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

(Mark One)

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

For the quarterly period ended April 30, 2001

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 April 30, 2001
Common Stock, par value $0.50 per share	13,370,302

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	April 30, 2001 (Unaudited)	October 31, 2000 (Audited)
ASSETS		
Current assets:		
Cash and equivalents	$ 17,332	$ 22,409
Accounts and notes receivable, net	104,600	98,465
Inventories	98,880	101,274
Deferred income taxes	12,657	12,771
Other current assets	2,355	1,027
Total current assets	235,824	235,946
Property, plant and equipment	712,790	681,992
Less accumulated depreciation and amortization	(364,482)	(343,744)
Property, plant and equipment, net	348,308	338,248
Goodwill, net	60,720	47,539
Other assets	25,284	24,126
	$ 670,136	$ 645,859
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 74,771	$ 77,339
Accrued expenses	45,735	50,189
Income taxes payable	1,815	3,218
Other current liabilities	2,153	--
Current maturities of long-term debt	421	256
Total current liabilities	124,895	131,002
Long-term debt	221,578	191,657
Deferred pension credits	5,882	7,026
Deferred postretirement welfare benefits	7,701	7,634
Deferred income taxes	26,096	27,620
Other liabilities	17,544	14,423
Total liabilities	403,696	379,362
Stockholders' equity:		
Preferred stock, no par value	--	--
Common stock, $.50 par value	7,065	7,110
Additional paid-in capital	109,113	111,061
Retained earnings	169,727	165,841
Unearned compensation	(1,197)	(467)
Accumulated other comprehensive income	(3,193)	(301)
	281,515	283,244
Less: Common stock held by rabbi trust	(1,873)	(3,349)
Less: Cost of shares of common stock in treasury	(13,202)	(13,398)
Total stockholders' equity	266,440	266,497
	$ 670,136	$ 645,859

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

	Three Months Ended April 30, 2001	Three Months Ended April 30, 2000	Six Months Ended April 30, 2001	Six Months Ended April 30, 2000
	(Unaudited)		(Unaudited)	
Net sales	$ 213,758	$ 243,271	$ 407,583	$ 442,565
Cost and expenses:				
Cost of sales	179,761	200,655	342,428	366,298
Selling, general and administrative expense	12,968	12,856	24,696	26,138
Depreciation and amortization	11,185	12,909	22,421	25,071
Operating income	9,844	16,851	18,038	25,058
Other income (expense):				
Interest expense	(4,122)	(4,020)	(8,283)	(7,350)
Capitalized interest	432	647	746	1,191
Other, net	444	307	1,767	1,309
Income before income taxes and extraordinary gain	6,598	13,785	12,268	20,208
Income tax expense	(2,309)	(4,756)	(4,294)	(7,004)
Income before extraordinary gain	4,289	9,029	7,974	13,204
Extraordinary gain - early extinguishment of debt (net of taxes)	--	358	372	358
Net income	$ 4,289	$ 9,387	$ 8,346	$ 13,562
Earnings per common share:				
Basic:				
Income before extraordinary gain	$ 0.32	$ 0.66	$ 0.59	$ 0.95
Extraordinary gain	--	0.02	0.03	0.02
Total basic net earnings	$ 0.32	$ 0.68	$ 0.62	$ 0.97
Diluted:				
Income before extraordinary gain	$ 0.32	$ 0.61	$ 0.59	$ 0.91
Extraordinary gain	--	0.02	0.03	0.02
Total diluted net earnings	$ 0.32	$ 0.63	$ 0.62	$ 0.93
Weighted average shares outstanding:				
Basic	13,389	13,774	13,407	13,975
Diluted	13,481	16,118	13,523	16,406
Common stock dividends per share	$ 0.16	$ 0.16	$ 0.32	$ 0.32

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)

	Six Months Ended April 30, 2001	Six Months Ended April 30, 2000
	(Unaudited)	
Operating activities:		
Net income	$ 8,346	$ 13,562
Adjustments to reconcile net income to cash provided by operating activities:		
Extraordinary gain on early extinguishment of debt (net of taxes)	(372)	(358)
Depreciation and amortization	22,675	25,340
Deferred income taxes	(1,801)	159
Deferred pension and postretirement benefits	(1,077)	636
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Increase in accounts and notes receivable	(2,811)	(21,989)
Decrease (increase) in inventory	5,037	(11,004)
Increase (decrease) in accounts payable	(4,629)	9,634
Decrease in accrued expenses	(5,835)	(6,330)
Other, net (including income tax refund)	(1,273)	7,867
Cash provided by operating activities	18,260	17,517
Investment activities:		
Acquisition of Golden Aluminum, net of cash acquired	--	(20,148)
Acquisition of Imperial Products, Inc., net of cash acquired	--	(15,303)
Acquisition of Temroc Metals, Inc., net of cash acquired	(17,922)	--
Capital expenditures, net of retirements	(26,485)	(24,770)
Other, net	(1,094)	(1,727)
Cash used by investment activities	(45,501)	(61,948)
Cash used by operating and investment activities	(27,241)	(44,431)
Financing activities:		
Bank borrowings, net	32,000	69,473
Purchase of subordinated debentures	(3,942)	(9,586)
Purchase of Quanex common stock	(1,990)	(14,204)
Common dividends paid	(4,322)	(4,521)
Issuance of common stock, net	1,530	619
Other, net	(1,112)	(51)
Cash provided by financing activities	22,164	41,730
Effect of exchange rate changes on cash and equivalents	--	167
Decrease in cash and equivalents	(5,077)	(2,534)
Cash and equivalents at beginning of period	22,409	25,874
Cash and equivalents at end of period	$ 17,332	$ 23,340
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 7,642	$ 6,440
Cash paid during the period for income taxes	$ 6,472	$ 4,254
Cash received during the period for income tax refunds	$ (210)	$ (7,007)

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Accounting Policies

The interim consolidated financial statements of Quanex Corporation and subsidiaries ("Quanex" or the "Company") are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. All such adjustments are of a normal recurring nature. 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 2000 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 2001 classifications.

2. Inventories

Inventories consist of the following:

	April 30, 2001	October 31, 2000
	(In thousands)	
Raw materials	$ 25,248	$ 26,473
Finished goods and work in process	66,588	67,981
	91,836	94,454
Other	7,044	6,820
	$ 98,880	$ 101,274

The values of inventories in the consolidated balance sheets are based on the following accounting methods:

	April 30, 2001	October 31, 2000
LIFO	$ 69,226	$ 69,028
FIFO	29,654	32,246
	$ 98,880	$ 101,274

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately $10 million at April 30, 2001 and October 31, 2000, respectively.

3. Acquisitions

On November 30, 2000, Quanex completed the purchase of all of the capital stock of Temroc Metals, Inc., ("Temroc"), a Minnesota corporation, for approximately $22 million in cash. Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company. Goodwill associated with Temroc is approximately $14 million, based on preliminary purchase accounting.

Temroc is a leading aluminum extrusion and fabrication company based in Hamel, Minnesota where it manufactures customized aluminum extrusions and fabricated metal products for recreational vehicles, architectural products, electronics and other markets. Temroc has become part of the Company's Engineered Products Group and will continue to operate as a manufacturer of aluminum extrusions and fabricated metal products.

To finance the acquisition, the Company borrowed against its existing $250 million unsecured revolving credit and term loan facility with a group of six banks.

4. Earnings Per Share

The computational components of basic and diluted earnings per share are as follows (shares and dollars in thousands except per share amounts):

	For the Three Months Ended April 30, 2001			For the Three Months Ended April 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
BASIC EPS						
Income before extra. gain	$ 4,289	13,389	$ 0.32	$ 9,029	13,774	$0.66
Extra. Gain - early debt ext.	--		--	358		.02
Total basic net earnings	$ 4,289		$ 0.32	$ 9,387		$0.68
EFFECT OF DILUTIVE SECURITIES						
Effect of common stock equiv. arising from stock options	--	8		--	6	
Effect of common stock held by rabbi trust	--	84		--	147	
Effect of conversion of subordinated debentures(1)	--	--		813	2,191	
DILUTED EPS						
Income before extra. gain	$ 4,289	13,481	$ 0.32	$ 9,842	16,118	$0.61
Extra. Gain - early debt ext.	--		--	358		.02
Total basic net earnings	$ 4,289		$ 0.32	$ 10,200		$0.63

	For the Six Months Ended April 30, 2001			For the Six Months Ended April 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
BASIC EPS						
Income before extra. gain	$ 7,974	13,407	$ 0.59	$ 13,204	13,975	$0.95
Extra. Gain - early debt ext.	372		0.03	358		.02
Total basic net earnings	$ 8,346		$ 0.62	$ 13,562		$0.97
EFFECT OF DILUTIVE SECURITIES						
Effect of common stock equiv. arising from stock options	--	10		--	29	
Effect of common stock held by rabbi trust	--	106		--	136	
Effect of conversion of subordinated debentures(1)	--	--		1,680	2,266	
DILUTED EPS						
Income before extra. gain	$ 7,974	13,523	$ 0.59	$ 14,884	16,406	$0.91
Extra. Gain - early debt ext.	372		0.03	358		.02
Total basic net earnings	$ 8,346		$ 0.62	$ 15,242		$0.93

(1) Conversion of the Company's 6.88% convertible subordinated debentures into common stock is anti-dilutive for the three and six month periods ended April 30, 2001 and therefore not included in the calculation of diluted earnings per share.

5. Comprehensive Income ($ in thousands)

Total comprehensive income for the three and six months ended April 30, 2001 is $3,897 and $5,454, respectively. Total comprehensive income for the three and six months ended April 30, 2000 is $9,579 and $13,617, respectively. Included in comprehensive income is net income, the change in the cumulative foreign currency translation adjustment balance (for fiscal 2000 only), the change in the adjustment for minimum pension liability balance and the effective portion of the gains and losses on derivative instruments designated as cash flow hedges.

6. Long-term Debt

Long-term debt consists of the following:

(In thousands)

	April 30, 2001	October 31, 2000
Bank Agreement Revolver	$142,000	$110,000
Convertible subordinated debentures	58,727	63,337
Temroc Industrial Development Revenue Bonds	2,698	--
Industrial Revenue and Economic Development Bonds	3,275	3,275
State of Alabama Industrial Development Bonds	4,500	4,755
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	2,800	2,800
Other	7,999	7,746
	$221,999	$191,913
Less maturities due within one year included in current liabilities	421	256
	$221,578	$191,657

The Temroc Industrial Development Revenue Bonds were obtained as part of the acquisition of Temroc. These bonds are due in annual installments through October 2012. Interest is payable semi-annually at fixed rates from 4.5% to 5.6% depending on maturity (average rate of 5.1% over the term of the bonds). These bonds are secured by a mortgage on Temroc's land and building.

7. Industry Segment Information (in thousands)

THREE MONTHS ENDED APRIL 30, 2001	Engineered Steel Bars	Aluminum Mill Sheet Products(3)	Engineered Products (4)(5)	Piper Impact	Corporate And Other(1)	Consolidated
Net Sales:						
To unaffiliated companies	$ 74,628	$ 86,327	$ 31,630	$ 21,173	$ --	$213,758
Inter-segment(2)	1,378	3,817	--	--	(5,195)	--
Total	$ 76,006	$ 90,144	$ 31,630	$ 21,173	$ (5,195)	$213,758
Operating income (loss)	$ 8,665	$ 1,144	$ 3,067	$ 928	$ (3,960)	$ 9,844

THREE MONTHS ENDED APRIL 30, 2000	Engineered Steel Bars	Aluminum Mill Sheet Products(3)	Engineered Products (4)	Piper Impact(6)	Corporate And Other(1)	Consolidated
Net Sales:						
To unaffiliated companies	$ 87,514	$106,642	$ 22,726	$ 26,389	$ --	$243,271
Inter-segment (2)	691	5,206	--	--	(5,897)	--
Total	$ 88,205	$111,848	$ 22,726	$ 26,389	$ (5,897)	$243,271
Operating income (loss)	$ 15,902	$ 6,582	$ 2,474	$ (3,799)	$ (4,308)	$ 16,851

SIX MONTHS ENDED APRIL 30, 2001	Engineered Steel Bars	Aluminum Mill Sheet Products(3)	Engineered Products (4)(5)	Piper Impact	Corporate And Other(1)	Consolidated
Net Sales:						
To unaffiliated companies	$144,691	$161,277	$ 57,593	$ 44,022	$ --	$407,583
Inter-segment (2)	2,913	7,683	--	--	(10,596)	--
Total	$147,604	$168,960	$ 57,593	$ 44,022	$(10,596)	$407,583
Operating income (loss)	$ 16,000	$ 1,424	$ 5,000	$ 2,072	$ (6,458)	$ 18,038

SIX MONTHS ENDED APRIL 30, 2000	Engineered Steel Bars	Aluminum Mill Sheet Products(3)	Engineered Products (4)	Piper Impact(6)	Corporate And Other(1)	Consolidated
Net Sales:						
To unaffiliated companies	$165,829	$182,404	$ 41,144	$ 53,188	$ --	$442,565
Inter-segment (2)	2,118	9,164	--	--	(11,282)	--
Total	$167,947	$191,568	$ 41,144	$ 53,188	$(11,282)	$442,565
Operating income (loss)	$ 27,737	$ 8,785	$ 4,321	$ (7,272)	$ (8,513)	$ 25,058

(1) Included in "Corporate and Other" are inter-segment eliminations and corporate expenses.

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

(3) Results include Nichols Aluminum - Golden operations acquired January 25,

2000.

(4) Results include Imperial Products, operations acquired April 3, 2000.

(5) Fiscal 2001 results include Temroc operations acquired November 30, 2000.

(6) Fiscal 2000 results include Piper Europe operations, which was disposed of in July 2000.

8. Stock Repurchase Program - Treasury Stock

In December 1999, Quanex announced that its board of directors approved a program to repurchase up to 2 million shares of the Company's common stock in the open market or in privately negotiated transactions. During the six months ended April 30, 2001, the Company repurchased 107,800 shares at a cost of approximately $2.0 million. These shares were not canceled, but instead were treated as treasury stock of the Company.

The cumulative cost of shares acquired as treasury shares, net of shares reissued, is $13.2 million as of April 30, 2001 and is reflected as a reduction of stockholders' equity in the balance sheet.

9. Extraordinary Item

During the six months ended April 30, 2001, the Company accepted unsolicited block offers to buy back $4.6 million principal amount of the 6.88% Convertible Subordinated Debentures for $3.9 million in cash. An after tax extraordinary gain of $372 thousand was recorded on this transaction. The principal amount of the convertible subordinated debentures outstanding as of April 30, 2001 was $58,727,300.

10. Financial Instruments and Risk Management

Effective November 1, 2000, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, which requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Metal Exchange Forward Contracts

The Company's aluminum mill sheet products segment, Nichols Aluminum, uses various grades of aluminum scrap as well as prime aluminum ingot as a raw material for its manufacturing process. The price of this aluminum raw material is subject to fluctuations due to many factors in the aluminum market. In the normal course of business, Nichols Aluminum enters into firm price sales commitments with its customers. In an effort to reduce the risk of fluctuating raw material prices, the Company enters into firm price raw material purchase commitments (which are designated as "normal purchases" under SFAS No. 133) as well as forward contracts on the London Metal Exchange ("LME"). The Company's risk management policy as it relates to these LME contracts is to enter into contracts to cover the raw material needs of the Company's committed sales orders as well as a certain level of forecasted aluminum sales, net of fixed price purchase commitments.

With the use of firm price raw material purchase commitments and LME contracts, the Company aims to protect the gross margins from the effects of changing prices of aluminum. To the extent that the raw material costs factored into the firm price sales commitments are matched with firm price raw material purchase commitments, changes in aluminum prices should have no effect on the Company. Where firm price sales commitments are matched with LME contracts, the Company is subject to the ineffectiveness of LME contracts to perfectly hedge raw material prices.

The Company has grouped the LME contracts into two types: customer specific and non-customer specific. The customer specific contracts have been designated as cash flow hedges of forecasted aluminum raw material purchases in accordance with SFAS No. 133. The non-customer specific LME contracts that are used to manage or balance the raw material needs have not been designated as hedges and, therefore, do not receive hedge accounting under SFAS No. 133. Both types of contracts are measured at fair market value on the balance sheet.

As of April 30, 2001, open LME forward contracts have maturity dates extending through October 2003. At April 30, 2001, these contracts covered notional volumes of 33,785,805 pounds and had fair values of approximately $275 thousand (net gain), which is recorded as part of other current and non-current assets and liabilities in the financial statements.

The effective portion of the gains and losses related to the customer specific forward LME contracts designated as hedges are reported in other comprehensive income. These gains and losses are reclassified into earnings in the periods in which the related inventory is sold. As of April 30, 2001, losses of approximately $240 thousand ($147 thousand net of taxes) are expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these customer specific hedge contracts, including amounts recorded related to hedge ineffectiveness, are reflected in "Cost of Sales" in the income statement. For the three and six months ended April 30, 2001, a net loss of $569 thousand and a net gain of $688 thousand, respectively, was recognized in "Cost of Sales" representing the amount of the hedges' ineffectiveness. (No components of these gains and losses were excluded from the assessment of hedge effectiveness. Additionally, no hedge contracts were discontinued due to the determination that the original forecasted transaction would not occur. Therefore, there was no income statement impact related to that action.)

The entire amount of gains and losses of the non-customer specific forward LME contracts not designated as hedges are reflected in "Cost of Sales" in the income statement in the period in which they occur. These gains and losses include the changes in fair market value during the period for all open and closed contracts.

Interest Swap Agreement

In fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the Bank Agreement to fixed rate. The Company's risk management policy related to these swap agreements is to hedge the exposure to interest rate movements on a portion of its long-term debt. Under the swap agreements, payments are made based on a fixed rate ($50 million at 7.025% and $50 million at 6.755%) and received on a LIBOR based variable rate (4.34% at April 30, 2001). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The Company has designated the interest rate swap agreements as cash flow hedges of future interest payments on its variable rate long-term debt.

On November 1, 2000, the Company recorded a derivative liability of $918 thousand, representing the fair value of the swaps as of that date. A corresponding amount, net of income taxes of $358 thousand, was recorded to other comprehensive income.

The fair value of the swaps as of April 30, 2001 was a loss of $4.7 million, which is recorded as part of other current and non-current liabilities. Gains and losses related to the swap agreements will be reclassified into earnings in the periods in which the related hedged interest payments are made. As of April 30, 2001, losses of approximately $2.0 million ($1.2 million net of taxes) are expected to be reclassified into earnings over the next twelve months. Gains and losses on these agreements, including amounts recorded related to hedge ineffectiveness, are reflected in "interest expense" in the income statement. A net loss of $116 and $309 thousand was recorded in interest expense in the three and six months ended April 30, 2001 representing the amount of the hedge's ineffectiveness. (No components of the swap instruments' losses were excluded from the assessment of hedge effectiveness. Additionally, none of the swap agreements were discontinued due to the determination that the original forecasted transaction would not occur. Therefore, there was no income statement impact related to that action.)

If the floating rates were to change by 10% from April 30, 2001 levels, the fair market value of these swaps would change by approximately $933 thousand. In terms of the impact on cash flow to the Company, as floating interest rates decline, the market value of the swap agreement rises, thus increasing the quarterly cash settlement of the swaps paid by the Company. However, the interest paid on the floating rate debt balance decreases. The inverse situation occurs with rising interest rates.

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

GENERAL

The discussion and analysis of Quanex Corporation and its subsidiaries' (the "Company"'s) financial condition and results of operations should be read in conjunction with the April 30, 2001 and October 31, 2000 Consolidated Financial Statements of the Company and the accompanying notes.

PRIVATE SECURITIES LITIGATION REFORM ACT

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

Factors exist that could cause the Company's actual results to differ materially from the expected results described in or underlying our Company's forward-looking statements. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, energy costs, interest rates, construction delays, market conditions for the Company's customers, any material changes in purchases by the Company's principal customers, environmental regulations, changes in estimates of costs for known environmental remediation projects and situations, world-wide political stability and economic growth, the Company's successful implementation of its internal operating plans, performance issues with key customers, suppliers and subcontractors, and regulatory changes and legal proceedings. Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved. All written and verbal forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such factors.

RESULTS OF OPERATIONS

Summary Information as % of Sales: (Dollars in millions)

	THREE MONTHS ENDED APRIL 30, 2001		2000		SIX MONTHS ENDED APRIL 30, 2001		2000	
	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales	Dollar Amount	% of Sales
Net Sales	$213.8	100%	$243.3	100%	$407.5	100%	$442.6	100%
Cost of Sales	179.8	84	200.6	83	342.4	84	366.3	83
Sell., gen. and admin.	13.0	6	12.9	5	24.7	6	26.1	6
Deprec. and amort.	11.2	5	12.9	5	22.4	6	25.1	5
Operating Income	9.8	5%	16.9	7%	18.0	4%	25.1	6%
Interest Expense	(4.0)	(2)	(4.0)	(2)	(8.2)	(2)	(7.4)	(2)
Capitalized Interest	.4	0	.6	0	.7	0	1.2	0
Other, net	.4	0	.3	0	1.8	1	1.3	0
Income tax expense	(2.3)	(1)	(4.8)	(2)	(4.3)	(1)	(7.0)	(1)
Income from cont. oper.	$ 4.3	2%	$ 9.0	3%	$ 8.0	2%	$ 13.2	3%

Overview

General economic slowdown and sluggish demand, particularly in the durable goods and building and construction markets, coupled with competitive pricing pressures and high energy costs have impacted the results for the second quarter of fiscal 2001.

Manufacturing activity continues to be sluggish and our customers remain cautious with new orders and in the management of their inventory. However, the engineered steel bar, aluminum mill sheet, and engineered products groups exceeded first quarter results in both sales and operating income. Engineered products, due in part from the benefit of acquisitions, and Piper Impact, with the benefits of higher productivity and cost cutting efforts, both reported higher operating income compared to last year's second quarter.

Business Segments

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

	Three Months Ended April 30,		Six Months Ended April 30,	
	2001	2000	2001	2000
	(In thousands)		(In thousands)	
Engineered Steel Bars:				
Net sales	$ 76,006	$ 88,205	$ 147,604	$ 167,947
Operating income	8,665	15,902	16,000	27,737
Deprec. and amort.	5,289	4,924	10,524	9,850
Identifiable assets	$ 275,329	$ 262,832	$ 275,329	$ 262,832
Aluminum Mill Sheet Products:(1)				
Net sales	$ 90,144	$ 111,848	$ 168,960	$ 191,568
Operating income	1,144	6,582	1,424	8,785
Deprec. and amort.	3,513	3,454	7,102	6,795
Identifiable assets	$ 225,392	$ 244,768	$ 225,392	$ 244,768
Engineered Products:(2)(3)				
Net sales	$ 31,630	$ 22,726	$ 57,593	$ 41,144
Operating income	3,067	2,474	5,000	4,321
Deprec. and amort.	1,324	847	2,546	1,620
Identifiable assets	$ 91,460	$ 64,667	$ 91,460	$ 64,667
Piper Impact:(4)				
Net sales	$ 21,173	$ 26,389	$ 44,022	$ 53,188
Operating income (loss)	928	(3,799)	2,072	(7,272)
Deprec. and amort.	918	3,608	1,968	6,679
Identifiable assets	$ 48,987	$ 154,378	$ 48,987	$ 154,378

(1) Results include Nichols Aluminum - Golden operations acquired January 25, 2000.

(2) Results include Imperial Products operations acquired April 3, 2000.

(3) Fiscal 2001 results include Temroc operations acquired November 30, 2000.

(4) Fiscal 2000 results include Piper Europe operations which was disposed of in July 2000.

The engineered steel bar business, MACSTEEL, has been able to maintain profitability while the severity of the distressed conditions in the steel industry are forcing others to restructure. It is a difficult business environment for all steel makers, and Quanex's primary markets, namely transportation and capital goods, have certainly been impacted.

Over the quarter, MACSTEEL has moved more aggressively into secondary markets such as defense, oil and service center markets. Additionally, they have been able to pick up some business from troubled competitors. MACSTEEL recently returned to a five-day per week schedule from a four-day per week schedule. Other initiatives at MACSTEEL include a rigid cost-containment program.

The aluminum mill sheet products business, Nichols Aluminum, experienced reduced business activity in the building and construction markets but remained profitable. Sheet pricing is extremely competitive at this time and mills are aggressively seeking available business, resulting in lower margins. However, second quarter operating income was up significantly from the first quarter. In addition to process improvement and efficiency initiatives, Nichols has been attempting to reduce their fixed costs with a 10% workforce reduction implemented at the end of the second quarter.

The engineered products business is also experiencing slower business in their markets, but managed to outperform the same period last year and last quarter with increases in sales and operating income. Results have benefited from the acquisitions of Imperial Products, ("Imperial") and Temroc Metals ("Temroc") and new product development initiatives. Cost reduction programs are also in place for this business segment. Employees are undergoing training for accelerating the implementation of lean manufacturing practices in an effort to reduce waste and improve inventory turns.

Piper Impact reported another profitable quarter compared to the operating loss of the same period last year. Autoliv and ordnance demand remained good given the economic environment. Productivity and new product development initiatives have gained momentum and are contributing to the improved results. Piper continues to focus on new product development opportunities to reduce its dependency on one large customer. Internally, they remain sharply focused on reducing costs in an effort to remain profitable at lower sales levels (reduce breakeven point).

Fiscal Quarter and Six Months ended April 30, 2001 vs. 2000

Net Sales - Consolidated net sales for the three and six months ended April 30, 2001 were $213.8 million and $407.6 million, respectively, representing a decrease of $29.5 million, or 12%, and $35.0 million, or 8%, when compared to consolidated net sales for the same periods in 2000. All operating segments, with the exception of the engineered products group, experienced decreased net sales.

Net sales from the Company's engineered steel bar business for the three and six months ended April 30, 2001, were $76.0 million and $147.6 million, respectively, representing a decrease of $12.2 million, or 14%, and $20.3 million, or 12%, when compared to the same periods last year. This decrease was principally due to lower sales volume resulting from weaker markets in the transportation and capital goods industry. The business continued to experience pricing pressures; however, due to the increased volume of MACPLUS, a value added product, the impact on overall average sales price was minimized.

Net sales from the Company's aluminum mill sheet products business for the three and six months ended April 30, 2001, were $90.1 million and $169.0 million, respectively, representing a decrease of $21.7 million, or 19%, and $22.6 million, or 12%, when compared to the same periods last year. The six months ending April 30, 2001, included the results of Nichols Aluminum Golden which was acquired January 25, 2000. The decrease in net sales was due to lower sales volume as well as lower selling prices. Volume was affected by more severe winter weather than was experienced in the prior year, as well as a general economic slowdown which negatively affected the building and construction markets. Sales prices were impacted by the extremely competitive pricing environment and the fact that all mills are aggressively seeking available business during the economic slowdown.

Net sales from the Company's engineered products business for the three and six months ended April 30, 2001, were $31.6 million and $57.6 million, respectively, representing an increase of $8.9 million, or 39%, and $16.4 million, or 40%, when compared to the same periods last year. The increase was largely due to the contributions from Imperial, which was acquired in April 2000, and Temroc, acquired November 30, 2000. Additionally, the group's net sales benefited from the capital expansion project at AMSCO which was completed in November 2000 and new product development initiatives.

Net sales from the Company's Piper Impact business for the three and six months ended April 30, 2001, were $21.2 million and $44.0 million, respectively, representing a decrease of $5.2 million, or 20%, and $9.2 million, or 17%, when compared to the same periods last year. Net sales for the period ending April 30, 2000 included sales from Piper Impact Europe which was sold in July of 2000. Comparable net sales of Piper's operations, excluding Piper Europe, improved 6% and 10%, respectively, for the three and six month periods over the same prior year periods as a result of increased sales volumes of aluminum airbags components, as well as some success at new product development.

Operating income - Consolidated operating income for the three and six months ended April 30, 2001 were $9.8 million and $18.0 million, respectively, representing a decrease of $7.0 million, or 42%, and $7.0 million, or 28%, when compared to the same periods last year. Lower operating income at the Company's engineered steel bar and aluminum mill sheet businesses were partially offset by improved operating results at the engineered products and Piper Impact businesses as well as lower corporate level expenses.

Operating income from the Company's engineered steel bar business for the three and six months ended April 30, 2001, was $8.7 million and $16.0 million, respectively, representing a decrease of $7.2 million, or 46%, and $11.7 million, or 42%, when compared to the same periods last year. This decrease was due largely to lower net sales resulting from the sluggish demand in the transportation and capital goods markets. Lower material scrap prices helped offset some of the impact of reduced volume and lower selling price. The business also experienced increased utility costs resulting from rising energy prices and higher outside processing costs with the increased MACPLUS volume.

Operating income from the Company's aluminum mill sheet products business for the three and six months ended April 30, 2001, was $1.1 million, and $1.4 million, respectively, representing a decrease of $5.4 million, or 83%, and $7.4 million, or 84%, when compared to the same periods last year. The decline largely resulted from significantly lower net sales and higher energy costs.

Operating income from the Company's engineered products business for the three and six months ended April 30, 2001, was $3.1 million and $5.0 million, respectively, representing an increase of $0.6 million, or 24%, and $0.7 million, or 16%, when compared to the same periods last year. The increase was due largely to the acquisition of Imperial, acquired in April of 2000 and Temroc, acquired November 30, 2000.

Operating income from the Company's Piper Impact business for the three and six months ended April 30, 2001 was $0.9 million and $2.1 million, respectively, compared to operating losses of $3.8 million and $7.3 million for the same prior year periods. The prior year's results included the operating loss of Piper Impact Europe which was sold in July of 2000. Comparative operating income, excluding Piper Europe, improved 135% and 140% from the same prior year's results. This improvement is a result of increased net sales as well as lower costs resulting from cellular manufacturing and cost cutting efforts. Additionally, depreciation expense declined with the reduced asset base, which resulted from the asset impairment charge recorded in the fourth quarter of fiscal 2000.

In addition to the four operating segments mentioned above, corporate level operating expenses for the three and six months ended April 30, 2001, were $4.0 million and $6.5 million, respectively compared to $4.3 million and $8.5 million, for the same periods last year. Included in corporate and other are the corporate office expenses, impact of LIFO valuation method of inventory accounting and inter-segment eliminations as well as inter-company gains and losses from derivative instruments. (See Note 2 to the financial statements regarding LIFO valuation method of inventory accounting.)

Selling, general and administrative expenses was $13.0 million and $24.7 million, respectively, for the three and six months ended April 30, 2001 representing an increase of $0.1 million, or 1%, and a decrease of $1.4 million, or 6%, when compared to the same periods last year. The decrease in the six months ended April 30, 2001 as compared to the same prior year period is largely due to the sale of Piper Europe in July of 2000, cost cutting measures at the remaining Piper Impact facilities and lower corporate level expenses. These decreases were partially offset, however, by the expenses of Imperial and Temroc, which were acquired in April 2000 and November 2000, respectively.

Depreciation and amortization decreased by $1.7 million, or 13%, and $2.7 million, or 11%, respectively, for the three and six months ended April 30, 2001, as compared to the same periods last year. The engineered steel bar, aluminum mill sheet products and engineered products business all experienced increased depreciation amounts due to recently completed capital projects as well as the acquisitions of Nichols Aluminum Golden, Imperial and Temroc. This increase was more than offset, however, by the decreased depreciation at Piper Impact which resulted from the sale of Piper Impact Europe as well as the asset impairment charge taken in the fourth quarter of the prior fiscal year.

Interest expense increased by $102 thousand, or 3%, and $933 thousand, or 13%, respectively, for the three and six months ended April 30, 2001, as compared to the same fiscal period of 2000. The increase was primarily due to the additional borrowings made during the period to finance the acquisition of Temroc as well as the purchase of company stock and subordinated debentures. (See Notes 3, 8 and 9 to the financial statements.)

Capitalized interest decreased by $215 and $445 thousand, respectively, for the three and six months ended April 30, 2001, as compared to the same periods of 2000, due to the completion of the Phase V expansion project at MACSTEEL(R) in December 2000.

Net income was $4.3 and $8.3 million, respectively, for the three and six months ended April 30, 2001, compared to $9.4 and $13.6 million for the same periods of 2000. In addition to the items mentioned above, the six month period ended April 30, 2001 included an extraordinary gain of $372 thousand on the purchase of subordinated debentures, compared to $358 thousand for the three and six month periods ended April 30, 2000.

Outlook

MACSTEEL enters the third quarter with a stronger backlog and new programs that are starting to produce results. MACSTEEL fully expects to continue showing operating improvements as the year progresses and to have more profitable third and fourth quarters compared to the first half of fiscal 2001. Overall, they continue to outperform their competitors in a tough market, and are continuing to obtain new business with their transportation customers.

At Nichols Aluminum, bookings and backlog continue to increase and business conditions appear to be improving. Improved results are expected for the third and fourth quarters of fiscal 2001 as compared to the first half of 2001.

Higher operating results are also anticipated at the engineered products group for the remainder of the fiscal year 2001, compared to the first half of the year as well as the second half of the prior fiscal year. These improvements are expected as a result of the acquisitions of Imperial and Temroc, new product initiatives and cost reductions programs.

While Piper Impact, excluding Piper Europe, showed a significant improvement for the six months ended April 30, 2001 as compared to the same prior year period in net sales and operating income, the aluminum air bag component business is expected to continue to decline. The third quarter outlook is down slightly because of further reductions in aluminum extrusion demand, but new programs should partially offset this decline. The Company is evaluating other strategic alternatives for this business, including its possible sale, and expects to arrive at a decision during the second half of fiscal 2001 regarding this matter.

In summary, the Company continues to experience slower demand in the automotive, capital goods, building and construction markets. The Company expects overall business to improve in coming quarters as new programs ramp up, customer activity increases and markets slowly improve. For the third quarter of fiscal 2001, operating results are expected to lag last year's comparable quarter but to show significant improvement from the second quarter of 2001.

The Company previously indicated in its April 19, 2001 quarterly update that the fiscal year 2001 fully diluted earnings per share are expected to be between $1.75 and $2.00. Based on actual results for the first half of the year and outlook for the second half, the Company continues to expect earnings to be in that range.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its $250 million unsecured Revolving Credit and Term Loan Agreement ("Bank Agreement"). At April 30, 2001, the Company had $142 million borrowed under the Bank Agreement. This represents a $32 million increase over October 31, 2000 borrowing levels. The borrowings were primarily used to finance the acquisition of Temroc (see Note 3 to the financial statements) and to repurchase $4.6 million principal amount of the Company's subordinated debentures. There have been no significant changes to the terms of the Company's debt structure during the three and six month periods ended April 30, 2001. (See Note 6 to the financial statements for detail regarding the outstanding borrowings under the Company's various facilities.)

At April 30, 2001, the Company had commitments of approximately $21 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

During the first six months of fiscal 2001, the Company accepted unsolicited block offers to buy back $4.6 million principal amount of the 6.88% Convertible Subordinated Debentures for $3.9 million in cash.

The Company believes that it has sufficient funds and adequate financial sources available to meet its anticipated liquidity needs. The Company also believes that cash flow from operations, cash balances and available borrowings will be sufficient for the foreseeable future to finance anticipated working capital requirements, capital expenditures, debt service requirements, environmental expenditures and common stock dividends.

Operating Activities

Cash provided by operating activities during the six months ended April 30, 2001 was $18.3 million compared to $17.5 million for the same six month period of 2000. Though the total amount is comparable from year to year, there were differences in the components. Net income, adding back depreciation and amortization provided $31.0 million compared to $38.9 million of cash for the same six month period of 2000. The period ended April 30, 2001 included lower working capital requirements as compared to the same period of the prior year as a result of slowing business. The period ended April 30, 2000 included a $7.0 million tax refund resulting from overpayment of estimated taxes in fiscal 1999, compared to a $210 thousand refund received in the same period of 2001.

Investment Activities

Net cash used by investment activities during the six months ended April 30, 2001 was $45.5 million compared to $61.9 million for the same period of 2000. Fiscal 2001 cash used by investment activities included cash paid for the acquisition of Temroc totaling $17.9 million, net of cash acquired. Fiscal 2000 cash used by investing activities included cash paid for the acquisition of Nichols Aluminum Golden totaling $20.1 million, net of cash acquired and Imperial totaling $15.3 million, net of cash acquired. Capital expenditures and other investment activities decreased $1.1 million in the six month period ended April 30, 2001 as compared to the same periods of 2000. The Company estimates that fiscal 2001 capital expenditures will total approximately $55 to $60 million.

Financing Activities

Net cash provided by financing activities for the six months ended April 30, 2001 was $22.2 million compared to $41.7 million for the same prior year period. The Company's net borrowings were $32.0 million during the first six months of fiscal 2001, compared to $69.5 million during the same period last year. During the six months ended April 30, 2001, the Company expended $3.9 million to purchase subordinated debentures compared to $9.6 million for the same prior year period. Also, during the six months ended April 30, 2001, the Company paid $2.0 million to repurchase 107,800 shares of its own common stock; however, in the same period last year, it paid $14.2 million to repurchase approximately 668,500 shares.

NEW ACCOUNTING PRONOUNCEMENTS

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101. SAB No. 101 provides the staff's views in applying Generally Accepted Accounting Principles ("GAAP") to revenue recognition in financial statements. It does not change any of the existing rules on revenue recognition. All registrants are expected to apply the accounting and disclosures described in this bulletin. The staff, however, will not object if registrants that have not applied this accounting do not restate prior financial statements provided they report a change in accounting principle in accordance with APB Opinion No. 20, Accounting Changes, no later than the first fiscal quarter of the fiscal year beginning after December 15, 1999. However, SAB No. 101B delays the implementation of SAB No. 101 until no later than the fourth quarter of fiscal years beginning after December 15, 1999. The Company will be analyzing SAB No. 101 to determine what, if any, impact or additional disclosure requirements are necessary. Any such impact will be addressed and reflected in the fourth fiscal quarter of the Company's year ending October 31, 2001 in accordance with SAB No. 101B.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Effective November 1, 2000, the Company adopted SFAS No. 133, which requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. The Company utilizes certain "derivative instruments" to manage its exposure to market risk. Prior to the adoption of SFAS No. 133, these derivative instruments were not recorded in the financial statements until their settlement. (See Note 10 for further discussion.)

The following discussion of the Company and its subsidiaries' exposure to various market risks contains "forward looking statements" that involve risks and uncertainties. These projected results have been prepared utilizing certain assumptions considered reasonable in light of information currently available to the Company. Nevertheless, because of the inherent unpredictability of interest rates and metal commodity prices as well as other factors, actual results could differ materially from those projected in such forward looking information.

The Company holds certain floating-rate obligations. The exposure of these obligations to increases in short-term interest rates is limited by interest rate swap agreements entered into by the Company. These swap agreements effectively fix the interest rate on most of the Company's variable rate debt, thus limiting the potential impact that increasing interest rates would have on earnings. At October 31, 2000 (prior to the adoption of SFAS No. 133) the unrealized losses related to the interest rate swap agreements were $918 thousand. As of April 30, 2001, a liability of $4.7 million related to the interest rate swap agreements was recorded in the financial statements. If the floating rates were to change by 10% from April 30, 2001 levels, the fair market value of these swaps would change by approximately $933 thousand. It should be noted that any change in value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged item. In terms of the impact on cash flow to the Company, as floating interest rates decline, the market value of the swap agreement rises, thus increasing the quarterly cash settlement of the swaps paid by the Company. However, the interest paid on the floating rate debt balance decreases. The inverse situation occurs with rising interest rates.

The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. The exposure is related to the Company's backlog of aluminum sales orders with committed prices as well as future aluminum sales for which a sales price increase would lag a raw material cost increase. Hedging gains and losses are included in "Cost of sales" in the income statement. Prior to the adoption of SFAS No. 133, gains and losses related to open contracts were unrealized and not reflected in the consolidated statements of income. At October 31, 2000, the Company had open futures contracts with unrealized losses of $372 thousand. As of April 30, 2001, (after the adoption of SFAS No. 133) the Company had open futures contracts with fair values of approximately $275 thousand (net gain) which was recorded as part of other current and other non-current assets and liabilities. At October 31, 2000 and April 30, 2001, these contracts covered a notional volume of 25,738,940 and 33,785,805 pounds of aluminum, respectively. A hypothetical 10% change from the April 30, 2001 average London Metal Exchange ("LME") ingot price of $.705 per pound would increase or decrease the unrealized pretax gains/losses related to these contracts by approximately $2.4 million. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the cost of purchased aluminum scrap.

Other than the items mentioned above, there were no other material quantitative or qualitative changes during the first six months of fiscal 2001 in the Company's market risk sensitive instruments.

PART II. OTHER INFORMATION

Item 4 - Submission of Matters to a Vote of Security Holders

On February 22, 2001, the Company held its Annual Meeting of Stockholders (the "Annual Meeting").

At the Annual Meeting, Carl E. Pfeiffer and Vincent R. Scorsone were elected as directors for a three-year term until the Annual Meeting of Stockholders in 2004. The following sets forth the number of shares that voted for and for which votes were withheld of each of such persons:

	For	Withheld
Carl E. Pfeiffer	11,862,623	116,258
Vincent R. Scorsone	11,888,635	90,246

Item 5 - Other Information

RAYMOND A. JEAN ELECTED AS CHAIRMAN OF THE BOARD OF DIRECTORS

On May 22, 2001, Raymond A. Jean was elected the sixth Chairman of the board of directors since Quanex was incorporated in Michigan as Michigan Seamless Tube Company on April 27, 1927. Mr. Jean's election follows the orderly transition of corporate leadership from Vernon E. Oechsle, who retired as Chief Executive Officer this past February and resigned as a Director and Chairman of the board of directors on May 21, 2001.

MICHAEL R. BAYLES - VICE PRESIDENT, STRATEGIC PLANNING AND BUSINESS DEVELOPMENT

On May 22, 2001, Michael R. Bayles joined the Company as Vice President - Strategic Planning and Business Development. He will report directly to Raymond A. Jean, Chairman and Chief Executive Officer. In his new position, Mr. Bayles is responsible for developing corporate-wide strategies for growth through merger and acquisition activities, formation of strategic business alliances, and licensing agreements.

Mr. Bayles brings more than 25 years of experience in corporate line and staff leadership positions. Before joining the Company, he was a member of the board of directors and Executive Vice President of Helm Financial, a west coast firm engaged in the leasing of transportation equipment. Prior to joining Helm Financial, Mr. Bayles was President and Chief Operating Officer of Standard Car Truck Company, a privately held company serving the railroad components market. He remains a member of their board of directors. Michael's other career assignments include marketing and operations with Varlen Corporation and I.C. Industries.

Mr. Bayles, 49, holds a Bachelor of Science degree in Business Administration and Economics from the University of Missouri. He also holds a Masters of Business Administration Degree from the University of Pittsburgh.

JOSEPH J. ROSS ELECTED TO BOARD OF DIRECTORS

Joseph J. Ross was elected to the Company's board of directors. Mr. Ross, 55, is Chairman and Chief Executive Officer of Federal Signal Corporation, a global manufacturer of leading niche products in four operating groups: environmental vehicles and related products, fire rescue vehicles, safety and signaling products, and consumable industrial tooling.

Mr. Ross graduated from St. Mary's University in Winona, Minnesota. He received his law degree from DePaul University in Chicago, Illinois. Mr. Ross also served on the board of trustees of St. Mary's University in Winona, Minnesota.

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

a) Exhibits

Exhibit 10.1	Quanex Corporation 1997 Key Employee Stock Plan (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan), as amended and restated, dated October 20, 1999.
Exhibit 10.2	Amendment to Quanex Corporation 1997 Key Employee Stock Plan (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan), dated December 9, 1999.
Exhibit 10.3	Amendment to Quanex Corporation 1997 Key Employee Stock Plan (formerly known as the Quanex Corporation 1997 Key Employee Stock Option Plan) effective July 1, 2000.

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

b) Reports on Form 8-K

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

/s/ Viren M. Parikh

Viren M. Parikh
Controller (Chief Accounting Officer)

Date: June 11, 2001

/s/ Terry M. Murphy

Terry M. Murphy
Vice President - Finance and Chief Financial Officer

Date: June 11, 2001

INDEX TO EXHIBITS

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EXHIBIT 10.1

QUANEX CORPORATION

1997 KEY EMPLOYEE STOCK PLAN

Amended and Restated
Effective October 20, 1999

QUANEX CORPORATION
1997 KEY EMPLOYEE STOCK PLAN

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ARTICLE I

PURPOSE OF PLAN

The Plan is for key employees of the Company and its Affiliates and is intended to advance the best interests of the Company, its Affiliates, and its stockholders by providing those persons who are not officers but have substantial responsibility for the management and growth of the Company and its Affiliates with additional incentives and an opportunity to obtain or increase their proprietary interest in the Company, thereby encouraging them to continue in the employ of the Company or any of its Affiliates.

ARTICLE II

DEFINITIONS

The words and phrases defined in this Article shall have the meaning set out in these definitions throughout this Plan, unless the context in which any such word or phrase appears reasonably requires a broader, narrower, or different meaning.

II.1 "AFFILIATE" means any parent corporation and any subsidiary corporation. The term "parent corporation" means any corporation (other than the Company) in an unbroken chain of corporations ending with the Company if, at the time of the action or transaction, each of the corporations other than the Company owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in the chain. The term "subsidiary corporation" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

II.2 "AGREEMENT" means a written agreement setting forth the terms of an Award.

II.3 "AWARD" means an Option or a Restricted Stock Award granted under this Plan.

II.4 "BOARD" means the board of directors of the Company.

II.5 "CODE" means the Internal Revenue Code of 1986, as amended.

II.6 "COMMITTEE" means the committee designated by the Board.

II.7 "COMPANY" means Quanex Corporation, a Delaware corporation.

II.8 "DISABILITY" means a mental or physical disability which, in the opinion of a physician selected by the Committee, shall prevent the Employee from earning a reasonable livelihood with the Company or any Affiliate and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months and which: (a) was not contracted, suffered or incurred while the Employee was engaged in, or did not result from having engaged in, a felonious criminal enterprise; (b) did not result from alcoholism or addiction to narcotics; and (c) did not result from an injury incurred while a member of the Armed Forces of the United States for which the Employee receives a military pension.

II.9 "EMPLOYEE" means a person employed by the Company or any Affiliate.

II.10 "FAIR MARKET VALUE" of the Stock as of any date means (a) the closing sale price of the Stock on that date (or, if there was no sale on such date, the next preceding date on which there was such a sale) on the principal securities exchange on which the Stock is listed; or (b) if the Stock is not listed on a securities exchange, an amount as determined by the Committee in its sole discretion.

II.11 "OPTION" means a nonqualified option granted under this Plan to purchase shares of Stock.

II.12 "OPTIONEE" means a person who is granted an Option under this Plan.

II.13 "PLAN" means the Quanex Corporation 1997 Key Employee Stock Plan, as set out in this document and as it may be amended from time to time.

II.14 "RESTRICTED PERIOD" means the period designated by the Committee during which Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered.

II.15 "RESTRICTED STOCK" means those shares of Common Stock issued pursuant to a Restricted Stock Award which are subject to the restrictions, terms, and conditions set forth in the related Agreement.

II.16 "RESTRICTED STOCK AWARD" means an award of Restricted Stock pursuant to Section 7.1.

II.17 "RETAINED DISTRIBUTIONS" MEANS ANY SECURITIES OR OTHER PROPERTY (OTHER THAN REGULAR CASH DIVIDENDS) DISTRIBUTED BY THE COMPANY IN RESPECT OF RESTRICTED STOCK DURING ANY RESTRICTED PERIOD.

II.18 "RETIRE" or "RETIREMENT" means retirement in accordance with the terms of a retirement plan that is qualified under section 401(a) of the Code and maintained by the Company or an Affiliate in which the employee is a participant.

II.19 "STOCK" means the common stock of the Company, $.50 par value. In addition, for purposes of the Plan and the Awards, the term Stock shall be deemed to include any rights to purchase ("Rights") the Series A Junior Participating Preferred Stock of the Company that may then be trading with the Stock as provided in the Rights Agreement between the Company and Chemical Bank relating to the Rights.

ARTICLE III

ELIGIBILITY

The individuals who shall be eligible to receive Awards shall be those key Employees, who are not officers of the Company or an Affiliate, as the Committee shall determine from time to time.

ARTICLE

STOCK SUBJECT TO THE PLAN

The total amount of the Common Stock with respect to which Awards may be granted shall not exceed in the aggregate 250,000 shares. The class and aggregate number of shares which may be subject to the Options granted under this Plan shall be subject to adjustment under Section 5.5. The class and aggregate number of shares which may be subject to the Restricted Stock Awards granted under the Plan shall also be subject to adjustment under Section 7.4. Shares may be treasury shares or authorized but unissued shares. If any Award under the Plan shall expire or terminate for any reason without having been exercised in full, or if any Award shall be forfeited, the shares subject to the unexercised or forfeited portion of such Award shall again be available for the purposes of the Plan.

ARTICLE V

GENERAL PROVISIONS RELATING TO OPTIONS

V.1 AUTHORITY TO GRANT OPTIONS. The Committee may grant Options to those individuals as it shall from time to time determine under the terms and conditions of this Plan. Subject only to any applicable limitations set out in this Plan, the number of shares of Stock to be covered by any Option shall be as determined by the Committee.

V.2 NON-TRANSFERABILITY. Except as expressly provided otherwise in an Optionee's Option Agreement, Options shall not be transferable by the Optionee otherwise than by will or under the laws of descent and distribution, and shall be exercisable, during the Optionee's lifetime, only by him.

V.3 NO RIGHTS AS STOCKHOLDER. No Optionee shall have any rights as a stockholder with respect to Stock covered by his Option until the date a stock certificate is issued for the Stock.

V.4 TAX WITHHOLDING. The Company or any Affiliate shall be entitled to deduct from other compensation payable to each Optionee any sums required by federal, state, or local tax law to be withheld with respect to the grant or exercise of an Option. In the alternative, the Company may require the Optionee (or other person exercising the Option) to pay the sum directly to the Company or an Affiliate. If the Optionee (or other person exercising the Option) is required to pay the sum directly, payment in cash or by check of such sums for taxes shall be made on the date of exercise. The Company shall have no obligation upon exercise of any Option until payment has been received, unless withholding (or offset against a cash payment) as of or prior to the date of exercise is sufficient to cover all sums due with respect to that exercise. The Company and its Affiliates shall not be obligated to advise an Optionee of the existence of the tax or the amount which the employer corporation will be required to withhold.

V.5 CHANGES IN THE COMPANY'S CAPITAL STRUCTURE. If the Company shall effect a subdivision or consolidation of shares or other capital adjustment of, or the payment of a dividend in capital stock or other equity securities of the Company on, its Common Stock, or other increase or reduction of the number of shares of the Common Stock outstanding without receiving consideration therefor in money, services, or property, or the reclassification of its Stock, in whole or in part, into other equity securities of the Company, then (a) the number, class and per share price of shares of Stock subject to outstanding Options hereunder shall be appropriately adjusted (or in the case of the issuance of other equity securities as a dividend on, or in a reclassification of, the Stock, the Options shall extend to such other securities) in such a manner as to entitle an Optionee to receive, upon exercise of an Option, for the same aggregate cash compensation, the same total number and class or classes of shares (or in the case of a dividend of, or reclassification into, other equity securities, such other securities) he would have held after such adjustment if he had exercised his Option in full immediately prior to the event requiring the adjustment, or, if applicable, the record date for determining stockholders to be affected by such adjustment; and (b) the number and class of shares then reserved for issuance under the Plan (or in the case of a dividend of, or reclassification into, other equity securities, such other securities) shall be adjusted by substituting for the total number and class of shares of Stock then received, the number and class or classes of shares of Stock (or in the case of a dividend on, or reclassification into, other equity securities, such other securities) that would have been received by the owner of an equal number of outstanding shares of Stock as the result of the event requiring the adjustment. Comparable rights shall accrue to each Optionee in the event of successive subdivisions, consolidations, capital adjustment, dividends or reclassifications of the character described above.

If the Company shall distribute to all holders of its shares of Stock (including any such distribution made to non-dissenting stockholders in connection with a consolidation or merger in which the Company is the surviving corporation and in which holders of shares of Stock continue to hold shares of Stock after such merger or consolidation) evidences of indebtedness or cash or other assets (other than cash dividends payable out of consolidated retained earnings not in excess of, in any one year period, the greater of (a) $1.00 per share of Stock or (b) two times the aggregate amount of dividends per share paid during the preceding calendar year and dividends or distributions payable in shares of Stock or other equity securities of the Company described in the immediately preceding paragraph), then in each case the Optionee's exercise price specified in his Option Agreement ("Exercise Price") shall be adjusted by reducing the Option Price in effect immediately prior to the record date for the determination of stockholders entitled to receive such distribution by an amount equal to the Fair Market Value, as determined in good faith by the Board (whose determination shall be described in a statement filed in the Company's corporate records and be available for inspection by any holder of an Option) of the portion of the evidence of indebtedness or cash or other assets so to be distributed applicable to one share of Stock; provided that in no event shall the Option Price be less than the par value of a share of Stock. Such adjustment shall be made whenever any such distribution is made, and shall become effective on the date of the distribution retroactive to the record date for the determination of the stockholders entitled to receive such distribution. Comparable adjustments shall be made in the event of successive transactions of the character described above.

If the Company shall make a tender offer for, or grant to all of its holders of its shares of Stock the right to require the Company or any subsidiary of the Company to acquire from such stockholders shares of Stock, at a price in excess of the Current Market Price (a "Put Right") or the Company shall grant to all of its holders for its shares of Stock the right to acquire shares of Stock for less than the Current Market Price (a "Purchase Right"), then, in the case of a Put Right, the Option Price shall be adjusted by multiplying the Option Price in effect immediately prior to the record date for the determination of stockholders entitled to receive such Put Right by a fraction, the numerator of which shall be the number of shares of Stock then outstanding minus the number of shares of Stock which could be purchased at the Current Market Price for the aggregate amount which would be paid if all Put Rights are exercised and the denominator of which is the number of shares of Stock which would be outstanding if all Put Rights are exercised; and, in the case of a Purchase Right, the Option Price shall be adjusted by multiplying the Option Price in effect immediately prior to the record date for the determination of the stockholders entitled to receive such Purchase Right by a fraction, the numerator of which shall be the number of shares of Stock then outstanding plus the number of shares of Stock which could be purchased at the Current Market Price for the aggregate amount which would be paid if all Purchase Rights are exercised and the denominator of which is the number of shares of Stock which would be outstanding if all Purchase Rights are exercised. In addition, the number of shares subject to the Option shall be increased by multiplying the number of shares then subject to the Option by a fraction which is the inverse of the fraction used to adjust the Option Price. Notwithstanding the foregoing, if any such Put Rights or Purchase Rights shall terminate without being exercised, the Option Price and number of shares subject to the Option shall be appropriately readjusted to reflect the Option Price and number of shares subject to the Option which would have been in effect if such unexercised Rights had never existed. Comparable adjustments shall be made in the event of successive transactions of the character described above.

After the merger of one or more corporations into the Company, after any consolidation of the Company and one or more corporations, or after any other corporate transaction described in section 424(a) of the Code in which the Company shall be the surviving corporation, each Optionee, at no additional cost, shall be entitled to receive, upon any exercise of his Option, in lieu of the number of shares as to which the Option shall then be so exercised, the number and class of shares of stock or other equity securities to which the Optionee would have been entitled pursuant to the terms of the agreement of merger or consolidation if at the time of such merger or consolidation such Optionee had been a holder of a number of shares of Stock equal to the number of shares as to which the Option shall then be so exercised and, if as a result of such merger, consolidation or other transaction, the holders of Stock are not entitled to receive any shares of Stock pursuant to the terms thereof, each Optionee, at no additional cost shall be entitled to receive, upon exercise of his Option, such other assets and property, including cash to which he would have been entitled if at the time of such merger, consolidation or other transaction he had been the holder of the number of shares of Stock equal to the number of shares as to which the Option shall then be so exercised. Comparable rights shall accrue to each Optionee in the event of successive mergers or consolidations of the character described above.

After a merger of the Company into one or more corporations, after a consolidation of the Company and one or more corporations, or after any other corporate transaction described in section 424(a) of the Code in which the Company is not the surviving corporation, each Optionee shall, at no additional cost, be entitled at the option of the surviving corporation (i) to have his then existing Option assumed or have a new option substituted for the existing Option by the surviving corporation to the transaction which is then employing him, or a parent or subsidiary of such corporation, on a basis where the excess of the aggregate fair market value of the shares subject to the Option immediately after the substitution or assumption over the aggregate Option Price of such option is equal to the excess of the aggregate fair market value of all shares subject to the option immediately before such substitution or assumption over the aggregate Option Price of such shares, provided that the shares subject to the new option must be traded on the New York or American Stock Exchange or quoted on the National Association of Securities Dealers Automated Quotation System, or (ii) to receive, upon any exercise of his Option, in lieu of the number of shares as to which the Option shall then be so exercised, the securities, property and other assets, including cash, to which the Optionee would have been entitled pursuant to the terms of the agreement of merger or consolidation or the agreement giving rise to the other corporate transaction if at the time of such merger, consolidation or other transaction such Optionee had been the holder of the number of shares of Stock equal to the number of shares as to which the Option shall then be so exercised.

If a corporate transaction described in section 424(a) of the Code which involves the Company is to take place and there is to be no surviving corporation while an Option remains in whole or in part unexercised, it shall be canceled by the Board as of the effective date of any such corporate transaction but before that date each Optionee shall be provided with a notice of such cancellation and shall have the right to exercise such Option in full (without regard to any vesting limitations set forth in, or imposed pursuant to, preceding provisions of this Plan or the Option Agreement) to the extent it is then still unexercised during a 30-day period preceding the effective date of such corporate transaction.

For purposes of this Section, Current Market Price per share of Stock shall mean the last reported price for the Stock in the New York Stock Exchange - -- Composite Transaction listing on the trading day immediately preceding the first trading day on which, as a result of the establishment of a record date or otherwise, the trading price reflects that an acquirer of Stock in the public market will not participate in or receive the payment of any applicable dividend or distribution; provided, however, that if there is no closing price for the stock as so reported on that date or if, in the discretion of the Committee, another means of determining the fair value of the shares of stock at such date shall be necessary or advisable, the Committee may provide for another means for determining the Current Market Price of the Stock.

Except as hereinbefore expressly provided, the issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, for cash or property, or for labor or services either upon direct sale or upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Stock then subject to outstanding Options.

ARTICLE VI

VARIABLE PROVISIONS RELATING TO SPECIFIC OPTIONS

VI.1 OPTION PRICE. The price at which Stock may be purchased under an Option shall not be less than the greater of: (a) 100 percent of the Fair Market Value of the shares of Stock on the date the Option is granted or (b) the aggregate par value of the shares of Stock on the date the Option is granted.

VI.2 DURATION OF OPTIONS. No Option shall be exercisable after ten years from the date the Option is granted. An Option may terminate prior to the normal expiration date as specified below.

(a) General Rule for Severance of Employment. Except as may be otherwise expressly provided herein, all Options shall terminate on the earlier of the date of the expiration of the Option or one day less than three months after the date of the severance of the employment relationship between the Company and all Affiliates and the Optionee, whether with or without cause, for any reason other than the death, Disability or, Retirement of the Optionee, during which period the Optionee shall be entitled to exercise the Option in respect of the number of shares that the Optionee would have been entitled to purchase had the Optionee exercised the Option on the date of such severance of employment. Whether authorized leave of absence, or absence on military or government service shall constitute severance of the employment relationship between the Company and all Affiliates and the Optionee, shall be determined by the Committee at the time thereof.

(b) Death, Disability or Retirement of Optionee. In the event of the death, Disability or Retirement of an Optionee, before the date of expiration of such Option, such Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, for period of not more than three years commencing on the date of the Optionee's death, Disability or Retirement and shall terminate on the earlier of the date of the expiration of such-year period or the date of expiration of the Option. After the death of the Optionee, his executors, administrators or any person or persons to whom his Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Option to exercise the Option, in respect to the number of shares that the Optionee would have been entitled to exercise if he were still alive.

Notwithstanding the foregoing provisions of this Section, the Committee may provide for a different option termination date in the Option Agreement with respect to any Option.

VI.3 AMOUNT EXERCISABLE. Each Option may be exercised from time to time, in whole or in part, in the manner and subject to the conditions the Committee, in its sole discretion, may provide in the Option Agreement, as long as the Option is valid and outstanding. The usual form of agreement granting an Option shall, subject to any limitation on exercise contained in the Agreement which is not inconsistent with this Plan, contain the following terms of exercise:

(a) No Option granted under this Plan may be exercised until an Optionee has completed one year of continuous employment with the Company or any Affiliate following the date of grant;

(b) Beginning on the day after the first anniversary of the date of grant, an Option may be exercised up to 1/3 of the shares subject to the Option;

(c) After the expiration of each succeeding anniversary date of the date of grant, the Option may be exercised up to an additional 1/3 of the shares subject to the Option, so that after the expiration of the third anniversary of the date of grant, the Option shall be exercisable in full; and

(d) To the extent not exercised, installments shall be cumulative and may be exercised in whole or in part until the Option expires on the tenth anniversary of the date of the grant.

The Committee, in its discretion, may accelerate the time in which any outstanding Option may be exercised. However, in no event shall any Option be exercisable after the tenth anniversary of the date of the grant.

VI.4 EXERCISE OF OPTIONS. Each Option shall be exercised by the delivery of written notice to the Committee setting forth the number of shares of Stock with respect to which the Option is to be exercised, together with: (a) cash, check, bank draft, or postal or express money order payable to the order of the Company for an amount equal to the option price of the shares, or (b) Stock at its Fair Market Value on the date of exercise, and/or any other form of payment which is acceptable to the Committee, and specifying the address to which the certificates for the shares are to be mailed. Subject to Article IX, as promptly as practicable after receipt of written notification and payment, the Company shall deliver to the Optionee certificates for the number of shares with respect to which the Option has been exercised, issued in the Optionee's name. If shares of Stock are used in payment of the exercise price, the aggregate Fair Market Value of the shares of Stock tendered must be equal to or less than the aggregate exercise price of the shares being purchased upon exercise of the Option, and any difference must be paid by cash, check, bank draft, or postal or express money order payable to the Company. Delivery of the shares shall be deemed effected for all purposes when a stock transfer agent of the Company shall have deposited the certificates in the United States mail, addressed to the Optionee, at the address specified by the Optionee.

Whenever an Option is exercised by exchanging shares of Stock owned by the Optionee, the Optionee shall deliver to the Company certificates registered in the name of the Optionee representing a number of shares of Stock legally and beneficially owned by the Optionee, free of all liens, claims, and encumbrances of every kind, accompanied by stock powers duly endorsed in blank by the record holder of the shares represented by the certificates, (with signature guaranteed by a commercial bank or trust company or by a brokerage firm having a membership on a registered national stock exchange). The delivery of certificates upon the exercise of Option is subject to the condition that the person exercising the Option provide the Company with the information the Company might reasonably request pertaining to exercise, sale or other disposition of an Option.

VI.5 SUBSTITUTION OPTIONS. Options may be granted under this Plan from time to time in substitution for stock options held by employees of other corporations who are about to become employees of or affiliated with the Company or any Affiliate as the result of a merger or consolidation of the employing corporation with the Company or any Affiliate, or the acquisition by the Company or any Affiliate of the assets of the employing corporation, or the acquisition by the Company or any Affiliate of stock of the employing corporation as the result of which it becomes an Affiliate of the Company. The terms and conditions of the substitute Options granted may vary from the terms and conditions set out in this Plan to the extent the Committee, at the time of grant, may deem appropriate to conform, in whole or in part, to the provisions of the stock options in substitution for which they are granted.

ARTICLE VII

GENERAL PROVISIONS RELATING TO ALL RESTRICTED STOCK AWARDS

VII.1 AUTHORITY TO GRANT AWARDS. The Committee may make an Award of Restricted Stock to selected eligible Employees. The amount of each Restricted Stock Award and the respective terms and conditions of each Award (which terms and conditions need not be the same in each case) shall be determined by the Committee in its sole discretion. However, the terms and conditions of an Award shall not be inconsistent with the terms of the Plan.

VII.2 TRANSFERABILITY AND RIGHTS WITH RESPECT TO RESTRICTED STOCK. Except as provided herein, Restricted Stock may not be sold, assigned, transferred, pledged, or otherwise encumbered during a Restricted Period. Any attempted sale, assignment, transfer, pledge or encumbrance of Restricted Stock in violation of this Plan shall be void and the Company shall not be bound thereby.

During the Restricted Period, certificates representing the Restricted Stock and any Retained Distributions shall be registered in the recipient's name and bear a restrictive legend to the effect that ownership of such Restricted Stock (and any such Retained Distributions), and the enjoyment of all rights appurtenant thereto are subject to the restrictions, terms, and conditions provided in this Plan and the applicable Agreement. Such certificates shall be deposited by the recipient with the Company, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions which shall be forfeited in accordance with this Plan and the applicable Agreement. Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes.

Subject to the terms of this Plan and the Agreement with respect to the Award, the recipient shall have the right to vote the Restricted Stock awarded to such recipient and to receive and retain all regular cash dividends, and to exercise all other rights, powers and privileges of a holder of Common Stock, with respect to such Restricted Stock, with the exception that (i) the recipient shall not be entitled to delivery of the stock certificate or certificates representing such Restricted Stock until the restrictions applicable thereto shall have expired, (ii) the Company shall retain custody of all Retained Distributions made or declared with respect to the Restricted Stock (and such Retained Distributions shall be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall have been made, paid, or declared shall have become vested, and such Retained Distributions shall not bear interest or be segregated in separate accounts and (iii) the recipient may not sell, assign, transfer, pledge, exchange, encumber, or dispose of the Restricted Stock or any Retained Distributions during the Restricted Period. Nothing in this Section shall prevent transfers by will or by the applicable laws of descent and distribution.

VII.3 WITHHOLDING TAX. The Company shall meet its tax withholding obligations under the Code and applicable state or local law arising upon the vesting of Restricted Stock by delivering to the Restricted Stock recipient (or his estate, if applicable) a reduced number of shares of Common Stock in the manner specified herein. At the time of vesting of shares of Restricted Stock, the

Company shall (i) calculate the amount of withholding tax due on the assumption that all such vested shares of Restricted Stock are made available for delivery, (ii) reduce the number of such shares made available for delivery so that the Fair Market Value of the shares withheld on the vesting date approximates the amount of tax the Company is obliged to withhold and (iii) in lieu of the withheld shares, remit cash to the United States Treasury and other applicable governmental authorities, on behalf of the participant, in the amount of the withholding tax due.

The Company shall withhold only whole shares of Common Stock to satisfy its withholding obligation. Where the Fair Market Value of the withheld shares does not equal Company's withholding tax obligation, the Company shall withhold shares with a Fair Market Value slightly in excess of the amount of its withholding obligation and shall remit the excess cash to the Restricted Stock Award recipient (or his estate, if applicable) with the shares of Common Stock made available for delivery.

The withheld shares of Restricted Stock not made available for delivery by the Company shall be retained as treasury stock or will be cancelled and, in either case, the recipient's right, title and interest in such Restricted Stock shall terminate.

VII.4 CHANGES IN COMPANY'S CAPITAL STRUCTURE. In the event that the outstanding shares of Common Stock of the Company are changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of reorganization, merger, consolidation, recapitalization, reclassification, stock split, stock dividend, or combination of shares, appropriate adjustments shall be made by the Committee in the aggregate number and kind of shares which may be issued or granted as Awards. If any adjustment shall result in a fractional share, the fraction shall be disregarded.

ARTICLE VIII

VARIABLE PROVISIONS RELATING TO SPECIFIC RESTRICTED STOCK AWARDS

VIII.1 VESTING OF RESTRICTED STOCK. Restricted Stock Awards shall be subject to such vesting restrictions, if any, as the Committee shall determine in its sole discretion.

VIII.2 CONSEQUENCE OF VESTING. Subject to Article IX, when shares of Restricted Stock become vested, the Restricted Period shall be terminated as to those shares, and the Company shall deliver to the Restricted Stock Award recipient (or his estate, if applicable) a Common Stock certificate representing those shares and all Retained Distributions made or declared with respect to those shares, reduced as necessary to satisfy the Company's tax withholding obligation.

ARTICLE IX

REQUIREMENTS OF LAW

The Company shall not be required to sell, issue or deliver any shares of Common Stock under any Award if such sale, issuance or delivery shall constitute a violation by the Award recipient or the Company of any provisions of any law or regulation of any governmental authority. Each Award granted under this Plan shall be subject to the requirements that, if at any time the Board or the Committee shall determine that the listing, registration or qualification of the shares upon any securities exchange or under any state or federal law of the United States or of any other country or governmental subdivision, or the consent or approval of any governmental regulatory body, or investment or other representations, are necessary or desirable in connection with the issue, or purchase or delivery of shares subject to an Award, that Award shall not be exercised in whole or in part and no shares shall be delivered pursuant to an Award unless the listing, registration, qualification, consent, approval or representations shall have been effected or obtained free of any conditions not acceptable to the Committee. Any determination in this connection by the Committee shall be final. In the event the shares issuable or deliverable on exercise or vesting of an Award are not registered under the Securities Act of 1933, the Company may imprint on the certificate for those shares the following legend or any other legend which counsel for the Company considers necessary or advisable to comply with the Securities Act of 1933:

> "The shares of stock represented by this certificate have not been registered under the Securities Act of 1933 or under the securities laws of any state and may not be sold or transferred except upon registration or upon receipt by the Corporation of an opinion of counsel satisfactory to the Corporation, in form and substance satisfactory to the Corporation, that registration is not required for a sale or transfer."

The Company may, but shall in no event be obligated to, register any securities covered by this Plan under the Securities Act of 1933 (as now in effect or as later amended) and, in the event any shares are registered, the Company may remove any legend on certificates representing those shares. The Company shall not be obligated to take any other affirmative action in order to cause the exercise of an Award or the issuance or delivery of shares under the Award to comply with any law or regulation or any governmental authority.

ARTICLE X

ADMINISTRATION

This Plan shall be administered by the Committee. All questions of interpretation and application of this Plan and Awards shall be subject to the determination of the Committee. A majority of the members of the Committee shall constitute a quorum. All determinations of the Committee shall be made by a majority of its members. Any decision or determination reduced to writing and signed by a majority of the members shall be as effective as if it had been made by a majority vote at a meeting properly called and held. In carrying out its authority under this Plan, the Committee shall have full and final authority and discretion, including but not limited to the following rights, powers and authorities, to:

(a) determine the persons to whom and the time or times at which Awards will be made,

(b) determine the number of shares of Stock covered in each Award, subject to the terms of the Plan,

(c) determine the purchase price of Stock covered in each Option, subject to the terms of the Plan,

(d) determine the terms, provisions and conditions of each Award, which need not be identical,

(e) accelerate the time at which any outstanding Option may be exercised,

(f) accelerate the time at which any outstanding Restricted Stock Award may vest,

(g) define the effect, if any, on an Award of the death, Disability, or Retirement of the Award recipient,

(h) prescribe, amend and rescind rules and regulations relating to administration of this Plan, and

(i) make all other determinations and take all other actions deemed necessary, appropriate, or advisable for the proper administration of this Plan.

The actions of the Committee in exercising all of the rights, powers, and authorities set out in this Article and all other Articles of this Plan, when performed in good faith and in its sole judgment, shall be final, conclusive and binding on all parties. The Committee's decision shall never be subject to de novo review.

ARTICLE XI

AMENDMENT OR TERMINATION OF PLAN

The Board of the Company may amend, terminate or suspend this Plan at any time, in its sole and absolute discretion.

ARTICLE XII

MISCELLANEOUS

XII.1 NO EMPLOYMENT OBLIGATION. The granting of any Award shall not constitute an employment contract, express or implied, nor impose upon the Company or any Affiliate any obligation to employ or continue to employ any Award recipient. The right of the Company or any Affiliate to terminate the employment of any person shall not be diminished or affected by reason of the fact that an Award has been granted to him.

XII.2 FORFEITURE FOR CAUSE. Notwithstanding any other provision of this Plan, if the Committee finds by a majority vote, that the Award recipient, before or after termination of his employment with the Company or any Affiliate (a) committed a fraud, embezzlement, theft, felony or an act of dishonesty in the course of his employment by the Company which conduct damaged the Company or (b) disclosed trade secrets of the Company, then any outstanding options which have not been exercised by the individual and any Awards which have not yet vested will be forfeited. The decision of the Committee as to the cause of an Award recipient's discharge, the damage done to the Company and the extent of the individual's competitive activity will be final. No decision of the Committee, however, will affect the finality of the discharge of the individual by the Company.

XII.3 WRITTEN AGREEMENT. Each Award granted under the Plan shall be embodied in a written Agreement which shall be subject to the terms and conditions of the Plan and shall be signed by the Award recipient and by a member of the Committee on behalf of the Committee and the Company. Each Option Agreement shall state that the Option embodied therein is not intended to satisfy the requirements of section 422 of the Code. The Agreement may contain any other provisions that the Committee in its discretion shall deem advisable which are not inconsistent with the terms of this Plan.

XII.4 INDEMNIFICATION OF THE COMMITTEE AND THE BOARD. With respect to administration of this Plan, the Company shall indemnify each present and future member of the Committee and the Board against, and each member of the Committee and the Board shall be entitled without further act on his part to indemnity from the Company for, all expenses (including attorney's fees, the amount of judgments and the amount of approved settlements made with a view to the curtailment of costs of litigation, other than amounts paid to the Company itself) reasonably incurred by him in connection with or arising out of any action, suit, or proceeding in which he may be involved by reason of his being or having been a member of the Committee and/or the Board, whether or not he continues to be a member of the Committee and/or the Board at the time of incurring the expenses--including, without limitation, matters as to which he shall be finally adjudged in any action, suit or proceeding to have been found to have been negligent in the performance of his duty as a member of the Committee or of the Board. However, this indemnity shall not include any expenses incurred by any member of the Committee and/or the Board in respect of matters as to which he shall be finally adjudged in any action, suit or proceeding to have been guilty of gross negligence or willful misconduct in the performance of his duty as a member of the Committee or the Board. In addition, no right of indemnification under this Plan shall be available to or enforceable by any member of the Committee or the Board unless, within 60 days after institution of any action, suit or proceeding, he shall have offered the Company, in writing, the opportunity to handle and defend same at its own expense. This right of indemnification shall inure to the benefit of the heirs, executors or administrators of each member of the Committee and the Board and shall be in addition to all other rights to which a member of the Committee and the Board may be entitled as a matter of law, contract, or otherwise.

XII.5 OTHER COMPENSATION PLANS. The adoption of this Plan shall not affect any other stock option, incentive or other compensation or benefit plans in effect for the Company or any Affiliate, nor shall this Plan preclude the Company from establishing any other forms of incentive or other compensation for employees of the Company or any Affiliate.

XII.6 OTHER AWARDS. The grant of an Award shall not confer upon an Award recipient the right to receive any future or other Awards under this Plan, whether or not Awards may be granted to similarly situated Award recipients, or the right to receive future Awards upon the same terms or conditions as previously granted.

XII.7 SECTION 83(b) ELECTIONS. No Employee shall exercise the election permitted under section 83(b) of the Code with respect to an Award without written approval of the Committee. If the Committee permits such an election with respect to any Award, the Company shall require the Award recipient to pay the Company an amount necessary to satisfy the Company's tax withholding obligation.

XII.8 ARBITRATION OF DISPUTES. Any controversy arising out of or relating to the Plan or an Agreement shall be resolved by arbitration conducted pursuant to the arbitration rules of the American Arbitration Association. The arbitration shall be final and binding on the parties.

XII.9 GENDER. If the context requires, words of one gender when used in this Plan shall include the others and words used in the singular or plural shall include the other.

XII.10 HEADINGS. Headings of Articles and Sections are included for convenience of reference only and do not constitute part of this Plan and shall not be used in construing the terms of this Plan.

XII.11 GOVERNING LAW. The provisions of this Plan shall be construed, administered, and governed under the laws of the State of Texas.

EXHIBIT 10.2

AMENDMENT TO
THE QUANEX CORPORATION
1997 KEY EMPLOYEE STOCK OPTION PLAN

THIS AGREEMENT by Quanex Corporation (the "Company"),

WITNESSETH:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation 1997 Key Employee Stock Option Plan" (the "Plan"); and

WHEREAS, the Board of Directors of the Company retained the right in Article XI of the Plan to amend the Plan from time to time; and

WHEREAS, the Board of Directors of the Company has approved the following amendment to the Plan;

NOW, THEREFORE, effective January 1, 2000, the Board of Directors of the Company agrees that Section 6.2 of the Plan is hereby amended, effective with respect to all Options issued in the future under this Plan, as follows:

6.2 DURATION OF OPTIONS. No Option shall be exercisable after ten years from the date the Option is granted. An Option may terminate prior to the normal expiration date as specified below.

(a) General Rule for Severance of Employment. Except as may be otherwise expressly provided herein, all Options shall terminate on the earlier of the date of the expiration of the Option or one day less than three months after the date of the severance of the employment relationship between the Company and all Affiliates and the Optionee, whether with or without cause, for any reason other than the death, Disability or, Retirement of the Optionee, during which period the Optionee shall be entitled to exercise the Option in respect of the number of shares that the Optionee would have been entitled to purchase had the Optionee exercised the Option on the date of such severance of employment. Whether authorized leave of absence, or absence on military or government service shall constitute severance of the employment relationship between the Company and all Affiliates and the Optionee, shall be determined by the Committee at the time thereof.

(b) Death, Disability or Retirement of Optionee. In the event of the death, Disability or Retirement of an Optionee, before the date of expiration of such Option, such Option shall continue fully in effect, including provisions providing for subsequent vesting of such Option, for period of not more than three years commencing on the date of the Optionee's death, Disability or Retirement and shall terminate on the earlier of the date of the expiration of such-year period or the date of expiration of the Option. After the death of the Optionee, his executors, administrators or any person or persons to whom his Option may be transferred by will or by the laws of descent and distribution, shall have the right, at any time prior to the termination of the Option to exercise the Option, in respect to the number of shares that the Optionee would have been entitled to exercise if he were still alive.

Notwithstanding the foregoing provisions of this Section, the Committee may provide for a different option termination date in the Option Agreement with respect to any Option.

Dated: December 9, 1999.

EXHIBIT 10.3

AMENDMENT TO
THE QUANEX CORPORATION
1997 KEY EMPLOYEE STOCK PLAN

THIS AGREEMENT by Quanex Corporation (the "Company"),

WITNESSETH:

WHEREAS, the Board of Directors of the Company previously adopted the plan agreement known as the "Quanex Corporation 1997 Key Employee Stock Plan" (the "Plan");

WHEREAS, the Board of Directors of the Company retained the right in Article XI of the Plan to amend the Plan from time to time; and

WHEREAS, the Board of Directors of the Company has approved the following amendment to the Plan;

NOW, THEREFORE, effective July 1, 2000, the Plan is hereby amended, effective with respect to both awards of restricted stock outstanding on the date of the adoption of this amendment and all restricted stock granted under the Plan in the future, as follows:

(1) Section 7.3 is hereby amended and restated in its entirety as follows:

> 7.3 WITHHOLDING OF TAXES. When shares of Restricted Stock become vested, the Restricted Stock Award recipient shall (i) pay the Company an amount of money necessary to satisfy the Company's tax withholding obligations under the Code and applicable state or local law arising from the vesting of such Restricted Stock or, (ii) elect to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations.
>
> At the time a Restricted Stock Award recipient's shares of Restricted Stock become vested, the Company shall calculate the amount of the Company's tax withholding obligations on the assumption that all such vested shares of Restricted Stock are made available for delivery. The Restricted Stock Award recipient may pay the Company the amount of the Company's tax withholding obligations by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars. Such payment, if any, shall be delivered to the Company within three days after the date of the lapse of restrictions. If the Restricted

Stock Award recipient does not timely pay the Company an amount necessary to satisfy the Company's withholding obligation, he shall be deemed to have elected to have the Company withhold shares of the Restricted stock to satisfy the Company's withholding obligation. In the event that a Restricted Stock Recipient is deemed to have made such an election, the Company shall (i) reduce the number of vested shares of Restricted Stock made available for delivery so that the Fair Market Value of the shares withheld on the vesting date approximates the amount of tax the Company is obliged to withhold and (ii) in lieu of the withheld shares, remit cash to the United States Treasury and other applicable governmental authorities, on behalf of the Restricted Stock Award recipient, in the amount of the withholding tax due.

If the Restricted Stock Award recipient is deemed to have elected to receive a reduced number of shares of Common Stock to satisfy the Company's tax withholding obligations, the Company shall withhold only the number of whole shares of Common Stock necessary to satisfy its minimum statutory withholding obligation, which shall be based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to the Restricted Stock Award recipient's taxable income arising from the vesting of his Restricted Stock. If the Fair Market Value of the withheld shares does not equal Company's minimum statutory withholding amount due, the Company shall withhold whole shares with a Fair Market Value slightly less than the minimum statutory withholding amount due. The Restricted Stock Award recipient shall pay to the Company the remaining balance of the minimum statutory withholding amount due by cashier's check drawn on a national banking association and payable to the order of the Company in United States dollars.

The withheld shares of Restricted Stock not made available for delivery by the Company shall be retained as treasury stock or will be canceled and, in either case, the recipient's right, title and interest in such Restricted Stock shall terminate.

All references to the Restricted Stock recipient in this Section 7.3 shall be deemed to be references to the estate of the Restricted Stock recipient, if applicable.

(2) Section 8.2 is hereby amended and restated in its entirety as follows:

8.2 CONSEQUENCE OF VESTING. Subject to Article IX, when shares of Restricted Stock become vested, the Restricted Period shall be terminated as to those shares, and, upon satisfaction of the Company's required tax withholding obligation in the manner specified in Section 7.3, the Company shall deliver to the Restricted Stock Award recipient (or his estate, if applicable) a Common Stock certificate representing those shares and all Retained Distributions made or declared with respect to those shares.