

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 11-K  
ANNUAL REPORT

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

OR

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

Commission file number 1-5725

A. Full title of the Plan and the address of the Plan, if different from  
that of the issuer named below:

Quanex Corporation Employee Savings Plan

B. Name of issuer of the securities held pursuant to the Plan and the  
address of the principal executive office:

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

## INDEPENDENT AUDITORS' REPORT

The Benefits Committee  
Quanex Corporation  
Houston, Texas

Re: Quanex Corporation Employee Savings Plan

We have audited the accompanying statements of net assets available for benefits of the Quanex Corporation Employee Savings Plan (the "Plan") as of December 31, 1998 and 1997 and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 1998 and 1997 and the changes in net assets available for benefits for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplemental schedules of (1) investments as of December 31, 1998 and (2) 5% reportable transactions for the year ended December 31, 1998 are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental information by fund in the statements on net assets available for benefits is presented for the purpose of additional analysis rather than to present the net assets available for benefits of the individual funds. The supplemental schedules and the supplemental information by fund is the responsibility of the Plan's management. Such supplemental schedules and supplemental information by fund have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ DELOITTE & TOUCHE LLP  
- -----  
DELOITTE & TOUCHE LLP

June 1, 1999

QUANEX CORPORATION EMPLOYEE SAVINGS  
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

	DECEMBER 31,	
	1998	1997
Assets:		
Investment at fair value:		
Mutual fund assets:		
Fidelity Puritan Fund	\$ 7,236,131	\$ 8,682,374
Fidelity Magellan Fund	10,870,892	10,370,199
Fidelity Contrafund	4,591,344	4,796,863
Fidelity Growth & Income Fund	7,068,547	6,782,645
Fidelity Retirement Growth Fund	224,938	--
Fidelity Overseas Fund	1,537,557	1,995,616
Fidelity Balanced Fund	407,967	527,322
Fidelity Blue Chip Fund	857,460	--
Fidelity Asset Manager Fund	47,290	--
Fidelity Low-Priced Stock Fund	162,209	--
Fidelity Government Money Market Fund	9,272,125	9,327,810
Templeton Foreign Fund	329,986	488,227
Newberger & Berman Partners Trust Fund	33,874	--
Quanex Corporation common stock	2,710,088	1,457,181
Common/commingled trust	1,911,158	1,662,256
	-----	-----
	47,261,566	46,090,493
	-----	-----
Employee contributions receivable	291,616	405,287
Employer contributions receivable	92,112	113,412
	-----	-----
	383,728	518,699
	-----	-----
Net Assets Available for Benefits	\$ 47,645,294	\$ 46,609,192
	=====	=====

See notes to financial statements.

QUANEX CORPORATION EMPLOYEE SAVINGS PLAN  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

	DECEMBER 31,	
	1998	1997
Investment income:		
Interest and dividends	\$ 2,862,491	\$ 3,039,538
Net appreciation in fair value of investments	4,939,364	4,220,737
	-----	-----
	7,801,855	7,260,275
	-----	-----
Contributions:		
Employer	714,161	959,634
Less forfeitures	13,954	24,328
	-----	-----
	700,207	935,306
Employee	2,672,086	3,623,254
	-----	-----
Total contributions	3,372,293	4,558,560
	-----	-----
Total additions	11,174,148	11,818,835
Benefit payments	10,138,046	5,904,125
	-----	-----
Increase in net assets available for benefits	1,036,102	5,914,710
Net assets available for benefits:		
Beginning of year	46,609,192	40,694,482
	-----	-----
End of year	\$ 47,645,294	\$ 46,609,192
	=====	=====

See notes to financial statements.

QUANEX CORPORATION  
EMPLOYEE SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 1998 AND 1997

A. THE PLAN

The following brief description of the Quanex Corporation Employee Savings Plan (the "Plan") is provided for general informational purposes only. Participants should refer to the Plan agreement for more complete information.

- (1) General. The Plan became effective April 1, 1986, as amended and restated effective January 1, 1989, and is sponsored by Quanex Corporation (the "Company"). The Plan is a defined contribution plan that is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"). The Plan is a voluntary savings plan in which employees of the Company and its subsidiaries, excluding the Nichols-Homeshield division and Piper Impact subsidiary, and those Quanex employees who are covered by a collective bargaining agreement, are eligible to participate after completing three months of active service. The assets of the Plan are held in trust by Fidelity Management Trust Company ("Fidelity" or the "Trustee"). The Benefits Committee (the "Committee"), appointed by the Board of Directors of the Company, serves as the Plan administrator.
- (2) Contributions. Participants may elect to contribute up to 15% of their pre-tax annual compensation or up to 15% of their after-tax annual compensation limited to 15% of considered compensation as defined by the Plan agreement. The Company matches 50% of the employee's contribution up to, but not in excess of, 2.5% of the employee's annual compensation.
- (3) Participants Account. Each participant's account is credited with the participant's contribution, the Company's matching contribution, and an allocation of investment income, which is based on the participant's account balance as of the end of the period in which the income is earned.
- (4) Investment Options. Participants may direct allocation of their contributions to the following funds:

Fidelity Puritan Fund - invests in domestic and foreign common stocks, preferred stocks and bonds.

Fidelity Magellan Fund - invests in equity and debt securities of foreign and domestic companies.

Fidelity Contrafund - invests in equities of foreign and domestic companies.

Fidelity Growth and Income Fund - invests in equity and debt securities of foreign and domestic companies.

Fidelity Retirement Growth Fund - invests in common stocks and other securities.

Fidelity Overseas Fund - invests in foreign equity and debt securities.

Fidelity Balanced Fund - invests in common and preferred stocks and bonds.

Fidelity Blue Chip Fund - invests in domestic and foreign common stocks.

Fidelity Asset Manager Fund - invests in domestic and foreign stocks, bonds and short-term obligations.

Fidelity Low-Priced Stock Fund - invests in domestic and foreign stocks.

Fidelity Government Money Market Fund - composed of short-term U.S. government obligations.

Templeton Foreign Fund - invests in foreign securities.

Neuberger & Berman Partner Trust Fund - invests in common stocks.

Quanex Corporation Common Stock - invests exclusively in the common stock of Quanex Corporation.

Common/Commingled Trust - invests in investment contracts issued by insurance companies, banks and other financial institutions.

- (5) Vesting. Participants are immediately vested in their voluntary contributions and the related earnings. Vesting in the employer's matching contributions for employees is 0% for less than one year of service graduating to 100% for five or more years. Upon death, retirement or total and permanent disability, the participant or beneficiary becomes immediately 100% vested in the employer's contribution. In the event of termination, nonvested portions of employer's contributions are immediately forfeited by participants and utilized to reduce future employer matching contributions.
- (6) Payment of Benefits. Upon termination of service, the participant may elect to receive a lump-sum amount equal to the amount of vested benefits in his or her account. As of December 31, 1998 and 1997, net assets available for benefits included benefits of \$520,601 and \$46,482, respectively, due to participants who had withdrawn from participation in the Plan. Effective April 18, 1997, Quanex sold its LaSalle Steel Company ("LaSalle") subsidiary to Niagara Corporation. LaSalle employees in the Plan had the option of leaving their benefits in the Plan or receiving a lump-sum distribution, which could be rolled over into an individual retirement account, or into a new qualified retirement plan set up by LaSalle. As of December 31, 1997, \$2,020,517 had been withdrawn from the Plan by LaSalle employees. Effective December 3, 1997, Michigan Seamless Tube Company, the Gulf States Tube and the Tube Group Office divisions of Quanex Corporation (the "Tube Group") were sold to Vision Metals, Inc. The Tube Group employees in the Plan had the option of leaving their benefits in the Plan or receiving a lump-sum distribution, which could be rolled over into an individual retirement account, or into a new qualified savings plan set up by Vision Metals, Inc. As of December 31, 1998, \$7,130,851 had been withdrawn from the Plan by Tube Group employees.

#### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (1) Accounting Basis. The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with generally accepted accounting standards.
- (2) Investment Valuation. The Plan recognizes net appreciation or depreciation in the fair value of its investments. Investments are reflected at fair value in the financial statements. Fair value of mutual fund assets is determined using a quoted net asset value. Fair value for Quanex Corporation common stock, which is listed on the New York Stock Exchange, is determined using the last recorded sales price. The fair value of the common/commingled trust is at face value.
- (3) Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in the net assets available for benefits during the reporting period. The Plan's financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from these estimates.

(4) Administrative Expenses. The Company pays all administrative expenses.

(5) Payment of Benefits. Benefit payments are recorded when paid.

#### C. PLAN TERMINATION

Although it has not expressed any intent to do so, the Company has the right under the Plan to terminate the Plan, subject to the provisions of ERISA. In the event of termination of the Plan, the assets held by the Trustee under the Plan will be valued and fully vested, and each participant will be entitled to distributions respecting his or her account.

#### D. FEDERAL INCOME TAX STATUS

The Plan is subject to specific rules and regulations related to employee benefit plans under the Department of Labor and the Internal Revenue Service ("IRS"). The Plan is a qualified trust under Sections 401(a) and 401(k) of the Internal Revenue Code ("Code") and, as a result, is exempt from taxation under Section 501(a) of the Code. The Plan received a favorable determination letter from the IRS dated October 3, 1996. The Company believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. Therefore, it believes the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

#### E. RELATED PARTY TRANSACTIONS

During the years ended December 31, 1998 and 1997, the Plan purchased and sold shares of Quanex Corporation common stock, as shown below:

	1998			1997		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
	-----	-----	-----	-----	-----	-----
Purchases	86,676	\$1,778,903		15,184	\$440,782	
Sales	18,375	446,176	\$534,218	29,930	629,783	\$870,900

During the years ended December 31, 1998 and 1997, the Plan purchased and sold shares of Fidelity mutual fund assets, as shown below:

	1998			1997		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
	-----	-----	-----	-----	-----	-----
Purchases	10,773,586	\$27,640,471		7,010,550	\$22,115,775	
Sales	10,971,840	30,398,411	\$32,827,451	7,886,016	19,551,882	\$20,775,858

During the years ended December 31, 1998 and 1997, the Plan purchased and sold shares of Fidelity Common/Commingled Trust, as shown below:

	1998			1997		
	Shares	Cost	Sales Price	Shares	Cost	Sales Price
	-----	-----	-----	-----	-----	-----
Purchases	3,188,117	\$3,188,117		2,269,094	\$2,269,094	
Sales	2,939,215	2,939,215	\$ 2,939,215	1,414,786	1,414,786	\$1,414,786

## F. SUPPLEMENTAL FUND INFORMATION

Contributions, benefit payments and investment income by fund are as follows for the years ended December 31:

	1998	1997
	-----	-----
Employer contributions:		
Fidelity Puritan Fund	\$ 97,039	157,777
Fidelity Magellan Fund	153,663	192,569
Fidelity Contrafund	71,939	112,759
Fidelity Growth and Income Fund	110,469	129,559
Fidelity Retirement Growth Fund	2,596	0
Fidelity Overseas Fund	30,233	58,043
Fidelity Balanced Fund	12,747	17,119
Fidelity Blue Chip Fund	16,097	0
Fidelity Asset Manager Fund	1,048	0
Fidelity Low-Priced Stock Fund	6,255	0
Fidelity Government Money Market Fund	132,083	191,436
Templeton Foreign Fund	8,961	16,435
Newberger & Bermann Partners Trust Fund	3,076	0
Quanex Corporation common stock	33,438	35,832
Common/commingled trust	20,563	23,777
	-----	-----
	\$ 700,207	\$ 935,306
	=====	=====

	1998	1997
	-----	-----
Employee contributions:		
Fidelity Puritan Fund	\$ 360,793	\$ 597,524
Fidelity Magellan Fund	560,045	716,695
Fidelity Contrafund	302,918	450,107
Fidelity Growth and Income Fund	453,818	538,186
Fidelity Retirement Growth Fund	10,356	--
Fidelity Overseas Fund	123,337	219,539
Fidelity Balanced Fund	46,381	67,979
Fidelity Blue Chip Fund	75,469	--
Fidelity Asset Manager Fund	4,338	--
Fidelity Low-Priced Stock Fund	36,332	--
Fidelity Government Money Market Fund	476,659	735,626
Templeton Foreign Fund	31,000	71,702
Newberger & Bermann Partners Trust Fund	16,624	--
Quanex Corporation common stock	102,208	120,540
Common/commingled trust	71,806	105,356
	-----	-----
	\$ 2,672,086	\$ 3,623,254
	=====	=====



	1998	1997
	-----	-----
Benefit payments:		
Fidelity Puritan Fund	\$ 1,825,829	\$ 1,268,575
Fidelity Magellan Fund	2,122,706	1,143,858
Fidelity Contrafund	1,256,466	193,382
Fidelity Growth and Income Fund	1,554,712	504,526
Fidelity Retirement Growth Fund	808	--
Fidelity Overseas Fund	400,241	226,282
Fidelity Balanced Fund	126,538	67,717
Fidelity Blue Chip Fund	59,667	--
Fidelity Asset Manager Fund	--	--
Fidelity Low-Priced Stock Fund	30,694	--
Fidelity Government Money Market Fund	2,195,695	2,232,996
Templeton Foreign Fund	97,879	39,954
Newberger & Bermann Partners Trust Fund	--	--
Quanex Corporation common stock	132,381	149,028
Common/commingled trust	334,430	77,807
	-----	-----
	\$ 10,138,046	\$ 5,904,125
	=====	=====

	1998	1997
	-----	-----
Investment income:		
Fidelity Puritan Fund	\$ 1,162,589	\$ 1,719,159
Fidelity Magellan Fund	2,896,519	2,213,591
Fidelity Contrafund	1,115,512	815,658
Fidelity Growth and Income Fund	1,592,651	1,450,917
Fidelity Retirement Growth Fund	25,337	--
Fidelity Overseas Fund	216,018	215,404
Fidelity Balanced Fund	87,512	113,599
Fidelity Blue Chip Fund	125,080	--
Fidelity Asset Manager Fund	2,952	--
Fidelity Low-Priced Stock Fund	(7,458)	--
Fidelity Government Money Market Fund	449,773	517,602
Templeton Foreign Fund	(9,876)	46,464
Newberger & Bermann Partners Trust Fund	19	--
Quanex Corporation common stock	51,140	102,136
Common/commingled trust	94,087	65,745
	-----	-----
	\$ 7,801,855	\$ 7,260,275
	=====	=====

ITEM 27-a SCHEDULE OF ASSETS HELD FOR INVESTMENTS PURPOSES  
EIN: 38-1872178; PN 012

QUANEX CORPORATION  
EMPLOYEES SAVINGS PLAN

SUPPLEMENTAL SCHEDULE OF INVESTMENTS  
DECEMBER 31, 1998

	Shares/ Par Value	Cost	Current Value
	-----	-----	-----
Fidelity Mutual Assets Funds:			
Puritan Fund*	360,545	\$ 6,094,698	\$ 7,236,131
Magellan*	89,976	7,352,043	10,870,892
Contrafund*	80,848	3,660,871	4,591,344
Growth and Income Fund*	154,200	4,986,781	7,068,547
Retirement Growth Fund*	10,967	217,583	224,938
Overseas Fund*	42,734	1,275,960	1,537,557
Balanced Fund*	24,937	371,700	407,967
Blue Chip Fund*	17,016	757,806	857,460
Asset Manager Fund*	2,719	51,144	47,290
Low-Priced Stock Fund*	7,099	173,735	162,209
Government Money Market Fund*	9,272,125	9,272,125	9,272,125
Templeton Foreign Fund	39,331	399,533	329,986
Newberger & Berman Partners Trust Fund	1,875	33,389	33,874
		-----	-----
Total Mutual Fund Assets		\$34,647,368	\$42,640,320
Quanex Corporation common stock*	120,112	2,545,075	2,710,088
Common/commingled trust*	1,911,158	1,911,158	1,911,158
		-----	-----
Total Investments		\$39,103,601	\$47,261,566
		=====	=====

\* Party-in-Interest

## ITEM 27-d - SCHEDULE OF REPORTABLE (5%) TRANSACTIONS EIN 38-1872178; PN 012

## QUANEX CORPORATION EMPLOYEES SAVINGS PLAN

SUPPLEMENTAL SCHEDULE OF 5% REPORTABLE TRANSACTIONS  
DECEMBER 31, 1998

Description -----	Total Number of Purchases During the Plan Year -----	Purchase Price -----	Series of Transactions			Current Value on Transaction Date -----	Net Gain ----
			Total Number of Sales During the Plan Year -----	Selling Price -----	Cost of Asset -----		
Puritan*	115	\$1,746,039	91	\$ 3,544,988	3,054,476	\$ 3,544,988	\$490,512
Magellan*	183	4,768,945	114	6,621,029	5,860,920	6,621,029	760,109
Contrafund*	159	2,811,779	99	3,792,117	3,435,433	3,792,117	356,684
Growth & Income*	170	4,306,353	110	5,221,325	4,549,932	5,221,325	671,393
Blue Chip*	131	1,792,570	53	1,027,613	1,034,764	1,027,613	(7,151)
Gov't Money Market*	159	10,347,619	139	10,403,305	10,403,305	10,403,305	--
Common Trust*	116	3,188,117	91	2,939,215	2,939,215	2,939,215	--
Quanex Common Stk*	48	1,778,903	32	534,218	446,176	534,218	88,042

\* Party-in-Interest

SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Quanex Corporation Employee Savings Plan

Date: June 28, 1999

/s/ Viren M. Parikh  
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Viren M. Parikh, Benefits Committee

INDEX TO EXHIBITS

23.1 Independents Auditor's Consent

## INDEPENDENT AUDITOR'S CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-38702 of Quanex Corporation on Form S-8 of our report dated June 1, 1999, appearing in the Annual Report of Form 11-K of the Quanex Corporation Employee Savings Plan for the year ended December 31, 1998.

/s/ DELOITTE & TOUCHE LLP

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DELOITTE & TOUCHE LLP

Houston, Texas  
June 28, 1999