested in existing businesses or an acquisition, the Company is expected to experience a negative financing cost arbitrage on the uninvested funds.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and, if needed, borrowings under a \$48 million unsecured revolving credit facility with a group of banks (the "Bank Agreement"). All borrowings under the Bank Agreement bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. There were no outstanding borrowings under the Bank Agreement at July 31, 1994 and \$92,800 of outstanding letters of credit. As of July 31, 1994, the Company was in compliance with all Bank Agreement covenants.

At July 31, 1994, the Company had \$125,000,000 outstanding under its unsecured long-term Note Agreement ("Senior Notes Agreement"). The debt bears interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes Agreement will mature on August 23, 2000, and requires annual repayments of \$20,833,000 beginning on August 23, 1995. The Senior Notes Agreement contains customary affirmative and negative covenants, as well as requirements to maintain a minimum capital base, as defined. As of July 31, 1994, the Company was in compliance with all Senior Notes Agreement covenants. In addition, the Senior Notes Agreement limits the payment of dividends and certain restricted investments. Management believes that cash flow from operations, cash balances, and, if necessary, additional borrowings will be sufficient to make all interest and principal payments related to the Senior Notes Agreement.

At July 31, 1994, the Company had commitments of \$12 million for the purchase or construction of capital assets, primarily at its Nichols-Homesfield and MacSteel divisions. The Company's \$52 million (not including approximately \$9 million in capitalized interest) Phase II MacSteel Ultra Clean Steel Program, which commenced in June 1992, is expected to be completed in early 1995. The Company expects to fund its capital expenditures through cash flow from operations, existing cash balances, proceeds from short-term investments and, if necessary, from borrowings under the Bank Agreement. The Company is currently reviewing various alternatives with respect to the use of its excess available cash, including a possible business acquisition. Although the Company does not currently have any agreements for such an acquisition, any such acquisition would likely involve the use of a substantial portion of the Company's excess available cash as well as additional borrowings if necessary or desirable.

In management's opinion, the Company currently has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs. Management believes that cash flow from operations, cash balances, short-term investments and available borrowings will be sufficient for the foreseeable future to finance anticipated capital expenditures, debt service requirements, including interest expense, debt retirement obligations, and dividends.

Operating Activities

Cash provided by operating activities during the nine months ended July 31, 1994, was \$20.8 million. This represents an increase of \$983 thousand as compared to the same 1993 period. This small increase reflects improved operating results, mostly offset by increased working capital requirements.

Investment Activities

Net cash used by investment activities during the nine months ended July 31, 1994 was \$22.9 million as compared to \$8.1 million for the same 1993 period. The nine months ended July 31, 1993, included proceeds from the sale of Bellville Tube Division and Viking Metallurgical Subsidiary of \$15.5 million as compared to \$6.4 million of proceeds received in 1994. Capital expenditures for the nine months ended July 31, 1994 were \$30.2 million as compared to \$27.0 million for the same 1993 period. The Company estimates that fiscal 1994 capital expenditures will approximate \$40 to \$50 million.

Financing Activities

Cash used by financing activities for the nine months ended July 31, 1994 was \$9.9 million, principally consisting of \$5.6 million in common dividends and \$4.5 million in preferred dividends. This represents a decrease of \$5.2 million from the same 1993 period. Uses of cash during 1993 included \$5.0 million in purchases of the Company's common stock.

CHANGE IN ACCOUNTING

In February 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("FAS") No. 109, "Accounting for Income Taxes" ("FAS 109"), which modifies and replaces FAS No. 96, "Accounting for Income Taxes". The Company adopted FAS 109 effective November 1, 1993. It was not necessary for the Company to record any adjustments for the cumulative effect of adopting FAS 109.

PART II. OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K.

- (a) Exhibit 11 - Statement re computation of earnings per share.
- (b) No reports on Form 8-K were filed by the Company during the quarter for which this report is being filed.

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 CORPORATION

Viren M. Parikh
Controller (Chief Accounting Officer)

Date September 8, 1994

(13)

QUANEX CORPORATION
 COMPUTATION OF EARNINGS PER COMMON SHARE
 (In thousands, except per share amounts)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	1994	1993	1994	1993
	----- (Unaudited) -----			
Net income (loss).....	\$ 5,777	\$ 2,678	\$ 11,322	\$ 5,066
Preferred dividend requirements.....	(1,484)	(1,484)	(4,451)	(4,451)
	-----	-----	-----	-----
Net income attributable to common stockholders.....	\$ 4,293	\$ 1,194	\$ 6,871	\$ 615
	=====	=====	=====	=====
Weighted average shares outstanding-primary.....	13,465	13,346	13,442	13,532
	=====	=====	=====	=====
Earnings (loss) per common share - primary...	0.32	0.09	0.51	0.05
	=====	=====	=====	=====
Net income (loss).....	\$ 5,777	\$ 2,678	\$ 11,322	\$ 5,066
Weighted average shares outstanding-primary.....	13,465	13,346	13,442	13,532
Effect of common stock equivalents arising from stock options.....	30	73	36	73
Preferred stock assumed converted to common stock.....	2,738	2,738	2,738	2,738
	-----	-----	-----	-----
Weighted average shares outstanding-fully diluted.....	16,233	16,157	16,216	16,343
	=====	=====	=====	=====
Earnings (loss) per common share - assuming full dilution.....	\$ 0.36	\$ 0.17	\$ 0.70	\$ 0.31
	=====	=====	=====	=====

This schedule contains summary financial information extracted from the balance sheet as of July 31, 1994 and the income statement for the nine months ended July 31, 1994 and is qualified in its entirety by reference to such financial statements.

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	OCT-31-1994	
	NOV-01-1993	
	JUL-31-1994	
	9-MOS	
		30,245
		47,163
		82,546
		0
		86,029
	251,341	
		488,914
	235,818	
	545,867	
105,242		
		128,400
0		
		86,250
		6,678
		134,497
545,867		
		502,845
	502,845	
		444,598
		444,598
		0
		0
	10,461	
	19,521	
		8,199
11,322		
		0
		0
		0
	11,322	
		.51
		.70