

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
For the fiscal year ended October 31, 1995

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]
For the transition period from _____ to _____

Commission file number 1-5725

QUANEX CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
State or other jurisdiction of incorporation or organization

38-1872178
(I.R.S. Employer Identification No.)

1900 WEST LOOP SOUTH, SUITE 1500
HOUSTON, TEXAS
(Address of principal executive offices)

77027
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
COMMON STOCK, \$.50 PAR VALUE	NEW YORK STOCK EXCHANGE, INC.
RIGHTS TO PURCHASE SERIES A JUNIOR PARTICIPATING PREFERRED STOCK	NEW YORK STOCK EXCHANGE, INC.
6.88% CONVERTIBLE SUBORDINATED DEBENTURES	NEW YORK STOCK EXCHANGE, INC.

Securities registered pursuant to Section 12(g) of the Act:

NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the registrant's voting stock held by non-affiliates as of November 30, 1995, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was \$248,242,336. Such calculation assumes only the registrant's officers and directors were affiliates of the registrant.

At December 31, 1995, there were outstanding 13,517,582 shares of the registrant's Common Stock, \$.50 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Documents -----	Reference to this Report -----
Annual Report to Stockholders	Parts I, II and IV
Proxy Statement for Annual Meeting of Stockholders to be held February 22, 1996	Part III

ITEM 1. BUSINESS

GENERAL

The Company was organized in 1927 as a Michigan corporation under the name of Michigan Seamless Tube Company. The Company reincorporated in Delaware in 1968 under the same name and changed its name to Quanex Corporation in 1977. The Company's executive offices are located at 1900 West Loop South, Suite 1500, Houston, Texas 77027. References made to the "Company" or "Quanex" include Quanex Corporation and its subsidiaries unless the context otherwise requires.

Quanex Corporation is a technological leader in the manufacture of specialized metals, including carbon and alloy steel and aluminum. The Company's products include engineered hot rolled carbon and alloy steel bars, cold finished steel bars, seamless and welded steel tubing and aluminum products. Quanex produces high quality specialized metal products for selected markets to achieve attractive profit margins. Through state-of-the-art process technology, low cost production and engineering to specific customer applications, the Company believes it achieves competitive advantages. To reduce the impact of cyclical economic downturns, the Company's strategy is to participate in diversified markets, including the industrial machinery and capital equipment industries, the transportation industry (including auto and truck), energy processing and the home building and remodeling industries.

Since the mid-1980s Quanex has refocused its strategy from being a manufacturer principally of steel products with a heavy dependence on energy markets to a diversified specialized metals company serving a broad range of markets. The Company's future growth strategy focuses on continued penetration of higher margin markets for the Company's steel products and the continued expansion of its aluminum products manufacturing operations. Quanex also has implemented programs to increase capacity utilization by selectively producing certain commodity grade products at some of its facilities.

The Company has invested significantly in technologically advanced continuous manufacturing processes to meet demanding quality specifications and to achieve cost efficiencies. In its MacSteel operations, rotary centrifugal continuous casters are used in an in-line manufacturing process to produce bearing grade and aircraft quality, seam-free, specialty engineered carbon and alloy steel bars that enable Quanex to participate in higher margin markets. In August 1991, the Company completed Phase I of a capital expenditure program for its MacSteel operations, at a capital cost of approximately \$20 million, that enhanced the steel refining processes and increased productive capacity by approximately 10% to 500,000 tons per year. In March 1995, the Company completed Phase II, at a capital cost of approximately \$61 million. Phase II enhanced dimensional precision rolling and finishing capability and increased productive capacity by approximately 10% to 550,000 tons per year. Phase III of the program aims at increasing caster productivity and is expected to increase productive capacity by approximately 12% to 620,000 tons per year when completed in fiscal 1998. The Company estimates total expenditures of approximately \$60 million for the Phase III project.

In 1989 Quanex entered the aluminum products business through the acquisition of Nichols-Homeshield, Inc. to diversify its earnings base and continue its strategic transition into specialized metals. In early 1990 the Company commenced a two-year aluminum mini-mill construction project to increase significantly its participation in the aluminum markets. The plant began commercial production in July 1992 producing coiled aluminum sheet from scrap using a state-of-the-art Hazelett thin-slab continuous caster with annual finishing capacity of approximately 300 million pounds.

The Company's business is managed on a decentralized basis. Each operating group has administrative, operating and marketing functions. Financial accounting and controls measure each plant's return on investment; and superior performance is rewarded with incentive compensation, which is a significant portion of total employee compensation. Intercompany sales are conducted on an arms-length basis. Operational activities and policies are managed by corporate officers and a small staff who provide corporate accounting, financial and cash management, tax and human resource services to operating divisions.

MARKETS AND PRODUCT SALES BY BUSINESS SEGMENT

The Company's operations are primarily grouped into four business segments, consisting of (i) hot rolled steel bars, (ii) cold finished steel bars, (iii) steel tubes and (iv) aluminum products. General corporate expenses are classified as other operations.

Information with respect to major markets for the Company's products, expressed as a percentage of consolidated net sales, is shown under the heading "Sales by Major Markets" on page 8 of the 1995 Annual Report to Stockholders and is incorporated herein by reference. Although Quanex has attempted to estimate its sales by product and market categories, many products have multiple end uses for several industries and sales are not recorded on the basis of product or market categories. A significant portion of sales is made to distributors who sell to different industries. Net sales by principal market are based upon the total dollar volume of customer invoices. For the year ended October 31, 1995, no single customer accounted for more than 10% of the Company's sales.

A description of each industry segment is shown below:

Hot Rolled Steel Bars

The Company's hot rolled steel bar operations are conducted through its MacSteel division, consisting of two plants located in Ft. Smith, Arkansas and Jackson, Michigan. These plants manufacture hot finished precision engineered carbon and alloy steel bars. Management believes that MacSteel has the only two plants in North America using continuous rotary centrifugal casting technology. This casting process produces inherently seam-free bars, without surface defects and inclusions, thereby reducing the need for subsequent surface conditioning. The continuous casting and automated in-line manufacturing operations at the MacSteel plants substantially reduce labor and energy costs by eliminating the intermittent steps that characterize manufacturing operations at most integrated steel mills. Typically, the Company sells only complete heat lots, or batches, which are made to specific customer requirements. Heat lots average 45 tons at Jackson and 50 tons at Ft. Smith. MacSteel's high quality steel bars currently sell for an average of approximately \$566 per ton, and its specialty products can sell at a considerable premium to that price.

MacSteel has focused its capital expenditure programs on production of high quality specialty steel bars. In August 1991, MacSteel completed the first phase of a capital improvement program, called MacSteel Ultra Clean Steel Program, at a cost of approximately \$20 million ("Phase I"). This program improved MacSteel's metallurgical, melting and casting operations and provided ultrasonic testing facilities at both plants. These improvements enable the Company to produce bearing grade and aircraft quality steel bars, permitting the Company to participate in higher margin segments of the market. Phase I increased productive capacity of the MacSteel operations by approximately 40,000 tons to 500,000 tons per year. Phase II of the Ultra Clean Steel Program upgraded and modernized rolling and finishing capacity and increased caster productivity. This improvement will permit increased participation in the value-added cold forming and bearing markets and will expand product size ranges. The Phase II program increased annual capacity by approximately 50,000 tons to 550,000 tons per year. Total cost of Phase II was approximately \$62 million. The Phase III program is expected to increase capacity by approximately 12% to 620,000 tons by improving caster and melting utilization. Total cost of Phase III is expected to be approximately \$60 million with a completion date in fiscal 1998.

MacSteel products are manufactured for customers in the automotive, light truck, heavy truck, anti-friction bearing, off-road and farm equipment, defense, capital equipment and seamless tubular industries. These industries use steel bar in critical applications requiring high performance steels such as camshafts, crankshafts, transmission gears, bearing cages and rollers, steering components, hydraulic mechanisms, seamless tube production and track components of military vehicles. Part of MacSteel's production may be sold to LaSalle Steel for conversion into cold finished bars. The Company's steel tube business also purchases MacSteel bars for piercing and extrusion into specialty tubular products.

Cold Finished Steel Bars

The Company's LaSalle Steel subsidiary produces cold finished bars in its Hammond, Indiana facility. LaSalle Steel is a technological leader in the production of cold finished and special purpose steel bar products, having obtained numerous foreign and domestic patents throughout its history. Like MacSteel, LaSalle Steel features products and manufacturing processes that emphasize quality and cost effectiveness. LaSalle Steel uses high quality hot finished steel bars that satisfy exacting quality and metallurgical specifications. The bars are cold drawn and, through a combination of turning, grinding and polishing operations, are manufactured into bars with precision surfaces and guaranteed size and straightness tolerances. These processes, together with heat treating, enhance the tensile and fatigue strength, machinability, wear and corrosion resistance, weldability and platability of the cold finished bar product.

LaSalle Steel's products are sold directly to customers in the machinery, industrial equipment, tooling and automotive markets and are used to produce items such as clutch shafts, gear box shafts, ball joints, sprockets and drive mechanisms. Over one-half of LaSalle Steel's sales are to service centers that supply the same industries. LaSalle Steel has implemented programs to increase capacity utilization by selectively producing certain commodity grade products.

LaSalle Steel's Fluid Power plant in Griffith, Indiana is a major producer of chrome plated steel bars. The plant uses advanced techniques of surface removal, induction hardening and chrome plating to produce chrome plated bars and induction hardened chrome plated bars. These products, which represent the highest value-added products manufactured by LaSalle Steel, are used in hydraulic and pneumatic cylinders by customers in the construction, material handling, farm equipment and industrial machinery industries.

Steel Tubes

The Company's steel tube business consists of its Michigan Seamless Tube ("MST") plant in South Lyon, Michigan, which produces cold drawn seamless steel tube and drawn-over-mandrel welded steel tube; its Gulf States Tube ("GST") plant in Rosenberg, Texas, which produces hot finished and cold drawn seamless steel tube and welded tubular products; its Heat Treating plant in Huntington, Indiana provides tube and bar heat treating services; its NitroSteel Plant in Kenosha, Wisconsin provides wear and corrosion resistant finishing to steel bars and tubes. A significant portion of production at all plants is manufactured to specific customer orders. The Company can deliver small quantities of finished products at competitive prices in considerably less time than many other mills as a result of its production efficiencies.

MST produces over 60 grades of carbon and alloy tubing. Major product lines include customized seamless carbon and alloy mechanical tubing, carbon and alloy boiler and condenser tubing and carbon and alloy pipe. These products are sold by MST to customers in the commercial and utility boiler market, industrial equipment market and capital goods market.

GST produces seamless and welded tubular products in 35 grades to over 100 specifications. The hot finished seamless carbon and alloy pipe and cold drawn tubing produced at GST are used in petroleum refining, petrochemical, aircraft, public utility, oil country and mechanical applications. Electric resistance welded tubing is also manufactured primarily for heat exchangers and condenser applications.

The Heat Treating plant provides tube and bar heat treating services, such as quench and temper, stress relieving, normalizing and "cut-to-length". Metallurgical testing services are also available. This plant serves customers in the energy, automotive, ordnance, mining and fluid power markets.

The NitroSteel division was acquired in January 1995. The plant provides wear and corrosion resistant finishing to steel bars. The products are sold into fluid power markets.

Aluminum Products

Nichols-Homeshield ("N-H") manufactures aluminum sheet and fabricates aluminum products for the transportation, home improvement, new construction and light commercial construction markets. The principal products produced by N-H include mill finished sheet, aluminum window screens, patio door screens, window frames, window and screen components, rain carrying systems and exterior trim. Aluminum reroll coil is produced by the Company's mini-mill ("N-H Casting"), which began commercial operations in July 1992. The aluminum reroll coil is cold rolled, finished and marketed from the Davenport, Iowa and Lincolnshire, Illinois facilities (collectively, "Nichols-Aluminum"). The Company's aluminum products are fabricated at the AMSCO plant ("AMSCO") in Rice Lake, Wisconsin, and at its Homeshield Fabricated Products plant ("HFP") in Chatsworth, Illinois. N-H's primary businesses are described below.

N-H Casting completed construction of a \$60 million aluminum mini-mill in Davenport, Iowa in late fiscal 1992. The capital costs included site acquisition, scrap processing and melting equipment, a 52-inch wide Hazelett thin-slab continuous caster and a three-stand hot rolling mill. The mini-mill provides a finished capacity of as much as 300 million pounds annually of hot rolled coiled aluminum sheet for building products, transportation and service center markets, the Company's fabricated products businesses and other markets. The three-stand hot rolling mill is able to reduce aluminum slab from a thickness of approximately 0.75 inches to coiled aluminum sheet with a thickness of 0.045 inches. This hot rolling mill process substantially reduces subsequent cold rolling requirements. Similar to the more developed steel mini-mill sector, the advent of aluminum mini-mills offers advantages over large integrated producers, including labor and energy cost savings and reduced capital costs.

Nichols Aluminum finishes the coiled aluminum sheet produced at N-H Casting and markets aluminum mill products. This division includes the Nichols Aluminum Davenport (NAD) plant and the Nichols Aluminum Lincolnshire (NAL) plant acquired in 1991. Operations include cold rolling to specific gauge, slitting to width, annealing, leveling and custom coating. The Company currently has cold rolling capacity of 300 million pounds annually.

The HFP plant manufactures a broad line of custom designed, roll formed and stamped shapes and residential building and home improvement products. HFP designs and manufactures custom engineered aluminum and stainless steel products at its two plants in Chatsworth, Illinois, such as window screens, window and screen components, wood window cladding and other custom products for manufacturers of windows and doors. HFP also coats aluminum coil in many colors, sizes and finishes for sale and for HFP's fabrication into rain carrying systems, soffit, exterior housing trim and painted coiled sheet and roofing products. These products are sold primarily through distributors and private label producers for the new housing, remodeling and do-it-yourself markets. Most of the non-custom products are marketed under the "Homeshield" brand name.

The AMSCO plant manufactures aluminum window and patio door screens, window frames, combination windows and related accessories. All production from this facility is sold to Andersen Corporation, a major

manufacturer of premium wood windows, for the home improvement, new construction and commercial construction markets. AMSCO combines a strong product design and development emphasis with reliable, just-in-time delivery to service Andersen Corporation. This exclusive business relationship has been in effect for 50 years.

MANUFACTURING

The Company operates fourteen manufacturing facilities in seven states. These facilities feature efficient plant design and flexibility in manufacturing processes, enabling the Company to produce a wide variety of products for various industries and applications. Because the Company typically manufactures products to customer specifications upon order, it is able to maintain minimal levels of finished goods inventories at most locations.

Hot Rolled Steel Bars. The Company's MacSteel facilities produce specialty engineered steel bars by melting high quality steel scrap and casting it in a rotary continuous caster. MacSteel's molten steel is secondarily refined by argon stirring, ladle injection and vacuum arc degassing prior to casting. This enables MacSteel to produce higher quality, "cleaner" steels. Precision engineered steel bars are produced in a continuous in-line process in which scrap steel is converted into hot rolled steel bars without interruption. To the Company's knowledge, MacSteel has the only two plants in North America producing inherently seam-free steel bars using the rotary continuous casting process.

As a result of its state-of-the-art continuous manufacturing technology, which reduces labor, energy and process yield loss, the Company believes that MacSteel is one of the lowest cost producers of precision engineered carbon and alloy steel bars. The Company believes that energy costs at MacSteel are significantly lower than those of its competitors because its bars are moved directly from the caster through the rolling mill before cooling, eliminating the need for costly reheating. MacSteel's unit labor costs are similarly very low, with its highly automated manufacturing process enabling it to produce finished high quality steel bars using approximately 2 man-hours of labor per ton compared to an estimated average of 5 man-hours per ton for U.S. integrated steel producers.

Cold Finished Steel Bars. At the LaSalle Steel facility in Hammond, Indiana, hot finished steel bars meeting quality and metallurgical specifications are used as raw materials in the manufacturing process. These bars are cold drawn to closer size tolerances and to achieve desired metallurgical properties. A portion of LaSalle's product is further processed through a combination of turning, grinding and polishing operations, manufactured into bars having precision surfaces with guaranteed size and straightness tolerances. Heat treating further enhances the tensile and fatigue strength, machinability, wear and corrosion resistance, weldability and platability of LaSalle Steel's cold finished bar products. The Company's Griffith, Indiana facility uses advanced techniques of surface removal, induction hardening and chrome plating to produce chrome plated bars and induction hardened chrome plated bars.

Steel Tubes. The Company produces seamless tubing at its MST and GST facilities. The manufacturing begins with solid steel bars that are heated and then pierced on a rotary piercing mill at MST or extruded at GST. The resulting hot tube shells are further reduced on draw benches. The product may be shipped as hot finished pipe at GST or, after cooling and inspection, be again reduced in size by cold drawing at both plants. After cold drawing, tubing is annealed to develop specific metallurgical characteristics and mechanical properties to customer order. Following straightening, the product is cut to length and inspected where various mechanical and non-destructive tests are performed to insure product integrity. Cold drawn tubing offers a greater degree of dimensional consistency and better machinability than does hot finished tubing. GST also produces small diameter welded tubular products.

Aluminum Products. Manufacturing at the Company's various N-H facilities ranges from the production of coiled aluminum sheet to the production and fabrication of finished building products such as window and patio door screens and window frames.

Since commercial production began in July 1992, all of the Company's aluminum casting operations have been conducted at N-H Casting's mini-mill in Davenport, Iowa. The single in-line manufacturing process at the facility has 300 million pounds of annual melting and hot rolled aluminum sheet capacity. This mini-mill expanded the Company's annual capacity by 250 million pounds of aluminum. The mini-mill converts scrap to aluminum sheet through melting and continuous casting and in-line hot rolling. N-H Casting also has the ability to shred aluminum scrap to broaden the diversity and source of its raw material. Additionally, fuel efficient delacquering equipment improves the quality of the raw material before it is charged to the melting furnaces where it is blended through computer analysis to achieve the desired alloy composition. After melting and degassing, the molten metal flows into a Hazelett thin-slab caster, which casts up to a 52-inch wide aluminum slab. The slab then is fed directly to a hot mill with three in-line rolling stands to reduce the slab from a thickness of approximately 0.75 inches to coiled aluminum sheet with a thickness of down to 0.045 inches. The combination of capacity increases and technological enhancements directed at producing quality coiled aluminum sheet for the building products, service center, appliance and truck trailer markets enables N-H Casting to achieve cost savings from higher scrap utilization, use of lower cost scrap, reduced energy costs, reduced cold rolling requirements and reduced direct and indirect labor costs.

Further processing of the coiled aluminum sheet from the mini-mill occurs at Nichols Aluminum. At Nichols Aluminum's Davenport, Iowa, and Lincolnshire, Illinois, plants, the specific product requirements of customers can be met through cold rolling to various gauges, slitting to specific widths, annealing for additional product formability and physical properties and tension levelling. Products at Davenport can also be custom coated, an important feature for the building products applications of certain customers.

Manufacturing of products and components takes place at the group's HFP facilities (including residential building products such as rain carrying systems and engineered products such as window and screen components) and at AMSCO (including aluminum window frames and patio door screens). These facilities fabricate aluminum sheet into various components, some of which are then assembled into final products. A significant aspect of the manufacturing process at HFP and AMSCO is the use of MRP II, a closed loop management information system in which all stages of manufacturing, including receiving, billing, accounting, ordering and production, are linked. This process enables HFP and AMSCO to operate efficiently and effect a just-in-time delivery system, with minimal levels of raw materials inventory and maximum usage of available manufacturing capacity.

RAW MATERIALS AND SUPPLIES

The Company's precision engineered steel bar plants purchase steel scrap and hot briquetted iron, their principal raw materials, on the open market. Barge transportation of these raw materials to Company plants can be adversely affected by cold weather, creating seasonal price increases. Prices for quality scrap also vary in relation to the general business cycle, typically declining in periods of slow economic growth. LaSalle Steel's primary raw material is hot finished steel bars that it purchases both from the Company's hot rolled steel bars plants and on the open market. The Company's tube manufacturing facilities also purchase hot rolled steel bars from MacSteel and on the open market. MST also purchases tube hollows and GST purchases flat-rolled steel as raw material on the open market.

Historically, the Company's aluminum products business purchased aluminum scrap, ingot, reroll stock and finished sheet from aluminum dealers, brokers and producers. With the completion of the N-H Casting mini-mill, the principal raw material of this business is aluminum scrap. The mini-mill includes a scrap processing and delacquering facility which enables the Company to use the broadest and most economical mix of aluminum scrap for its requirements. The Company also purchases aluminum ingot futures contracts on the London Metals Exchange in amounts equal to N-H's requirements for fixed price sales commitments for aluminum products, thereby protecting against increases in the price of the aluminum used to manufacture the related products.

BACKLOG

At October 31, 1995, Quanex's backlog of orders to be shipped in the next twelve months was \$164.0 million. This compares to \$182.7 million at October 31, 1994. Because many of the markets in which Quanex operates have short lead times, backlog figures are not reliable indicators of annual sales volume or operating results.

COMPETITION

All of the Company's products are sold under highly competitive conditions. The Company competes with a number of companies, some of which have financial and other resources greater than those of the Company. Competitive factors include product quality, price, delivery and ability to manufacture products to customer specifications. The amounts of aluminum, hot rolled steel bars, cold finished bar products and tubing produced by the Company represent a small percentage of annual domestic production.

The hot rolled precision engineered steel bar plants compete with two large integrated steel producers, two large nonintegrated steel producers and two smaller steel companies. Although many of these producers are larger and have greater resources than the Company, the Company believes that the technology used at the MacSteel facilities permits it to compete effectively in the markets it serves.

LaSalle Steel has ten major competitors including both integrated and independent steel producers. Although a portion of LaSalle Steel's sales are in specialized products made by patented processes, many of their competitors have similar products using their own patents and processes.

The Company's steel tube manufacturing businesses compete with numerous domestic and foreign steel producers. As a specialized producer, the steel tube segment manufactures seamless steel tubing only in the smaller size ranges. Currently there are five other manufacturers of seamless tubing in the same size ranges as those produced by Quanex. Each of these manufacturers is either wholly or partially integrated in that they produce all or part of the steel used by them for their production of tubing. The Company's welded tube business is also highly competitive, with more than 100 companies producing welded steel tubing. For reasons of geography and product quality, however, the number of welded tube manufacturers with which Quanex is in direct competition is significantly less. Imports are a significant factor in this market. On June 23, 1994, Quanex announced that its Gulf States Tube Division had filed petitions alleging that imports of carbon and alloy seamless pipe up to 4.5 inches in diameter from four countries were being dumped or subsidized. On August 3,

1994, the International Trade Commission (ITC) made an affirmative preliminary determination that imports of small diameter pipe from these countries were causing injury to the U.S. industry. On July 20, 1995, the ITC made a unanimous, affirmative final determination that those same imports did cause injury to the U.S. industry. As a result of the ITC findings, the Department of Commerce imposed dumping margins on these four countries ranging from 3.31% to 124.96%.

The Company's aluminum products business competes with many small and large manufacturers and fabricators of aluminum products. Some of these competitors are divisions or subsidiaries of major corporations with substantially greater resources. The Company also competes with major aluminum producers in coil-coated and mill products, primarily on the basis of the breadth of product lines, the quality and design of its products, the responsiveness of its services and its prices. With the increased production of coiled aluminum sheet for aluminum mill products markets, the Company will increasingly compete with major integrated aluminum manufacturers.

SALES AND DISTRIBUTION

The Company has a nationwide system of sales offices. MacSteel sells hot finished steel bars primarily to original equipment manufacturers ("OEM's") through its sales organization and manufacturers' representatives. LaSalle Steel sells its cold finished bars to independent distributors, steel service centers and directly to OEM's. The steel tube segment's products are sold by its sales organization to steel service centers and directly to OEM's.

The sales and distribution of products in the Company's aluminum products business are organized by major product group. Residential products are sold primarily through distributors; engineered products are sold primarily to OEM's; and mill products are sold directly to OEM's and through metal service centers.

SEASONAL NATURE OF BUSINESS

The Company's aluminum products business is seasonal as its primary markets are in the Northeast and Midwest regions of the United States where winter weather reduces home building and home improvement activity. Historically, this business's lowest sales have occurred during the Company's first fiscal quarter. Because a high percentage of this business's manufacturing overhead and operating expenses is due to labor and costs that are generally fixed throughout the year, profits for the operations in this business tend to be lower in quarters with lower sales.

The other businesses in which the Company competes are not seasonal. However, due to the holidays in the Company's first fiscal quarter and steel plant shutdowns for vacations and maintenance in the Company's third fiscal quarter, sales have historically been lower in those quarters. Due to the combined effects of seasonality, the Company generally expects that, absent unusual activity or changes in economic conditions, its lowest sales will occur in the first fiscal quarter.

TRADEMARKS, TRADE NAMES AND PATENTS

The Company's Nichols-Homeshield and MacSteel logos and designs are registered trademarks. The trade name "Homeshield" and its unregistered name "Nichols-Homeshield" are used in connection with the sale of the Company's aluminum products. The Homeshield and MacSteel logos and designs and their trade names are considered valuable in the conduct of the Company's business.

In general, the businesses conducted in the Company's businesses do not depend upon patent protection. Although the Company holds numerous patents, in many cases the proprietary technology that the Company has developed is more important than the patents themselves.

RESEARCH AND DEVELOPMENT

Expenditures for research and development of new products or services during the last three years were not significant. Although not technically defined as research and development, a significant amount of time, effort and expense is devoted to manufacturing processes and to customizing and qualifying the Company's products for specific customer applications.

ENVIRONMENTAL MATTERS

As a manufacturer of specialty metal products, Quanex is subject to extensive and expansive regulations concerning the discharge of materials into the environment, and the remediation of chemical contamination at its plant sites or offsite disposal locations. Quanex is required to make capital and other expenditures on an ongoing basis in order to comply with such regulations. The cost of environmental matters has not had a material adverse effect on Quanex's operations or financial condition in the past, and management is not currently aware of any existing conditions that it currently believes are likely to have a material adverse effect on Quanex's operations or financial condition.

Under applicable state and federal laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), also known as "Superfund," the Company may be

responsible for all or part of the costs required to remove or remediate previously disposed of wastes or hazardous substances at the locations Quanex owns or operates or at which it arranged for disposal of such materials. The Company's most significant involvement at Superfund sites is described below.

During fiscal 1987, Quanex's LaSalle Steel Company subsidiary paid approximately \$200,000, of which approximately \$130,000 has subsequently been contributed to Quanex by other potentially responsible parties, in connection with a removal action at the Conservation Chemical Co. of Illinois site in the State of Indiana in accordance with an order of the Environmental Protection Agency (the "EPA") pursuant to Section 106 of CERCLA. This matter relates to hazardous substances sold to owners of the waste site by a company whose assets were purchased by Quanex and transferred to LaSalle Steel. LaSalle was named in this matter by the EPA as a potentially responsible party. LaSalle and other parties named by the EPA as potentially responsible parties took various actions to comply with the EPA's order. The Company believes that the response actions contemplated by the EPA removal order have been substantially completed. In 1989, LaSalle withdrew from the group of potentially responsible parties because its only connection to the site was the purchase of assets, without contractually assuming liabilities, from a company that allegedly sent waste to the site. Since that time, the Company has had no involvement with the site. The need for, or extent of, any further cleanup therefore is unknown by Quanex. Even if the Company is unsuccessful in asserting its defenses, LaSalle was one of numerous parties contributing cleanup funds and it has no reason to believe that those other parties generally would not be able to pay costs apportioned to them. For all of these reasons, Quanex does not believe that its liability, if any, with respect to this facility, will have a material adverse effect on its business or financial position.

The EPA has placed on the Superfund National Priorities List the Lenz Oil site in the State of Illinois to which a company, whose assets were purchased by Quanex and transferred to LaSalle Steel, had previously sent used petroleum products. The State of Illinois previously had sent a letter to LaSalle Steel stating that those materials had been disposed of improperly at that site. LaSalle Steel, in conjunction with a group of parties who received similar letters, entered into a consent decree pursuant to which action was taken to address the matters referred to in the letter from the State of Illinois. LaSalle paid approximately \$8 thousand out of a \$2.5 million group settlement. LaSalle Steel is currently participating in a group that is assessing site conditions and further remediation options. Further liability could be asserted against Quanex as a result of the EPA's actions. The company that sold its assets to LaSalle Steel is one of many companies that had sent materials to this facility. It is Quanex's understanding that such company contributed approximately 0.2% of the total volume of materials handled at this facility. The Company has no reason to believe that the other companies involved will not be financially able to contribute to any possible future clean-up efforts at this site, or that the basis for allocation of liability will substantially change. As a result of the foregoing, Quanex does not believe that its liability, if any, with respect to this facility, will have a material adverse effect on its business or financial position.

The EPA also has placed on the National Priorities List the Douglassville, or Berks Associates, Disposal Site in the Commonwealth of Pennsylvania to which LaSalle Steel may have sent used petroleum products. The EPA currently is administering a multistage cleanup at the site. Liability has been asserted against the Company by a group of potentially responsible parties for contribution toward cleanup costs incurred at the facility. It is Quanex's understanding that many companies sent wastes to this site and that LaSalle is alleged to have contributed less than 0.005%, on a volumetric basis, of the total materials. The group of defendants and third-party defendants include a number of large companies and several agencies of the federal government that the Company has no reason to believe will not be financially able to contribute their expected share. These parties have expressed a willingness to participate in settlement efforts. Pursuant to settlement negotiations, LaSalle Steel currently is classified as a de minimis contributor. Based on the foregoing, Quanex does not believe that its liability, if any, with respect to this site, will have a material adverse effect on its business or financial position.

Amendments to the federal Clean Air Act were adopted in 1990, and the EPA currently is developing regulations to implement the requirements of those amendments. Depending on the nature of the regulations adopted, and upon requirements that may be imposed by state and local regulatory authorities, Quanex may be required to incur capital expenditures sometime in the next several years for air pollution control equipment to maintain or obtain operating permits and approvals and address other air emission-related issues. The Company's Board of Directors has approved capital expenditures totaling approximately \$20 million to be spent in 1996, 1997 and 1998 to meet these requirements. Based upon its analysis to date, Quanex does not believe that its compliance with these requirements will have a material effect on its operations or finances.

Quanex incurred approximately \$3,300,000 and \$4,000,000 during fiscal 1995 and 1994, respectively, in expenses and capital expenditures in order to comply with existing or proposed environmental regulations. It is anticipated that Quanex will spend approximately \$3,500,000 at various of its facilities during fiscal 1996, and, although not currently quantifiable or expected to be material to the Company as a whole, will continue to have expenditures in connection with environmental matters beyond 1996. Future expenditures relating to environmental matters will necessarily depend upon existing future regulations and their application to Quanex and its facilities.

EMPLOYEES

At October 31, 1995, the Company employed 2,716 persons. Of the total employed, 48% were covered by collective bargaining agreements. During 1996, two labor contracts will expire affecting two Quanex facilities. The United Steelworkers of America contract at Michigan Seamless Tube covering 228 employees will expire on September 15, 1996 and the United Steelworkers of America contract with LaSalle Steel -- Fluid Power division covering 22 employees will expire on January 31, 1996.

ITEM 2. PROPERTIES

The following table lists Quanex's principal plants at October 31, 1995, together with their locations, general character and the industry segment which uses the facility. Each of the facilities identified as being owned by the Company is free of any material encumbrance.

Owned -----	STEEL BARS -----	Square Footage -----
Fort Smith, Arkansas	MacSteel	415,723
Jackson, Michigan	MacSteel	245,150
Owned -----	COLD FINISHED STEEL BARS -----	
Griffith, Indiana	Fluid Power	37,000
Hammond, Indiana	LaSalle Steel	493,000
Owned -----	STEEL TUBES -----	
Rosenberg, Texas	Gulf States Tube	128,000
South Lyon, Michigan	Michigan Seamless Tube	323,000
Huntington, Indiana	Heat Treating	82,000
Leased (expires 2009) -----		
Kenosha, Wisconsin	NitroSteel	35,000
Owned -----	ALUMINUM PRODUCTS -----	
Rice Lake, Wisconsin	AMSCO	290,800
Chatsworth, Illinois	Homesield Fabricated Products	212,000
Lincolnshire, Illinois	Nichols Aluminum	142,000
Davenport, Iowa	Nichols Aluminum	236,000
Davenport, Iowa	Nichols-Aluminum Casting	245,000
Leased (expires 1999) -----	EXECUTIVE OFFICES -----	
Houston, Texas	Quanex Corporation	21,000

ITEM 3. LEGAL PROCEEDINGS

Other than the proceedings under Item 1, "Environmental Matters", incorporated here by reference, there are no material legal proceedings to which Quanex, its subsidiaries, or its property is subject.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.

FORM 10K INFORMATION PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Quanex's common stock, \$.50 par value, is traded on the New York Stock Exchange, ticker symbol: NX. Quarterly stock price information and dividend information is shown on Page 67.

The terms of Quanex's revolving credit arrangements with certain banks limit the total amount of common dividends and other distributions on such stock. Under the most restrictive test under such credit facilities, the total common stock dividends the Company may declare and pay is limited to \$21,000,000, plus 50% of consolidated net earnings after October 31, 1989, adjusted for other factors as defined in their respective Loan Agreements. As of October 31, 1995, the amount of dividends and other distributions the Company was permitted to declare and pay under its credit facilities was \$25,483,000.

There were 3,659 record holders of Quanex common stock on October 31, 1995.

ITEM 6. SELECTED FINANCIAL DATA

Pages 34 and 35 of the 1995 Annual Report to Stockholders present selected financial data for the past eleven fiscal years.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

See pages 37-41 of the 1995 Annual Report to Stockholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data for Quanex are on pages 42-57 of the 1995 Annual Report to Stockholders.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

During the past two fiscal years there has been no change in the Company's independent auditors, and there has been no disagreement on accounting practices or financial statement disclosure required to be reported.

INDEX TO FORM 10-K INFORMATION

Form 10-K Item No.	Location in Annual Report

PART I	
1. Business	8, 40, 58-65
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PART II	
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PART III	
10. Directors and Executive Officers of the Registrant(1)	--
11. Executive Compensation(2)	--
12. Security Ownership of Certain Beneficial Owners and Management(3)	--
13. Certain Relationships and Related Transactions(2)	--

PART IV	
14. Exhibits, Financial Statements, Schedules, and Reports on Form 8-K	
(a) Financial Statements and Financial Statement Schedules	36, 42-57
(b) Exhibits(4)	--
(c) Reports on Form 8-K(4)	--

(1) The information under the captions "Matters to Come Before the Meeting -- (1) Election of Three Directors" and "Further Information -- Executive Officers" in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held February 22, 1996, is incorporated herein by reference.

(2) The information under the captions "Further Information" and "Executive Compensation" in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held February 22, 1996, is incorporated herein by reference.

(3) The information regarding beneficial ownership of Common Stock by directors and nominees (in the table of directors and nominees) and under the caption "Further Information -- Principal Stockholders" in the Company's Proxy Statement for the Annual Meeting of Stockholders to be held February 22, 1996, is incorporated herein by reference.

(4) A copy of the Index to Exhibits, filed with Quanex's Form 10-K Report, can be obtained free of charge by written request to Stockholder Relations, Quanex Corporation, 1900 West Loop South, Suite 1500, Houston, Texas, 77027. No Reports on Form 8-K were filed by the Company during the quarter ended October 31, 1995.

EXHIBITS

Exhibit
Number
-----Name of Exhibit

- 3.1 Amended and Restated Certificate of Incorporation of the Registrant.
- 3.2 Amended and Restated Bylaws of the Registrant, as amended through October 21, 1992, filed as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
- 4.1 Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1987, and incorporated herein by reference.
- 4.2 Amended and Restated Rights Agreement between the Registrant and Manufacturers Hanover Trust Company, as Rights Agent, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.
- 4.3 Amended and Restated Certificate of Designation, Preferences and Rights of the Registrant's Series A Junior Participating Preferred Stock, filed as Exhibit 1 to Amendment No. 1 to the Registrant's Form 8-A dated April 28, 1989, and incorporated herein by reference.
- 4.4 Form of Indenture relating to the Registrant's 6.88% Convertible Subordinated Debentures due 2007 between the Registrant and Chemical Bank, as Trustee, filed as Exhibit 19.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1992, and incorporated herein by reference.
- 4.5 Revolving Credit and Letter of Credit Agreement dated as of December 4, 1990 among the Registrant and the Banks listed therein relating to a \$40,000,000 revolving credit, filed as Exhibit 4.7 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991, and incorporated herein by reference.

- 4.6 Second Amendment to the Revolving Credit Agreement dated as of April 15, 1992, filed as Exhibit 4.13 to the Registrant's Registration Statement on Form S-3 (Registration No. 33-47282), and incorporated herein by reference.
- 4.7 Third and Fourth Amendments to the Revolving Credit and Letter of Credit Agreement dated as of February 12, 1993 and April 1, 1993, respectively, filed as Exhibit 19 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 30, 1993, and incorporated herein by reference.
- 4.8 Fifth Amendment to the Revolving Credit and Letter of Credit Agreement dated as of December 8, 1994, filed as Exhibit 4.15 to the Registrant's Form S-8 Registration No. 33-57235, and incorporated herein by reference.
- 4.9 Sixth Amendment to the Revolving Credit and Letter of Credit Agreement dated as of June 30, 1995, filed as Exhibit 4.1 of the Registrant's Quarterly Report for the quarter ended July 31, 1995, and incorporated herein by reference.
- 4.10 Seventh Amendment to the Revolving Credit and Letter of Credit Agreement dated as of December 28, 1995.
- 10.1 Agreement of Lease between Leland Tube Company, Inc. and Role Realty Co., dated March 5, 1970, with attached Assignment of Tenant's Interest in Lease from Leland Tube Company to the Registrant, dated May 31, 1979, and filed as Exhibit 10.3 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
- 10.2 Agreement of Lease between Leland Tube Company, Inc. and Role Realty Co., dated January 24, 1973, with attached Assignment of Tenant's Interest in Lease from Leland Tube Company to the Registrant, dated May 31, 1979, and filed as Exhibit 10.4 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
- 10.3 Lease Agreement between the Registrant and William M. Paul and Associates, dated August 27, 1980, filed as Exhibit 10.5 of the Registrant's Form S-2, Registration No. 2-88583, and incorporated herein by reference.
- 10.4 Agreement of Lease between the Registrant and 3D Tower Limited, dated March 5, 1985, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1985, and incorporated herein by

reference, as amended by the First Amendment to Lease Agreement between the Registrant and VPM 1989-1, Ltd. effective December 8, 1989 and the amendment filed as Exhibit 10.23 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995.

- 10.5 Quanex Corporation 1988 Stock Option Plan, as amended, and form of Stock Option Agreement filed as Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.17 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.
- 10.6 Quanex Corporation Deferred Compensation Plan, as amended and restated.
- 10.7 Quanex Corporation 1978 Stock Option Plan, as amended, filed as Exhibit 10.6 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1988, together with the amendment filed as Exhibit 10.16 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.
- 10.8 Quanex Corporation Executive Incentive Compensation Plan, as amended, filed as Exhibit 10.8 to the Registrant's Form 10-K for the fiscal year ended October 31, 1993, and incorporated herein by reference.
- 10.9 Quanex Corporation Supplemental Benefit Plan, effective February 28, 1980 as restated November 1, 1988 and amended on June 28, 1991, filed as Exhibit 10.9 to the Registrant's Annual Report on Form 10-K for the year ended October 31, 1991, and incorporated herein by reference.
- 10.10 Form of Severance Compensation Agreement and Escrow Agreement, adopted on February 28, 1985, between the Registrant and each executive officer of the Registrant, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1985, and incorporated herein by reference.
- 10.11 Quanex Corporation Stock Option Loan Plan for Key Officers, filed as Exhibit 10.13 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, and incorporated herein by reference.

- 10.12 Quanex Corporation 1987 Non-Employee Director Stock Option Plan, as amended, and the related form of Stock Option Agreement, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1988, together with the amendment filed as Exhibit 10.14 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.
- 10.13 Quanex Corporation 1989 Non-Employee Director Stock Option Plan, as amended, filed as Exhibit 4.4 of the Registrant's Form S-8, Registration No. 33-35128, together with the amendment filed as Exhibit 10.15 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended January 31, 1995, and incorporated herein by reference.
- 10.14 Quanex Corporation Employee Stock Option and Restricted Stock Plan, as amended, filed as Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1994, and incorporated herein by reference.
- 10.15 Retirement Agreement dated as of September 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.20 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
- 10.16 Stock Option Agreement dated as of October 1, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.21 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
- 10.17 Deferred Compensation Agreement dated as of July 31, 1992, between the Registrant and Carl E. Pfeiffer, filed as Exhibit 10.22 to the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1992, and incorporated herein by reference.
- 10.18 Quanex Corporation Non-Employee Director Retirement Plan, filed as Exhibit 10.18 of the Registrant's Annual Report on Form 10-K for the fiscal year ended October 31, 1994, and incorporated herein by reference.
- 11 Statement re computation of per share earnings.

13	Quanex Corporation Annual Report to Shareholders for fiscal year 1995 (each portion of the annual report that is incorporated and filed as part of this report).
21	Subsidiaries of the Registrant.
23	Consent of Deloitte & Touche LLP.
27	Financial Data Schedule.

As permitted by Item 601(b)(4) of Regulation S-K, the Registrant has not filed with this Annual Report on Form 10-K 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 Registrant 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.

Pursuant to the requirements of Section 13 or 15(d) 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

By: VERNON E. OECHSLE January 22, 1996

VERNON E. OECHSLE
Director, President and Chief
Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: ROBERT C. SNYDER January 22, 1996

ROBERT C. SNYDER
Director and Chairman

By: VERNON E. OECHSLE January 22, 1996

VERNON E. OECHSLE
Director, President and
Chief Executive Officer

By: JAMES H. DAVIS January 22, 1996

JAMES H. DAVIS
Executive Vice President and
Chief Operating Officer
(Principal Operating Officer)

By: CARL E. PFEIFFER January 22, 1996

CARL E. PFEIFFER
Director

By: GERALD B. HAECKEL January 22, 1996

GERALD B. HAECKEL
Director

By: DONALD J. MORFEE January 22, 1996

DONALD J. MORFEE
Director

By: JOHN D. O'CONNELL January 22, 1996

JOHN D. O'CONNELL
Director

By: DONALD G. BARGER, JR January 22, 1996

DONALD G. BARGER, JR
Director

By: VINCENT R. SCORSONE January 22, 1996

VINCENT R. SCORSONE
Director

By: MICHAEL J. SEBASTIAN January 22, 1996

MICHAEL J. SEBASTIAN
Director

By: WAYNE M. ROSE January 22, 1996

WAYNE M. ROSE
Vice President-Finance and
Chief Financial Officer
(Principal Financial Officer)

By: VIREN M. PARIKH January 22, 1996

VIREN M. PARIKH
Controller
(Principal Accounting Officer)

Exhibit Number -----	Sequentially Numbered Page -----
3.1	Amended and Restated Certificate of Incorporation of the Registrant.
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21	Subsidiaries of the Registrant.
23	Consent of Deloitte & Touche LLP.
27	Financial Data Schedule.

As permitted by Item 601(b)(4) of Regulation S-K, the Registrant has not filed with this Annual Report on Form 10-K 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 Registrant 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.

EXHIBIT 3.1

RESTATED CERTIFICATE
OF
INCORPORATION
OF
QUANEX CORPORATION

The original Certificate of Incorporation of Quanex Corporation (the "Company") was filed with the Delaware Secretary of State on June 3, 1968 under the name of Michigan Seamless Tube Company. On August 24, 1995 the Board of Directors of the Company duly adopted resolutions authorizing the restatement and integration of the provisions of the Certificate of Incorporation of the Company and authorizing the filing of this Restated Certificate of Incorporation in accordance with Section 245 of the General Corporation Law of the State of Delaware. This Restated Certificate of Incorporation only restates and integrates and does not further amend any of the provisions of the Certificate of Incorporation of the Company presently in effect and there is no discrepancy between the provisions of the Certificate of Incorporation of the Company as presently in effect and the provisions of this Restated Certificate of Incorporation.

The following Restated Certificate of Incorporation supersedes the Certificate of Incorporation of the Company as presently in effect:

FIRST: The name of the Corporation is

QUANEX CORPORATION

SECOND: Its registered office in the state of Delaware is located at Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801. The name and address of its registered agent is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, Delaware 19801.

THIRD: The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To manufacture and fabricate tubing and pipe of every type and character, seamless, non-seamless, metal or non-metal, and of every size and description, of every shape and form, and to buy, sell, and trade in tubing and pipe and products made thereof, in whole or in part, and in any and all materials used or required in connection with the production and marketing of such products; to manufacture, deliver, buy, sell, deal in and with machines and equipment, tools, dies, fixtures, goods, wares, and merchandise and property of every kind and description.

To establish, maintain, conduct and carry on a general merchandising business; and in conjunction therewith to produce, buy, import, purchase and otherwise acquire, contract for, own, store, hold, use, sell, export, distribute, lease, pledge and otherwise dispose of and generally deal in and with, at wholesale or retail, as principal or agent for others, upon commission, consignment or otherwise, goods, wares, commodities, merchandise and personal property of every class, name, nature and description.

To import, export, manufacture, produce, buy, sell and otherwise deal in and with, goods, wares and merchandise of every class and description.

To manufacture, purchase or otherwise acquire, invest in, own, mortgage, pledge, sell, assign and transfer or otherwise dispose of, trade, deal in and deal with goods, wares and merchandise and personal property of every class and description.

To acquire, and pay for in cash, stock or bonds of this corporation or otherwise, the good will, rights, assets and property, and to undertake or assume the whole or any part of the obligations or liabilities of any person, firm, association or corporation.

To acquire, hold, use, sell, assign, lease, grant licenses in respect of, mortgage or otherwise dispose of letters patent of the United States or any foreign country, patent rights, licenses and privileges, inventions, improvements and processes, copyrights, trade-marks and trade names, relating to or useful in connection with any business of this corporation.

To acquire by purchase, subscription or otherwise, and to receive, hold, own, guarantee, sell, assign, exchange, transfer, mortgage, pledge or otherwise dispose of or deal in and with any of the shares of the capital stock, or any voting trust certificates in respect of the shares of capital stock, scrip, warrants, rights, bonds, debentures, notes, trust receipts, and other securities, obligations, chooses in action and evidences of indebtedness or interest issued or created by any corporations, joint stock companies, syndicates, associations, firms, trusts or persons, public or private, or by the government of the United States of America, or by any foreign government, or by any state, territory, province, municipality or other political subdivision or by any governmental agency, and as owner thereof to possess and exercise all the rights, powers and privileges of ownership, including the right to execute consents and vote thereon, and to do any and all acts and things necessary or advisable for the preservation, protection, improvement and enhancement in value thereof.

To enter into, make and perform contracts of every kind and description with any person, firm, association, corporation, municipality, county, state, body politic or government or colony or dependency thereof.

To borrow or raise moneys for any of the purposes of the corporation and, from time to time without limit as to amount, to draw, make, accept, endorse, execute and issue promissory notes, drafts, bills of exchange, warrants, bonds, debentures and other negotiable or non-negotiable instruments and evidences of indebtedness, and to secure the payment of any thereof and of the interest thereon by mortgage upon or pledge, conveyance or assignment in trust of the whole or any part of the property of the corporation, whether at the time owned or thereafter acquired, and to sell, pledge or otherwise dispose of such bonds or other obligations of the corporation for its corporate purposes.

To loan to any person, firm or corporation any of its surplus funds, either with or without security.

To purchase, hold, sell and transfer the shares of its own capital stock; provided it shall not use its funds or property for the purchase of its own shares of capital stock when such use would cause any impairment of its capital except as otherwise permitted by law, and provided further that shares of its own capital stock belonging to it shall not be voted upon directly or indirectly.

To have one or more offices, to carry on all or any of its operations and business and without restriction or limit as to amount to purchase or otherwise acquire, hold, own, mortgage, sell, convey or otherwise dispose of, real and personal property of every class and description in any of the states, districts, territories or colonies of the United States, and in any and all foreign countries, subject to the laws of such state, district, territory, colony or country.

In general, to carry on any other business in connection with the foregoing, and to have and exercise all the powers conferred by the laws of Delaware upon corporations formed under the General Corporation Law of the State of Delaware, and to do any or all of the things hereinbefore set forth to the same extent as natural persons might or could do.

The objects and purposes specified in the foregoing clauses shall, except where otherwise expressed, be in nowise limited or restricted by reference to, or inference from, the terms of any other clause in this Restated Certificate of Incorporation, but

the objects and purposes specified in each of the foregoing clauses of this Article shall be regarded as independent objects and purposes.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is Twenty-Six Million (26,000,000), of which Twenty-Five Million (25,000,000) shall be shares of Common Stock, par value Fifty Cents (\$.50) per share, and of which One Million (1,000,000) shares shall be Preferred Stock, no par value.

Any amendment to this Restated Certificate of Incorporation which shall increase or decrease the authorized stock of the corporation may be adopted by the affirmative vote of the holders of a majority of the outstanding shares of stock of the corporation entitled to vote.

The designations and the powers, preferences and rights, and the qualifications, limitations or restrictions thereof, of the Preferred Stock shall be as follows:

(1) The Board of Directors is expressly authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, with such voting powers, full or limited but not to exceed one vote per share, or without voting powers and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue thereof adopted by the Board of Directors, and as are not stated and expressed in this Restated Certificate of Incorporation, or any amendment thereto, including (but without limiting the generality of the foregoing) the following:

(a) the designation of such series;

(b) the dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any other class or classes or of any other series of capital stock, and whether such dividends shall be cumulative or non-cumulative;

(c) whether the shares of such series shall be subject to redemption by the corporation, and, if made subject to such redemption, the times, prices and other terms and conditions of such redemption;

(d) the terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series;

(e) whether or not the shares of such series shall be convertible into or exchangeable for shares of any other class or classes or of any other series of any class or classes of capital stock of the corporation, and, if provision be made for conversion or exchange, the times, prices, rates, adjustments, and other terms and conditions of such conversion or exchanges;

(f) the extent, if any, to which the holders of the shares of such series shall be entitled to vote as a class or otherwise with respect to the election of the directors or otherwise; provided, however, that in no event shall any holder of any series of Preferred Stock be entitled to more than one vote for each share of such Preferred Stock held by him;

(g) the restrictions, if any, on the issue or reissue of any additional Preferred Stock; and

(h) the rights of the holders of the shares of such series upon the dissolution of, or upon the distribution of assets of, the corporation.

(2) Except as otherwise required by law and except for such voting powers with respect to the election of directors or other matters as may be stated in the resolutions of the Board of Directors creating any series of Preferred Stock, the holders of any such series shall have no voting power whatsoever.

Pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation of the said Corporation, the said Board of Directors on April 26, 1989, adopted the resolution set forth on Exhibit A to this Restated Certificate of Incorporation amending and restating the preferences and rights of a series of 150,000 shares of Preferred Stock, no par value, designated as Series A Junior Participating Preferred Stock.

FIFTH: The corporation is to have perpetual existence.

SIXTH: The private property of the stockholders shall not be subject to the payment of corporate debts to any extent whatever.

SEVENTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized:

To authorize and cause to be executed mortgages and liens upon the real and personal property of the Corporation.

To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution passed by a majority of the whole Board, to designate one or more committees, each committee to consist of two or more of the directors of the Corporation, which, to the extent provided in the resolution or in the bylaws of the Corporation, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be stated in the bylaws of the Corporation or as may be determined from time to time by resolution adopted by the board of directors.

EIGHTH: Meetings of stockholders may be held outside the State of Delaware, if the bylaws so provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the bylaws of the corporation. Elections of directors need not be by ballot unless the bylaws of the corporation shall so provide.

NINTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

TENTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provisions of section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be

summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

ELEVENTH: The Board of Directors shall be divided into three classes as nearly equal in number as possible, with the term of office of one class expiring each year. At the annual meeting of stockholders in 1974, directors of the first class shall be elected to hold office for a term expiring at the next succeeding annual meeting, directors of the second class shall be elected to hold office for a term expiring at the second succeeding annual meeting and directors of the third class shall be elected to hold office for a term expiring at the third succeeding annual meeting. During the intervals between annual meetings of stockholders, any vacancy occurring in the Board of Directors caused by resignation, removal, death, or other incapacity and any newly created directorships resulting from an increase in the number of directors shall be filled by a majority vote of the directors then in office, whether or not a quorum. Each director chosen to fill a vacancy shall hold office for the unexpired term in respect of which such vacancy occurred. Each director chosen to fill a newly created directorship shall hold office until the next election of the class for which such director shall have been chosen. When the number of directors is changed, any newly created directorships or any decreases in directorships shall be so apportioned among the classes as to make all classes as nearly equal in number as possible.

Any director may be removed from office as a director at any time, but only for cause, by the affirmative vote of stockholders of record holding a majority of the outstanding shares of stock of the corporation entitled to vote in elections of directors at a meeting of the stockholders called for that purpose.

TWELFTH: (A) Except as set forth in paragraph (B) of this Article, the affirmative vote or consent of the holders of not less than four-fifths (80%) of the outstanding shares of stock of this corporation (the "Corporation") entitled to vote in elections of directors, voting for purposes of this Article as one class, shall be required:

- (1) to adopt any agreement for, or to approve, the merger or consolidation of the Corporation or any subsidiary (as hereinafter defined) with or into any other person (as hereinafter defined),

- (2) to authorize any sale, lease, transfer, exchange, mortgage, pledge or other disposition to any other person of all or substantially all of the assets of the Corporation or any subsidiary, or
- (3) to authorize the issuance or transfer by the Corporation or any subsidiary of any voting securities of the Corporation or any subsidiary in exchange or payment for the securities or assets of any other person, if such authorization is otherwise required by law or by any agreement between the Corporation and any national securities exchange or by any other agreement to which the Corporation or any subsidiary is a party, if, in any such case, as of the record date for the determination of stockholders entitled to notice thereof and to vote thereon or consent thereto, such other person is, or at any time within the preceding twelve months has been, the beneficial owner (as hereinafter defined) of 5 percent or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors. If such other person is not, and has not been a 5 percent beneficial owner, the provisions of this paragraph (A) shall not apply, the provisions of Delaware law shall apply.

(B) The provisions of paragraph (A) of this Article shall not apply, and the provisions of Delaware law shall apply, to (1) any transaction described therein if the Board of Directors by resolution shall have approved a memorandum of understanding with such other person setting forth the principal terms of such transaction and such transaction is substantially consistent therewith, provided that a majority of those members of the Board of Directors voting in favor of such resolution were duly elected and acting members of the Board of Directors prior to the time such other person became the beneficial owner of 5 percent or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors; or (2) any transaction described therein if such other person is a corporation of which a majority of the outstanding shares of all classes of stock entitled to vote in elections of directors is owned of record or beneficially by the Corporation or its subsidiaries.

(C) The affirmative vote or consent of the holders of not less than four-fifths (80%) of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, voting for purposes of this Article as one class, shall be required for the adoption of any plan for the dissolution of the Corporation if the Board of Directors shall not have, by resolution, recommended to the stockholders the adoption of such plan for dissolution of the Corporation. If the Board of Directors shall have so recommended to the stockholders such plan for dissolution of the Corporation, the provisions of Delaware law shall apply.

(D) For purposes of this Article,

(1) any specified person shall be deemed to be the "beneficial owner" of shares of stock of the Corporation (a) which such specified person or any of its affiliates or associates (as such terms are hereinafter defined) owns, directly or indirectly, whether of record or not, (b) which such specified person or any of its affiliates or associates has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, or (c) which are beneficially owned, directly or indirectly (including shares deemed owned through application of clauses (a) and (b) above), by any other person with which such specified person or any of its affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of stock of the Corporation;

(2) a "subsidiary" is any corporation more than 49 percent of the voting securities of which are owned, directly or indirectly, by the Corporation;

(3) a "person" is any individual, corporation or other entity;

(4) an "affiliate" of a specified person is any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the specified person; and

(5) an "associate" of a specified person is (a) any person of which such specified person is an officer or partner or is, directly or indirectly, the beneficial owner of 10 percent or more of any class of equity securities, (b) any trust or other estate in which such specified person has a substantial beneficial interest or as to which such specified person serves as trustee or in a similar capacity, or (c) any relative or spouse of such specified person, or any relative of such spouse, who has the same home as such specified person or who is a director or officer of such specified person or any corporation which controls or is controlled by such specified person.

(E) For purposes of determining whether a person owns beneficially 5 percent or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors, the outstanding shares of stock of the Corporation shall include shares deemed owned through application of clauses (a), (b) or (c) of paragraph (D)(1) above but shall not include any other shares which may be issuable pursuant to any agreement or upon exercise of conversion rights, warrants or options, or otherwise.

(F) The Board of Directors shall have the power and duty to determine, for purposes of this Article, on the basis of information known to such Board,

(1) whether any person referred to in paragraph (A) of this Article owns beneficially 5 percent or more of the outstanding shares of stock of the Corporation entitled to vote in elections of directors; and

(2) whether a proposed transaction is substantially consistent with any memorandum of understanding of the character referred to in paragraph (B) of this Article.

Any such determination shall be conclusive and binding for all purposes of this Article.

THIRTEENTH: Notwithstanding the provisions of this Restated Certificate of Incorporation and any provisions of the Bylaws of the corporation, no amendment to this Restated Certificate of Incorporation shall amend, modify or repeal any or all of the provisions of Article Eleventh, Article Twelfth or this Article Thirteenth of this Restated Certificate of Incorporation, and the stockholders of the corporation shall not have the right to amend, modify or repeal any or all provisions of the Bylaws of the corporation relating to the number or term of office of directors, unless so adopted by the affirmative vote or consent of the holders of not less than four-fifths (80%) of the outstanding shares of stock of the corporation entitled to vote in elections of directors, considered for purposes of this Article as a class; provided, however, that in the event the Board of Directors of the corporation shall by resolution adopted by a majority of the then directors in office recommend to the stockholders the adoption of any such amendment, the stockholders of record holding a majority of the outstanding shares of stock of the corporation entitled to vote in elections of directors may amend, modify or repeal any or all of such provisions.

FOURTEENTH: (A) Except as set forth in paragraph (3) of this Article, notwithstanding any other provision of law or requirement of these Articles, the affirmative vote of the holders of a majority of all of the outstanding shares of the capital stock of this Corporation (the "Corporation") entitled to vote generally in the election of directors ("Voting Stock"), voting for the purposes of this Article as one class, other than holders who are Related Holders (as hereinafter defined), or Affiliates (as hereinafter defined) or Associates (as hereinafter defined) of the Related Holder, shall be required

(1) to adopt any agreement for, or to approve, the merger or consolidation of the Corporation or any Subsidiary (as hereinafter defined) with or into any Related Holder or any Affiliate of a Related Holder; or

(2) to authorize or approve any sale, lease, transfer, exchange, mortgage, pledge or other disposition (in one transaction or a series of transactions) to any Related Holder or any Affiliate of a Related Holder of any assets of the Corporation or any Subsidiary, having an aggregate Fair Market Value (as hereinafter defined) of \$5,000,000 or more; or

(3) to authorize or approve the issuance or transfer by the Corporation or any Subsidiary of any Voting Stock of the Corporation or any Subsidiary in exchange or payment for securities or other assets of any Related Holder or any Affiliate of a Related Holder, which securities or assets have an aggregate Fair Market Value of \$5,000,000 or more; or

(4) to adopt any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of any Related Holder or any Affiliate of a Related Holder; or

(5) to authorize or approve the reclassification of securities (including any reverse stock split), or recapitalization of the Corporation, or any merger or consolidation of the Corporation with any of its Subsidiaries or any other transaction (whether or not with or into or otherwise involving any Related Holder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity securities or securities convertible into equity securities of the Corporation or any Subsidiary which is directly or indirectly owned by any Related Holder or any Affiliate of a Related Holder; if there is a Related Holder as of the date in question regarding any transaction described in this paragraph (A) or immediately prior to the consummation of any transaction described in this paragraph (A).

(B) The provisions of paragraph (A) of this Article shall not apply to transactions set forth below in Sections (1), (2) and (3) of this paragraph (B) and such transactions shall require only such affirmative vote as is otherwise required by law or any other provision of this Certificate of Incorporation:

(1) any transaction described in paragraph (A) of this Article, if the Board of Directors by resolution shall have approved a memorandum of understanding with such Related Holder, or such Affiliate of such Related Holder, setting forth the principal terms of such transaction and such transaction is effected on terms substantially consistent with such memorandum of understanding, provided that a majority of the Continuing Directors (as hereinafter defined) vote in favor of such resolution; or

(2) any transaction described in subparagraphs (A) (1), (A) (2), (A) (3) and (A) (4) of this Article, if such Related Holder, or such Affiliate of such Related

Holder, is a corporation of which a majority of the outstanding shares of each class of Voting Stock is owned of record or beneficially by the Corporation or its Subsidiaries; or

(3) any transaction described in paragraph (a) of this Article, if the aggregate amount of the cash and the Fair Market Value of consideration other than cash to be received per share by holders of common, preferred or preference stock in such transactions shall be at least equal to the higher of the following:

(a) with respect to common, preferred or preference stock, the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers fees) paid or agreed to be paid by such Related Holder to acquire beneficial ownership of any shares of such series or class of stock, within the three-year period immediately prior to the date of the first public announcement of the proposed transaction described in paragraph (A);

(b) the highest closing per share price of common, preferred or preference stock, during the three-month period immediately preceding the date of the first public announcement of the proposed transaction described in paragraph (A);

(c) with respect to preferred or preference stock, if the highest preferential amount per share of a series of preferred or preference stock to which the holders thereof would be entitled in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of the Corporation (regardless of whether the transaction, as described in paragraph (A), to be consummated constitutes such an event) is greater than the aggregate amount to which the holders thereof would be entitled pursuant to subparagraphs (B) (3) (a) or (b), holders of such series of preferred or preference stock shall receive an amount for each such share at least equal to the highest preferential amount applicable to such series of preferred or preference stock;

except that if at any time after a Related Holder becomes such, if any of the following events shall occur which are not approved by a majority of the Continuing Directors, the provisions of this paragraph (B) (3) shall not apply and the provisions of paragraph (A) shall apply:

(1) any failure to declare and pay at the regular date therefor any full quarterly dividend (whether or not cumulative) on outstanding preferred or preference stock; or

(2) any reduction on the annual rate of dividends paid on the common stock (except as necessary to reflect any subdivision of the common stock); or

(3) any failure to increase the annual rate of dividends paid on the common stock as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction that has the effect of reducing the number of outstanding shares of the common stock; or

(4) the receipt by the Related Holder, after such Related Holder has become a Related Holder, of a direct or indirect benefit (except proportionately as a shareholder) from any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the Corporation or any Subsidiary of the Corporation, whether in anticipation of or in connection with a transaction described in paragraph (A) or otherwise.

(C) For purposes of this Article,

(1) a "Person" means any individual, corporation or other entity;

(2) a "Related Holder" means any Person (other than the Corporation, a Subsidiary of the Corporation, or a profit-sharing, employee stock ownership or other employee benefit plan of the Corporation, or a Subsidiary of the Corporation, or any trustee of, or fiduciary with respect to, any such plan acting in such capacity) which is, or within the preceding twelve-month period was, the Beneficial Owner of shares of Voting Stock of the Corporation having 5 percent or more of the voting power of the outstanding capital stock of the Corporation;

(3) a Person shall be deemed to be a "Beneficial Owner" of shares of stock of the Corporation (a) which such Person and its Affiliates and Associates beneficially own, directly or indirectly, whether of record or not, or (b) which such Person or any of its Affiliates or Associates has the right to acquire pursuant to any agreement, upon the exercise of conversion rights, warrants, options, or otherwise, or (c) which such Person or any of its Affiliates or Associates has the right to sell or vote pursuant to any agreement, or (d) which are beneficially owned, directly or indirectly, by any other Person with which such first mentioned Person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purposes of acquiring, holding, voting or disposing of securities of the Corporation;

(4) a "Subsidiary" means any corporation more than forty-nine percent (49%) of the voting securities of which are beneficially owned, directly or indirectly, by the Corporation;

(5) an "Affiliate" of a Related Holder means any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Related Holder;

(6) an "Associate" of a Related Holder means (a) any person of which such Related Holder is an officer, director, or partner or is, directly or indirectly, the Beneficial Owner of ten percent (10%) or more of any class of equity securities of such person, or (b) any trust or other estate in which such Related Holder has a substantial beneficial interest or as to which such Related Holder serves as trustee or in a similar fiduciary capacity, or (c) any relative or spouse of such Related Holder, or any relative of such spouse, who has the same home as such Related Holder, or (d) any person who is a director or officer of such Related Holder or any corporation which controls or is controlled by such Related Holder, or (e) any other member or partner in a partnership, limited partnership, syndicate or other group, formal or informal, of which such Related Holder is a member or partner and which is acting together for the purpose of acquiring, holding or disposing of securities of the Corporation;

(7) "Voting Stock" shall be the outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors;

(8) "Fair Market Value" means: (i) in the case of stock, the highest closing price during the 90-day period immediately preceding the date in question of a share of such stock on the Composite Tape for New York Stock Exchange-Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, the fair market value on the date in question of a share of such stock as determined by the Board in good faith, which determination shall include consideration of the highest closing price, or, in the event there is no closing price, the highest closing bid in the primary market in which such stock is traded during the 90-day period preceding the date in question; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Board in good faith;

(9) a "Continuing Director" means a member of the Board of Directors of the Corporation who is unaffiliated with the Related Holder

or any Affiliate or Associate of the Related Holder and was a duly elected and acting member of the Board prior to the time such Related Holder became the Beneficial Owner of 5 percent or more of the Voting Stock of the Corporation, and any successor to a Continuing Director who is unaffiliated with the Related Holder and who is recommended to succeed a Continuing Director by a majority of the then Continuing Directors.

(D) A majority of the total number of Continuing Directors (whether or not there exist any vacancies in previously authorized directorships at the time any such determination as is hereinafter in this paragraph (D) specified is to be made by the Board) shall have the power to determine, on the basis of information known to them after reasonable inquiry, all facts necessary to determine compliance with this Article, including, without limitation, (1) whether a person is a Related Holder, (2) the number of shares of Voting Stock beneficially owned by any person, (3) whether a person is an Affiliate or Associate of another, (4) whether the applicable conditions set forth in paragraph (B) have been met with respect to any transaction described therein, and (5) whether the assets which are the subject of any transaction referred to in section (2) of paragraph (A) have, or the consideration to be received for the issuance or transfer of securities by the Corporation or any Subsidiary in any transaction referred to in section (3) of paragraph (A) has, an aggregate Fair Market Value of \$5,000,000 or more.

(E) Notwithstanding any other provision of this Certificate of Incorporation or any provision of the Bylaws of the Corporation, no amendment to this Certificate of Incorporation shall amend, modify or repeal any or all of the provisions of this Article, unless adopted by the affirmative vote of the holders of a majority of all of the outstanding shares of the Voting Stock of the Corporation, voting for the purposes of this Article as a class, other than holders who are the Related Holder or Affiliates or Associates of the Related Holder.

FIFTEENTH: (A) Except for (1) any action which may be taken solely upon the vote or consent of holders of Preferred Stock or any series thereof, or, (2) except for any action with respect to which other Articles expressly provide stockholder consent requirements, no action required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation may be taken by written consent without a meeting, except that any such action may be taken without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by all the stockholders of the Corporation entitled to vote thereon.

(B) This Article shall not be amended, modified or repealed except by the affirmative vote of the holders of not less than four-fifths (80%) of the voting power of

all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally in the election of directors.

SIXTEENTH: (A) The power to adopt, alter, amend or repeal bylaws shall be vested in the Board of Directors, which may take such action by the vote of a majority of the directors present and voting at a meeting where a quorum is present, provided that if, as of the date such action shall occur, there is a Related Holder as defined in Article FOURTEENTH of the Certificate of Incorporation, such majority shall include a majority of the Continuing Directors as defined in Article FOURTEENTH of the Certificate of Incorporation. In addition, the stockholders, by the affirmative votes of the holders of not less than four-fifths (80%) of the voting power of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally in the election of directors, may adopt new bylaws, or alter, amend or repeal bylaws adopted by either the stockholders or the Board of Directors.

(B) This Article shall not be amended, modified or repealed except by the affirmative vote of the holders of not less than four-fifths (80%) of the voting power of all of the then outstanding shares of capital stock of the Corporation then entitled to vote generally in the election of directors.

SEVENTEENTH: A director of the Corporation shall not personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty of the director, except for liability (i) or any breach of the director's duty of loyalty to the Corporation or its shareholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) or any transaction from which the director derived an improper personal benefit.

IN WITNESS WHEREOF, Quanex Corporation has caused this Restated Certificate of Incorporation to be signed this 10th day of November, 1995.

QUANEX CORPORATION

By: /s/ WAYNE M. ROSE

Wayne M. Rose
Vice President and Chief
Financial Officer

Filed: November 17, 1995.

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock, no par value, of the Corporation be and it hereby is created, and that the designation and amount thereof and the powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock", which shall have no par value, and the number of shares constituting such series shall be 150,000. Such number of shares may be increased or decreased by resolution of the Board of Directors; provided, that no decrease shall reduce the number of shares of Series A Junior Participating Preferred Stock to a number less than that of the shares then outstanding plus the number of shares issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

Section 2. Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series A Junior Participating Preferred Stock with respect to dividends, the holders of shares of Series A Junior Participating Preferred Stock, in preference to the holders of shares of Common Stock, par value \$0.50 per share (the "Common Stock"), of the Corporation and any other junior stock, shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Junior Participating Preferred Stock in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$1.00, or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Junior Participating Preferred Stock. In the event the Corporation shall at any time after August 28, 1986 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Junior Participating Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Junior Participating Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$1.00 per share on the Series A Junior Participating Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Junior Participating Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Junior Participating Preferred Stock unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Junior Participating Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Junior Participating Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Junior Participating Preferred Stock shall have the following voting rights:

(A) Each share of Series A Junior Participating Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the stockholders of the Corporation.

(B) Except as otherwise provided herein or by law, the holders of shares of Series A Junior Participating Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

(C) (i) If at any time dividends on any Series A Junior Participating Preferred Stock shall be in arrears in an amount equal to six (6) quarterly dividends thereon, the occurrence of such contingency shall mark the beginning of a period (herein called a "default period") which shall extend until such time when all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all shares of Series A Junior Participating Preferred Stock then outstanding shall have been declared and paid or set apart for payment. During each default period, the holders of the Series A Junior Participating Preferred Stock, voting as a class together with the holders, if any, of other series of Preferred

Stock having the right to vote upon a default in the payment of dividends, irrespective of series, shall have the right to elect two (2) Directors.

(ii) During any default period, such voting right of the holders of Series A Junior Participating Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting right nor the right of the holders of any other series of Preferred Stock, if any, to increase, in certain cases, the authorized number of Directors shall be exercised unless the holders of ten percent (10%) in number of shares of Preferred Stock outstanding shall be present in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Preferred Stock of such voting right. At any meeting at which the holders of Preferred Stock shall exercise such voting right initially during an existing default period, they shall have the right, voting as a class, to elect Directors to fill such vacancies, if any, in the Board of Directors as may then exist up to two (2) Directors or, if such right is exercised at an annual meeting, to elect two (2) Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of the Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be increased or decreased except by vote of the holders of Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series A Junior Participating Preferred Stock.

(iii) Unless the holders of Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding, irrespective of series, may request, the calling of a special meeting of the holders of Preferred Stock, which meeting shall thereupon be called by the President, a Vice-President or the Corporate Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Preferred Stock are entitled to vote pursuant to this paragraph (C) (iii) shall be given to each holder of record of Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than ten percent (10%) of the total number of shares of Preferred Stock outstanding. Notwithstanding the provisions of this paragraph (C) (iii), no such special meeting shall be called during the period within 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) In any default period, the holders of Common Stock, and other classes of stock of the Corporation if applicable, shall continue to be entitled to elect the whole number of Directors until the holders of Preferred Stock shall have exercised their right to elect two (2) Directors voting as a class, after the exercise of which right (x) the Directors so elected by the holders of Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of

Directors may (except as provided in paragraph (C) (ii) of this Section 3) be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Series A Junior Participating Preferred Stock as a class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Series A Junior Participating Preferred Stock as a class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the Certificate of Incorporation or By-laws irrespective of any increase made pursuant to the provisions of paragraph (C) (ii) of this Section 3 (such number being subject, however to change thereafter in any manner provided by law or in the Certificate of Incorporation or By-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(D) Except as set forth herein, holders of Series A Junior Participating Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Junior Participating Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Junior Participating Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock except dividends paid ratably on the Series A Junior Participating Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Junior Participating Preferred Stock provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Junior Participating Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Junior Participating Preferred Stock or any shares of stock ranking on a parity with the Series A Junior Participating Preferred Stock except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series A Junior Participating Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up. (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Series A Junior Participating Preferred Stock shall have received per share, the greater of 100 times the exercise price per Right or 100 times the payment made per share of Common Stock, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series A Liquidation Preference"). Following the payment of the full amount of the Series A Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Junior Participating Preferred Stock unless, prior thereto, the holders of shares of Common Stock shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series A Liquidation Preference by (ii) 100 (as appropriately adjusted as set forth in subparagraph C below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series A Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series A Junior Participating Preferred Stock and Common Stock, respectively, holders of Series A Junior Participating Preferred Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to 1 with respect to such Preferred Stock and Common Stock, on a par share basis, respectively.

(B) In the event there are not sufficient assets available to permit payment in full of the Series A Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series A Junior Participating Preferred Stock then such remaining assets shall be distributed

ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Junior Participating Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Junior Participating Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event.

Section 8. Redemption. The shares of Series A Junior Participating Preferred Stock shall not be redeemable.

Section 9. Ranking. The Series A Junior Participating Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. The Restated Certificate of Incorporation of the Corporation shall not be further amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Junior Participating Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series A Junior Participating Preferred Stock voting separately as a class.

Section 11. Fractional Shares. Series A Junior Participating Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive

dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Junior Participating Preferred Stock.

SEVENTH AMENDMENT TO QUANEX CORPORATION
REVOLVING CREDIT AND LETTER OF CREDIT AGREEMENT

This Seventh Amendment to Quanex Corporation \$48,000,000 Revolving Credit and Letter of Credit Agreement (this "Seventh Amendment") made as of the 28th day of December, 1995 ("Amendment Effective Date"), among Comerica Bank (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit), First Interstate Bank of Texas, N.A., Harris Trust and Savings Bank and NationsBank of Texas, N.A. (individually, "Bank" and collectively, "Banks"), Comerica Bank, as agent for the Banks (in such capacity "Agent") and Quanex Corporation, a Delaware corporation ("Company").

WITNESSETH:

WHEREAS, the Banks, the Agent and the Company have executed and delivered that certain Quanex Corporation \$40,000,000 Revolving Credit and Letter of Credit Agreement dated as of December 4, 1990 as amended by a First Amendment to Quanex Corporation \$40,000,000 Revolving Credit and Letter of Credit Agreement dated March 26, 1991, a Second Amendment to Quanex Corporation \$40,000,000 Revolving Credit and Letter of Credit Agreement dated April 15, 1992, a Third Amendment to Quanex Corporation \$40,000,000 Revolving Credit and Letter of Credit Agreement dated as of February 12, 1993, a Fourth Amendment to Quanex Corporation \$40,000,000 Revolving Credit and Letter of Credit Agreement dated April 1, 1993, a Fifth Amendment to Quanex Corporation Revolving Credit and Letter of Credit Agreement dated December 8, 1994 and a Sixth Amendment to Quanex Corporation Revolving Credit and Letter of Credit Agreement dated June 26, 1995 (the "Original Agreement"); and

WHEREAS, the Company, the Banks and the Agent now desire to increase the Revolving Credit Aggregate Commitment to \$75,000,000 and desire to further amend the Original Agreement as set forth herein;

NOW, THEREFORE, in consideration of the premises, the Banks, the Agent and the Company hereby represent and agree as follows:

1. Section 1.67 of the Original Agreement is amended to read in its entirety as follows:

"1.67 "Revolving Credit Aggregate Commitment" shall mean Seventy Five Million Dollars (\$75,000,000), subject to reduction or termination pursuant to Section 2.6 hereof."

2. Exhibits "B", "D" and "E" to the Original Agreement are deleted in their entirety and attached Exhibits "B", "D" and "E" shall be substituted therefor.

3. Company hereby represents and warrants that, after giving effect to the amendments contained herein, (a) execution, delivery and performance of this Seventh Amendment and any other documents and instruments required by this Seventh Amendment or the Original Agreement are within Company's corporate powers, have been duly authorized, are not in contravention of law or the terms of Company's Certificate of Incorporation or Bylaws, and do not require the consent or approval of any governmental body, agency, or authority; and this Amendment and any other documents and instruments required under this Seventh Amendment or the Original Agreement, will be valid and binding in accordance with their terms; (b) the continuing representations and warranties of Company set forth in Sections 8.1 through 8.16 of the Original Agreement are true and correct on and as of the date hereof with the same force and effect as made on and as of the date hereof; (c) the continuing representations and warranties of Company set forth in section 8.17 of the Original Agreement are true and correct as of the date hereof with respect to the most recent financial statements furnished to the Banks by Company in accordance with Section 9.3 of the Original Agreement; and (d) no Event of Default, or condition or event which, with the giving of notice or the running of time, or both, would constitute an Event of Default under the Original Agreement, has occurred and is continuing as of the date hereof.

4. This Seventh Amendment shall be effective upon (a) execution of this Seventh Amendment by Company, Agent and the Banks, (b) delivery by Company to Agent of new Revolving Credit Notes for the Banks in the form of Exhibit "A" attached hereto completed to reflect the commitments of each Bank as modified hereby, (c) delivery by LaSalle, Nichols and Michigan Seamless Tube Company to Agent of amended and restated guaranty agreements in the form of attached Exhibit "E", and (d) payment to the Agent for pro rata distribution to the Banks an amendment fee of \$20,250. Company agrees to deliver to Agent on or before January 22, 1996 an opinion of legal counsel to the Company and the Guarantors in form and substance satisfactory to the Agent and the Banks.

5. All references to the term "Agreement" and to the terms "hereof", "hereunder" and similar referential terms in the Original Agreement shall be deemed to mean or refer to the Original Agreement as amended by this Seventh Amendment.

6. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to them in the Original Agreement.

7. This Seventh Amendment may be executed in counterparts, in accordance with Section 13.8 of the Original Agreement.

IN WITNESS WHEREOF, the Banks, the Agent and the Company have caused this Seventh Amendment to be executed by their respective, duly authorized officers, all as of the date set forth above.

COMPANY:

QUANEX CORPORATION

By: /s/ WAYNE M. ROSE

Wayne M. Rose
Title: Vice President-Finance

AGENT:

COMERICA BANK (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit), as Agent

By: /s/ Ilegible Signature

Name:
Title: Vice President

BANKS:

COMERICA BANK (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit)

By: /s/ CHARLES E. POHL

Name: Charles E. Pohl
Title: Vice President

FIRST INTERSTATE BANK OF TEXAS,
N.A.

By: /s/ CHRISTOPHER A. KING

Name: Christopher A. King
Title: Banking Officer

HARRIS TRUST AND SAVINGS BANK

By: /s/ JAMES H. COLLEY

Name: James H. Colley
Title: Vice President

NATIONSBANK OF TEXAS, N.A.

By: /s/ F. SCOTT SINGHOFF

Name: F. Scott Singhoff
Title: Senior Vice President

EXHIBIT "A"

REVOLVING CREDIT NOTE

\$27,000,000

Detroit, Michigan
December 28, 1995

On or before the Revolving Credit Maturity Date (initially March 31, 1997), FOR VALUE RECEIVED, Quanex Corporation, a Delaware corporation, ("Company") promises to pay to the order of Comerica Bank, a Michigan banking corporation ("Bank") at Detroit, Michigan, care of Agent, in lawful money of the United States of America the Indebtedness to Bank or so much of the sum of Twenty Seven Million and no/100 Dollars (\$27,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Quanex Corporation Revolving Credit and Letter of Credit Agreement ("Agreement") dated as of December 4, 1990, as amended, made by and between Company, certain banks including the Bank, and Comerica Bank (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit) as agent for such banks, together with interest thereon as hereinafter set forth. Capitalized terms used herein, unless defined to the contrary, have the meanings given them in the Agreement.

Each of the Loans made hereunder shall bear interest at the Eurodollar-based Rate, or the Prime-based Rate as elected by Company or as otherwise determined under the Agreement. Provided, however, that: (a) in the event and so long as there shall exist a default hereunder or an Event of Default, Loans outstanding hereunder shall bear interest at the default rates of interest described in Section 4.1 of the Agreement; and (b) any Advances made hereunder pursuant to Sections 3.6 and 3.7 of the Agreement shall bear interest until paid at a per annum rate equal to the Prime-based Rate plus three percent (3%) whether or not any default hereunder or any Event of Default shall then exist.

Interest on the unpaid balance of all Loans shall be calculated and payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, but only in accordance with the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, and may be accelerated or matured under, the terms of the Agreement, to which reference is hereby made.

Company agrees that in the event of a default hereunder or any default or Event of Default under the Agreement, Bank shall be entitled to liquidate and collect all property or assets (including deposits and other credits) whether presently owned or hereafter

acquired, of Company in possession or control of (or owing by) the Bank for any purpose, and to apply the proceeds of such liquidations and collections, and offset any amounts owing by Bank, against Company's obligations hereunder and under the Agreement.

THIS NOTE SHALL BE INTERPRETED AND THE RIGHTS OF THE PARTIES HEREUNDER SHALL BE DETERMINED UNDER THE LAWS OF, AND ENFORCEABLE IN, THE STATE OF MICHIGAN.

This Note replaces the Revolving Credit Note dated December 8, 1994 in the principal amount of \$18,000,000 by Company payable to Bank.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby.

Nothing herein shall limit any right granted Bank by any other instrument or by law.

QUANEX CORPORATION

By: _____

Its: _____

EXHIBIT "A"

REVOLVING CREDIT NOTE

\$16,000,000

Detroit, Michigan
December 28, 1995

On or before the Revolving Credit Maturity Date (initially March 31, 1997), FOR VALUE RECEIVED, Quanex Corporation, a Delaware corporation, ("Company") promises to pay to the order of Harris Trust and Savings Bank, a state banking corporation ("Bank") at Detroit, Michigan, care of Agent, in lawful money of the United States of America the Indebtedness to Bank or so much of the sum of Sixteen Million and no/100 Dollars (\$16,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Quanex Corporation Revolving Credit and Letter of Credit Agreement ("Agreement") dated as of December 4, 1990, as amended, made by and between Company, certain banks including the Bank, and Comerica Bank (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit) as agent for such banks, together with interest thereon as hereinafter set forth. Capitalized terms used herein, unless defined to the contrary, have the meanings given them in the Agreement.

Each of the Loans made hereunder shall bear interest at the Eurodollar-based Rate, or the Prime-based Rate as elected by Company or as otherwise determined under the Agreement. Provided, however, that: (a) in the event and so long as there shall exist a default hereunder or an Event of Default, Loans outstanding hereunder shall bear interest at the default rates of interest described in Section 4.1 of the Agreement; and (b) any Advances made hereunder pursuant to Sections 3.6 and 3.7 of the Agreement shall bear interest until paid at a per annum rate equal to the Prime-based Rate plus three percent (3%) whether or not any default hereunder or any Event of Default shall then exist.

Interest on the unpaid balance of all Loans shall be calculated and payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, but only in accordance with the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, and may be accelerated or matured under, the terms of the Agreement, to which reference is hereby made.

Company agrees that in the event of a default hereunder or any default or Event of Default under the Agreement, Bank shall be entitled to liquidate and collect all property or assets (including deposits and other credits) whether presently owned or hereafter

acquired, of Company in possession or control of (or owing by) the Bank for any purpose, and to apply the proceeds of such liquidations and collections, and offset any amounts owing by Bank, against Company's obligations hereunder and under the Agreement.

THIS NOTE SHALL BE INTERPRETED AND THE RIGHTS OF THE PARTIES HEREUNDER SHALL BE DETERMINED UNDER THE LAWS OF, AND ENFORCEABLE IN, THE STATE OF MICHIGAN.

This Note replaces the Revolving Credit Note dated December 8, 1994 in the principal amount of \$10,000,000 by Company payable to Bank.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby.

Nothing herein shall limit any right granted Bank by any other instrument or by law.

QUANEX CORPORATION

By: -----

Its: -----

EXHIBIT "A"

REVOLVING CREDIT NOTE

\$16,000,000

Detroit, Michigan
December 28, 1995

On or before the Revolving Credit Maturity Date (initially March 31, 1997), FOR VALUE RECEIVED, Quanex Corporation, a Delaware corporation, ("Company") promises to pay to the order of NationsBank of Texas, N.A., a national banking association ("Bank") at Detroit, Michigan, care of Agent, in lawful money of the United States of America the Indebtedness to Bank or so much of the sum of Sixteen Million and no/100 Dollars (\$16,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Quanex Corporation Revolving Credit and Letter of Credit Agreement ("Agreement") dated as of December 4, 1990, as amended, made by and between Company, certain banks including the Bank, and Comerica Bank (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit) as agent for such banks, together with interest thereon as hereinafter set forth. Capitalized terms used herein, unless defined to the contrary, have the meanings given them in the Agreement.

Each of the Loans made hereunder shall bear interest at the Eurodollar-based Rate, or the Prime-based Rate as elected by Company or as otherwise determined under the Agreement. Provided, however, that: (a) in the event and so long as there shall exist a default hereunder or an Event of Default, Loans outstanding hereunder shall bear interest at the default rates of interest described in Section 4.1 of the Agreement; and (b) any Advances made hereunder pursuant to Sections 3.6 and 3.7 of the Agreement shall bear interest until paid at a per annum rate equal to the Prime-based Rate plus three percent (3%) whether or not any default hereunder or any Event of Default shall then exist.

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This Note is a note under which advances, repayments and readvances may be made from time to time, but only in accordance with the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, and may be accelerated or matured under, the terms of the Agreement, to which reference is hereby made.

Company agrees that in the event of a default hereunder or any default or Event of Default under the Agreement, Bank shall be entitled to liquidate and collect all property or assets (including deposits and other credits) whether presently owned or hereafter

acquired, of Company in possession or control of (or owing by) the Bank for any purpose, and to apply the proceeds of such liquidations and collections, and offset any amounts owing by Bank, against Company's obligations hereunder and under the Agreement.

THIS NOTE SHALL BE INTERPRETED AND THE RIGHTS OF THE PARTIES HEREUNDER SHALL BE DETERMINED UNDER THE LAWS OF, AND ENFORCEABLE IN, THE STATE OF MICHIGAN.

This Note replaces the Revolving Credit Note dated December 8, 1994 in the principal amount of \$10,000,000 by Company payable to Bank.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby.

Nothing herein shall limit any right granted Bank by any other instrument or by law.

QUANEX CORPORATION

By: -----

Its: -----

EXHIBIT "A"

REVOLVING CREDIT NOTE

\$16,000,000

Detroit, Michigan
December 28, 1995

On or before the Revolving Credit Maturity Date (initially March 31, 1997), FOR VALUE RECEIVED, Quanex Corporation, a Delaware corporation, ("Company") promises to pay to the order of First Interstate Bank of Texas, N.A., a national banking association ("Bank") at Detroit, Michigan, care of Agent, in lawful money of the United States of America the Indebtedness to Bank or so much of the sum of Sixteen Million and no/100 Dollars (\$16,000,000) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Quanex Corporation Revolving Credit and Letter of Credit Agreement ("Agreement") dated as of December 4, 1990, as amended, made by and between Company, certain banks including the Bank, and Comerica Bank (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit) as agent for such banks, together with interest thereon as hereinafter set forth. Capitalized terms used herein, unless defined to the contrary, have the meanings given them in the Agreement.

Each of the Loans made hereunder shall bear interest at the Eurodollar-based Rate, or the Prime-based Rate as elected by Company or as otherwise determined under the Agreement. Provided, however, that: (a) in the event and so long as there shall exist a default hereunder or an Event of Default, Loans outstanding hereunder shall bear interest at the default rates of interest described in Section 4.1 of the Agreement; and (b) any Advances made hereunder pursuant to Sections 3.6 and 3.7 of the Agreement shall bear interest until paid at a per annum rate equal to the Prime-based Rate plus three percent (3%) whether or not any default hereunder or any Event of Default shall then exist.

Interest on the unpaid balance of all Loans shall be calculated and payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, but only in accordance with the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, and may be accelerated or matured under, the terms of the Agreement, to which reference is hereby made.

Company agrees that in the event of a default hereunder or any default or Event of Default under the Agreement, Bank shall be entitled to liquidate and collect all property or assets (including deposits and other credits) whether presently owned or hereafter

acquired, of Company in possession or control of (or owing by) the Bank for any purpose, and to apply the proceeds of such liquidations and collections, and offset any amounts owing by Bank, against Company's obligations hereunder and under the Agreement.

THIS NOTE SHALL BE INTERPRETED AND THE RIGHTS OF THE PARTIES HEREUNDER SHALL BE DETERMINED UNDER THE LAWS OF, AND ENFORCEABLE IN, THE STATE OF MICHIGAN.

This Note replaces the Revolving Credit Note dated December 8, 1994 in the principal amount of \$10,000,000 by Company payable to Bank.

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby.

Nothing herein shall limit any right granted Bank by any other instrument or by law.

QUANEX CORPORATION

By: -----

Its: -----

EXHIBIT "B"

REVOLVING CREDIT NOTE

\$ _____

Detroit, Michigan
_____, 1995

On or before the Revolving Credit Maturity Date (initially March 31, 1997), FOR VALUE RECEIVED, Quanex Corporation, a Delaware corporation, ("Company") promises to pay to the order of

_____, a
_____, ("Bank") at Detroit, Michigan, care of Agent, in lawful money of the United States of America the Indebtedness to Bank or so much of the sum of _____ Million and no/100 Dollars (\$ _____) as may from time to time have been advanced and then be outstanding hereunder pursuant to the Quanex Corporation Revolving Credit and Letter of Credit Agreement ("Agreement") dated as of December 4, 1990, as amended, made by and between Company, certain banks including the Bank, and Comerica Bank (successor in interest by reason of merger to Manufacturers Bank, N.A., formerly known as Manufacturers National Bank of Detroit) as agent for such banks, together with interest thereon as hereinafter set forth. Capitalized terms used herein, unless defined to the contrary, have the meanings given them in the Agreement.

Each of the Loans made hereunder shall bear interest at the Eurodollar-based Rate, or the Prime-based Rate as elected by Company or as otherwise determined under the Agreement. Provided, however, that: (a) in the event and so long as there shall exist a default hereunder or an Event of Default, Loans outstanding hereunder shall bear interest at the default rates of interest described in Section 4.1 of the Agreement; and (b) any Advances made hereunder pursuant to Sections 3.6 and 3.7 of the Agreement shall bear interest until paid at a per annum rate equal to the Prime-based Rate plus three percent (3%) whether or not any default hereunder or any Event of Default shall then exist.

Interest on the unpaid balance of all Loans shall be calculated and payable as set forth in the Agreement.

This Note is a note under which advances, repayments and readvances may be made from time to time, but only in accordance with the terms and conditions of the Agreement. This Note evidences borrowing under, is subject to, and may be accelerated or matured under, the terms of the Agreement, to which reference is hereby made.

Company agrees that in the event of a default hereunder or any default or Event of Default under the Agreement, Bank shall be entitled to liquidate and collect all property or assets (including

deposits and other credits) whether presently owned or hereafter acquired, of Company in possession or control of (or owing by) the Bank for any purpose, and to apply the proceeds of such liquidations and collections, and offset any amounts owing by Bank, against Company's obligations hereunder and under the Agreement.

THIS NOTE SHALL BE INTERPRETED AND THE RIGHTS OF THE PARTIES HEREUNDER SHALL BE DETERMINED UNDER THE LAWS OF, AND ENFORCEABLE IN, THE STATE OF MICHIGAN.

[This Note replaces the Revolving Credit Note dated _____, 1995 in the principal amount of \$_____ by Company payable to Bank.]

Company hereby waives presentment for payment, demand, protest and notice of dishonor and nonpayment of this Note and agrees that no obligation hereunder shall be discharged by reason of any extension, indulgence, release, or forbearance granted by any holder of this Note to any party now or hereafter liable hereon or any present or subsequent owner of any property, real or personal, which is now or hereafter security for this Note. Any transferees of, or endorser, guarantor or surety paying this Note in full shall succeed to all rights of Bank, and Bank shall be under no further responsibility for the exercise thereof or the loan evidenced hereby.

Nothing herein shall limit any right granted Bank by any other instrument or by law.

QUANEX CORPORATION

By: _____

Its: _____

EXHIBIT "D"

PERCENTAGES

Bank ----	Percentage -----	
Comerica Bank	36.0%	\$27,000,000
First Interstate Bank of Texas, N.A.	21.333333%	\$16,000,000
Harris Trust and Savings Bank	21.333333%	\$16,000,000
NationsBank of Texas, N.A.	21.333333%	\$16,000,000

EXHIBIT "E"

[NAME OF GUARANTOR] GUARANTY

[Name of Guarantor], a _____ corporation ("Guarantor") desires to see the success of Quanex Corporation, a Delaware corporation ("Company") and Account Parties (as defined below) and furthermore, Guarantor shall receive direct and/or indirect benefits from loans and extensions of credit to Company and Account Parties in connection with the transactions contemplated under the Loan Agreement and the Loan Documents (as defined below).

To induce each of the Banks (as defined below), to enter into and perform its obligations under that certain Revolving Credit and Letter of Credit Agreement dated as of December 4, 1990, among Company, Comerica Bank, as Agent, ("Agent") and the Banks, as amended from time to time (the "Loan Agreement"), the Guarantor has executed and delivered this guaranty ("Guaranty").

1. Definitions. Unless otherwise provided herein, all capitalized terms in this Guaranty shall have the meanings specified in the Loan Agreement. The term "Banks" as used herein shall include any successors or assigns of the Banks, in accordance with the Loan Agreement.

2. Guaranty. The Guarantor hereby guarantees to the Banks the due and punctual payment to the Banks when due, whether by acceleration or otherwise, of all amounts due and owing under:

- (a) the Loan Agreement;
- (b) the Notes executed by Company to the Banks in the original aggregate principal amount of \$75,000,000 pursuant to the Loan Agreement; and
- (c) all Letter of Credit Obligations and other amounts owing under or in connection with Letters of Credit issued for any Account Party from time to time pursuant to the Loan Agreement;

all of the foregoing payable with interest thereon and otherwise in accordance with the terms of such Notes and the Loan Agreement, as well as all extensions, renewals, and amendments of or to the Loan Agreement, the Notes or Letters of Credit or Letter of Credit Agreements or such other Indebtedness (as defined in the Loan Agreement, or any replacements or substitutions therefor), and hereby agrees that if the Company, any Account Party, or any other Person who is or becomes primarily liable therefor, shall fail to pay any of such amounts when and as the same shall be due and payable, or shall fail to perform and discharge any covenant, representation or warranty in accordance with the terms of the Notes, the Loan Agreement, the Letters of Credit, the Letter of

Credit Agreements, or any of the other Loan Documents, the Guarantor will forthwith pay to Agent on behalf of the Banks an amount equal to any such amount or cause the Company and any other Person then primarily liable therefor to perform and discharge any such covenant, representation or warranty, as the case may be, and will pay any and all damages that may be incurred or suffered in consequence thereof by Agent and all reasonable expenses, including reasonable attorneys fees, that may be incurred by Agent in enforcing such covenant, representation or warranty of the Company, and in enforcing the covenants and agreements of this Guaranty.

3. Unconditional Character of Guaranty. The obligations of Guarantor under this Guaranty shall be absolute and unconditional, and shall be a guaranty of payment and not of collection, irrespective of the validity, regularity or enforceability of the Notes, the Loan Agreement, the Letters of Credit, the Letter of Credit Agreements, or any of the other Loan Documents, or any provision thereof, the absence of any action to enforce the same, any waiver or consent with respect to any provision thereof, the recovery of any judgment against any person or action to enforce the same, any failure or delay in the enforcement of the obligations of the Company under the Notes, the Loan Agreement, or the obligations of Company or any other Account Party under the Letters of Credit, the Letter of Credit Agreements, or of the obligations of any Person under any of the other Loan Documents, or any setoff, counterclaim, recoupment, limitation, defense or termination. Guarantor hereby waives diligence, demand for payment, filing of claims with any court, any proceeding to enforce any provision of the Notes, the Loan Agreement, the Letters of Credit, the Letter of Credit Agreements, or any of the other Loan Documents, any right to require a proceeding first against the Company, any Account Party, or any other guarantor or surety, or to exhaust any security for the performance of the obligations of the Company or any Account Party, any protest, presentment, notice or demand whatsoever, and Guarantor hereby covenants that this Guaranty shall not be terminated, discharged or released except upon payment in full of all amounts due and to become due from the Company and all Account Parties, as and to the extent described above, and only to the extent of any such payment, performance and discharge or upon the release of Guarantor pursuant to the terms of Section 5.6 hereof. Guarantor further covenants that no security now or subsequently held by the Agent or the Banks for the payment of the Indebtedness evidenced by the Notes, or incurred under the Loan Agreement, the Letters of Credit, the Letter of Credit Agreements, or otherwise evidenced or incurred, whether in the nature of a security interest, pledge, lien, assignment, setoff, suretyship, guaranty, indemnity, insurance or otherwise, and no act, omission or other conduct of Agent or the Banks in respect of such security, shall affect in any manner whatsoever the unconditional obligation of this Guaranty, and that the Agent and each of the Banks, in their respective sole discretion and without notice to Guarantor, may release, exchange, enforce, apply the

proceeds of and otherwise deal with any such security without affecting in any manner the unconditional obligation of this Guaranty. Notwithstanding anything to the contrary contained in this Guaranty, Guarantor hereby irrevocably waives any and all rights it may now or hereafter have under any agreement or at law or in equity (including, without limitation, any law subrogating Guarantor to the rights of Banks) to assert any claim against or seek contribution, indemnification or any other form of reimbursement from the Company and the Account Parties or any other party liable for payment of any or all of the Indebtedness for any payment made by Guarantor under or in connection with this Guaranty or otherwise.

Without limiting the generality of the foregoing, such obligations, and the rights of the Agent on behalf of the Banks to enforce the same by proceedings, whether by action at law, suit in equity or otherwise, shall not be in any way affected by (i) any insolvency, bankruptcy, liquidation, reorganization, readjustment, composition, dissolution, winding up or other proceeding involving or affecting the Company, any Account Party, the Guarantor or others or (ii) any change in the ownership of any of the capital stock of the Company or any of the Company's Subsidiaries, or any of their respective Affiliates.

Guarantor hereby waives:

(a) any defense based upon an election of remedies by the Agent or the Banks, including, without limitation, an election to proceed by non-judicial rather than judicial foreclosure, which destroys or otherwise impairs the subrogation rights of the Guarantor or the right of the Guarantor to proceed against the Company or any Account Party for reimbursement, or both;

(b) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal;

(c) any duty on the part of Agent or the Banks to disclose to the Guarantor any facts Agent or the Banks may now or hereafter know about the Company or any Account Party, regardless of whether the Agent or any Bank has reason to believe that any such facts materially increase the risk beyond that which the Guarantor intends to assume or has reason to believe that such facts are unknown to the Guarantor or has a reasonable opportunity to communicate such facts to the Guarantor, since the Guarantor acknowledges that it is fully responsible for being and keeping informed of the financial condition of the Company and Account Parties and of all circumstances bearing on the risk of non-payment of any Indebtedness hereby guaranteed;

(d) any defense arising because of the Agent's or the Banks' election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code;

(e) any other event or action (excluding Guarantor's compliance with the provisions hereof) that would result in the discharge by operation of law or otherwise of the Guarantor from the performance or observance of any obligation, covenant or agreement contained in this Guaranty.

The Agent and any security held by them, for the obligations of the Company or any Account Party (as aforesaid) in the same manner and as freely as if this Guaranty did not exist and the Agent on behalf of the Banks shall be entitled without notice to Guarantor, among other things, to grant to the Company and Account Parties such extension or extensions of time to perform any act or acts as may seem advisable to the Agent on behalf of the Banks at any time and from time to time, and to permit the Company or any Account Party to incur additional indebtedness to Agent, the Banks, or either or any of them, without terminating, affecting or impairing the validity or enforceability of this Guaranty or the obligations of Guarantor hereunder.

The Agent may proceed, either in its own name (on behalf of the Banks) or in the name of the Guarantor, or otherwise, to protect and enforce any or all of its rights under this Guaranty by suit in equity, action at law or by other appropriate proceedings, or to take any action authorized or permitted under applicable law, and shall be entitled to require and enforce the performance of all acts and things required to be performed hereunder by the Guarantor. Each and every remedy of the Agent on behalf of the Banks shall, to the extent permitted by law, be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity.

No waiver or release shall be deemed to have been made by the Agent or the Banks of any of its rights hereunder unless the same shall be in writing and signed by or on behalf of the Banks, and any such waiver shall be a waiver or release only with respect to the specific matter involved and shall in no way impair the rights of the Agent or the Banks or the obligations of Guarantor under this Guaranty in any other respect at any other time.

At the option of the Agent, Guarantor may be joined in any action or proceeding commenced by the Agent against the Company, and/or any Account Party or Account Parties, or any other Person in connection with or based upon the Notes, the Loan Agreement, the Letters of Credit, the Letter of Credit Agreements, or any of the other Loan Documents or other Indebtedness, or any provision thereof, and recovery may be had against Guarantor in such action

or proceeding or in any independent action or proceeding against Guarantor, without any requirement that the Agent or the Banks first assert, prosecute or exhaust any remedy or claim against the Company, any Account Party, or any other Person.

4. Representations and Warranties. Guarantor represents, warrants and agrees, and such representations and warranties shall be deemed to be continuing representations and warranties during the entire life of this Guaranty, that:

(a) Guarantor is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation and has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now conducted. To the best of its knowledge, Guarantor is duly qualified or licensed to do business as a foreign corporation, and is in good standing in each jurisdiction where the nature of the business conducted by it or the properties owned or leased by it makes such qualification or licensing necessary and where failure to be so qualified would have a material adverse effect on its business.

(b) Execution, delivery and performance of this Guaranty, all of the other Loan Documents to which Guarantor is a party, and all other documents and instruments executed and delivered under or in connection with this Guaranty or the other Loan Documents by Guarantor (or to be so executed and delivered) are within its corporate powers, have been duly authorized, are not in contravention of law or the terms of Guarantor's articles of incorporation or bylaws, and do not require the consent or approval, material to the transactions contemplated by the Loan Documents, of any court, governmental body, agency or authority not previously obtained and delivered to Agent under the Loan Agreement.

(c) This Guaranty and each of the Loan Documents to which Guarantor is a party and all other certificates, agreements, documents and instruments executed and delivered by Guarantor under or in connection therewith have each been duly executed and delivered by its duly authorized officers and constitute the valid and binding obligations of Guarantor, enforceable in accordance with their respective terms, except as the validity or enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally or other equitable principles (regardless of whether enforcement is considered in proceedings in law or equity).

(d) The execution, delivery and performance of the Guaranty and each of the Loan Documents to which Guarantor is a party and any other documents and instruments required under or in connection with this Guaranty by Guarantor are not in contravention of the

terms of any indenture, agreement or undertaking to which Guarantor is a party or by which it is bound, except to the extent such terms have been waived or are not material to the transactions contemplated by the Loan Documents.

(e) There is no suit, action, proceeding, including, without limitation, any bankruptcy proceeding, or governmental investigation pending against or affecting Guarantor or its Subsidiaries (other than any suit, action or proceeding in which Guarantor or its Subsidiaries is the plaintiff and in which no counterclaim or crossclaim against Guarantor or its Subsidiaries has been filed) nor has Guarantor or its Subsidiaries or any of their respective officers or directors been subject to any suit, action, proceeding or governmental investigation as a result of which any such officer or director is or may be entitled to indemnification by Guarantor or its Subsidiaries, except as otherwise disclosed in the appropriate exhibit to the Loan Agreement and except for miscellaneous suits, actions and proceedings (other than suits, actions or proceedings commenced by any government or governmental authority or seeking specific performance or other equitable or injunctive relief) involving less than \$100,000 which suits would not in the aggregate, if resolved adversely to Guarantor, have a material adverse effect on Guarantor. Except as so disclosed, there is not outstanding against Guarantor or its Subsidiaries any judgment, decree, injunction, rule, or order of any court, government, department, commission, agency, instrumentality or arbitrator nor is Guarantor or its Subsidiaries in violation of any applicable law, regulation, ordinance, order, injunction, decree or requirement of any governmental body or court where such violation would have a material adverse effect on Guarantor.

(f) There are no security interests in, liens, mortgages, or other encumbrances on any of the assets or properties of the Guarantor, that are prohibited by the provisions of the Loan Agreement.

(g) All factual information heretofore or contemporaneously furnished in writing by or on behalf of Guarantor to Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby is, and all other such factual information hereafter furnished by or on behalf of Guarantor to Agent or any Bank will be, true and accurate in every material respect on the date as of which such information is dated or certified and, to the best of its knowledge, is not incomplete by omitting to state any material fact necessary to make such information not misleading.

5. Miscellaneous.

5.1 Governing Law.

This Guaranty shall be deemed delivered in Michigan and shall be interpreted and the rights of the parties hereunder shall be determined under the laws of, and be enforceable in, the State of Michigan, Guarantor hereby consenting to the jurisdiction of such state and all federal courts sitting in such state.

5.2 Severability. If any term or provision of this Guaranty or the application thereof to any circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Guaranty, or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Guaranty shall be valid and enforceable to the fullest extent permitted by law.

5.3 Notice. All notices and other communications to be made or given pursuant to this Guaranty shall be sufficient if made or given in writing and delivered by messenger or deposited in the U.S. mails, registered or certified first class mail, addressed as follows:

AGENT: COMERICA BANK
500 Woodward Avenue
9th Floor
Detroit, Michigan 48226
Attention: U.S. Banking Department

BANKS: COMERICA BANK
500 Woodward Avenue
9th Floor
Detroit, Michigan 48226
Attention: U.S. Banking Department

FIRST INTERSTATE BANK OF TEXAS, N.A.
1000 Louisiana
2nd Floor
Houston, Texas 77002
Attention: Randall Walker

HARRIS TRUST AND SAVINGS BANK
111 W. Monroe-2W
Chicago, Illinois 60690
Attention: Kristan Seyfarth

NATIONSBANK OF TEXAS, N.A.
Corporate Banking, 8th Floor
700 Louisiana
Houston, Texas 77002
Attention: F. Scott Singhoff

GUARANTOR: [NAME OF GUARANTOR]
c/o Quanex Corporation
1900 W. Loop South, Suite 1500
Houston, Texas 77027
Attention: Wayne Rose

or at such other addresses as directed by any of such parties to the others, as applicable, in compliance with this paragraph.

5.4 Right of Offset. Guarantor acknowledges the rights of the Agent and of each of the Banks to offset against the indebtedness of Guarantor to the Banks under this Guaranty, any amount owing by the Agent or the Banks, or either or any of them to the Guarantor, whether represented by any deposit of Guarantor with the Agent or any of the Banks or otherwise.

5.5 Amendments. The terms of this Guaranty may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except as provided herein and in accordance with the Loan Agreement.

5.6 Release. Upon (a) the termination of the commitment of the Banks to make Loans or Advances to Company and the satisfaction by Guarantor of its obligations hereunder, or the time at which Guarantor is no longer subject to any obligation hereunder or the time at which the Guarantor is designated an Unrestricted Subsidiary pursuant to and in accordance with the terms of the Loan Agreement, whichever first occurs, the Guarantor shall be deemed released from this Guaranty and, the Agent shall deliver to Guarantor, upon written request therefor, a written release of this Guaranty; provided that, the effectiveness of this Guaranty shall continue or be reinstated, as the case may be, in the event that any payment received or credit given by the Agent or the Banks is returned, disgorged or rescinded as an avoidable preference, impermissible setoff, fraudulent conveyance or otherwise under any applicable state or federal law, including laws pertaining to bankruptcy or insolvency, and this Guaranty shall thereafter be enforceable against Guarantor as if such returned, disgorged or rescinded payment or credit had not been received or given by the Agent or the Banks, and whether or not the Agent or any Bank relied upon such payment or credit or changed its position as a consequence thereof.

[This Guaranty amends and restates in its entirety the Guaranty dated _____, 199__ by the Guarantor in favor of the Agent and the Banks.]

IN WITNESS WHEREOF, the undersigned Guarantor has executed this Guaranty as of _____, 199__.

[NAME OF GUARANTOR]

By: _____

Its: _____

ACCEPTED BY:

COMERICA BANK, As Agent,
on behalf of the Banks

By: _____

Its: _____

QUANEX CORPORATION
DEFERRED COMPENSATION PLAN
AMENDED AND RESTATED
OCTOBER 12, 1995

QUANEX CORPORATION
DEFERRED COMPENSATION PLAN

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QUANEX CORPORATION
DEFERRED COMPENSATION PLAN

WHEREAS, Quanex Corporation originally established the Quanex Deferred Compensation Plan effective October 1, 1981, which provides for certain highly compensated management personnel and directors a deferred compensation plan whereby a portion of the Executive Incentive Compensation Plan compensation may be deferred prior to its being earned by the executive and a portion of director's fees may be deferred prior to its being earned by directors;

WHEREAS, Quanex Corporation desires to amend, modify and restate the Deferred Compensation Plan effective October 12, 1995.

NOW, THEREFORE, Quanex Corporation through this document amends, modifies and restates the Quanex Corporation Deferred Compensation Plan which shall be as follows:

ARTICLE I
DEFINITIONS

1.1 Account. "Account" means a Participant's Account in the Deferred Compensation Ledger maintained by the Committee which reflects the benefits a Participant is entitled to under this Plan.

1.2 Beneficiary. "Beneficiary" means a person or entity designated by the Participant under the terms of this Plan to receive any amounts distributed under the Plan upon the death of the Participant.

1.3 Board of Directors. "Board of Directors" means the Board of Directors of Quanex.

1.4 Change of Control. "Change of Control" means the occurrence of one or more of the following events:

(a) Any "person", including a "syndication" or "group" as those terms are used in Section 13(d)(3) of the Securities Act, is or becomes the beneficial owner, directly or indirectly, of securities of Quanex representing 20% or more of the combined voting power of Quanex's then outstanding Voting Securities;

(b) Quanex is merged or consolidated with another corporation and immediately after giving effect to the merger or consolidation either (i) less than 80% of the outstanding Voting Securities of the surviving or resulting entity are then beneficially owned in the aggregate by (x) the stockholders of Quanex immediately prior to such merger or consolidation, or (y) if a record date has been set to determine the stockholders of Quanex entitled to vote on such merger or consolidation, the stockholders of Quanex as of such record date, or (ii) the Board of Directors, or similar governing body, of the surviving or resulting entity does not have as a majority of its members the persons specified in clause (c)(i) and (ii) below;

(c) If at any time the following do not constitute a majority of the Board of Directors of Quanex (or any successor entity referred to in clause (b) above):

(i) persons who are directors of Quanex on January 1, 1995; and

(ii) persons who, prior to their election as a director of Quanex (or successor entity if applicable) were nominated, recommended or endorsed by a formal resolution of the Board of Directors of Quanex;

(d) If at any time during a calendar year a majority of the directors of Quanex are not persons who were directors at the beginning of the calendar year; and

(e) Quanex transfers substantially all of its assets to another corporation which is a less than 80% owned subsidiary of Quanex.

1.5 Code. "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.6 Committee. "Committee" means the persons who are from time to time serving as members of the committee administering this Plan.

1.7 Common Stock. "Common Stock" means Quanex Common Stock, \$.50 par value (or such other par value as may be designated by the vote of Quanex Stockholders or such other equity securities of Quanex into which such Common Stock may be converted, reclassified or exchanged.)

1.8 Company. "Company" means Quanex and any Subsidiary adopting the Plan.

1.9 Company Match. "Company Match" means the 20% match which the Company makes to the amount deferred in Common Stock during a Plan Year by a Participant under this Plan for three or more Plan Years.

1.10 Deferred Compensation Ledger. "Deferred Compensation Ledger" means the ledger maintained by the Committee for each Participant which reflects the amount of compensation deferred for the Participant under this Plan, the Company match, and the amount of income credited on each of these amounts.

1.11 Director. "Director" means any person serving as a member of the Board of Directors.

1.12 Director Fees. "Director Fees" means any amount paid to a Director for services in such capacity.

1.13 Disability. "Disability" means a mental or physical disability which in the opinion of a physician selected by the Committee, shall prevent the Participant from engaging in any substantial gainful activity 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 twelve months and which: (a) was not contracted, suffered or incurred while the Participant 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 Participant received a military pension.

1.14 Incentive Bonus. "Incentive Bonus" means a bonus awarded or to be awarded to the Participant under the Quanex Corporation Executive Incentive Compensation Plan.

1.15 NYSE. "NYSE" means the New York Stock Exchange.

1.16 Participant. "Participant" means an employee or director of a Company who is eligible for and is participating in the Plan.

1.17 Plan. "Plan" means the Quanex Corporation Deferred Compensation Plan set forth in this document, as amended from time to time.

1.18 Plan Year. "Plan Year" means a one year period which coincides with the fiscal year of Quanex. Quanex's fiscal year begins on the first day of November of each calendar year and ends on October 31st of the next ensuing calendar year.

1.19 Quanex. "Quanex" means the Quanex Corporation, the sponsor of this Plan.

1.20 Retirement. "Retirement" means the Retirement of a Participant from any Company covered by the Plan under the terms of its qualified defined benefit Retirement plan, if any, or if it has none applicable to the Participant, under the Company's defined contribution Retirement plan, if any, or if it has none applicable to the Participant, under the Company's Retirement policy.

1.21 Securities Act. "Securities Act" means the Securities Exchange Act of 1934, as amended from time to time.

1.22 Subsidiary. "Subsidiary" means any wholly owned subsidiary of Quanex.

1.23 Term of Deferral. "Term of Deferral" means the period of deferral chosen by the Participant under the election procedure established in Section 3.1 or by the Committee which pertains to that portion of the Incentive Bonus or Director Fees for each given Plan Year and its accumulated income accrued that has been deferred under an election made prior to the commencement of the period during which it is earned.

1.24 Voting Securities. "Voting Securities" means any security which ordinarily possesses the power to vote in the election of the Board of Directors without the happening of any precondition or contingency.

ARTICLE II
ELIGIBILITY

Initially, all participants in the Quanex Corporation Executive Incentive Compensation Plan and all Directors will be eligible to participate in this Plan. However, the Committee retains the right to establish such additional eligibility requirements for participation in this Plan as it may determine is appropriate or necessary from time to time and has the right to determine, in its sole discretion, that any one or more persons who meet the eligibility requirements will not be eligible to participate for one or more Plan Years beginning after the date they are notified of this decision by the Committee.

ARTICLE III

BONUS DEFERRAL AND COMPANY CONTRIBUTIONS

3.1 Bonus Deferral Election. A Participant may elect during the election period established by the Committee prior to the beginning of any Plan Year:

(1) the percentage of his Incentive Bonus earned during the ensuing Plan Year which is to be paid as soon as conveniently possible after year end and the percentage which is to be deferred under this Plan;

(2) the percentage of his Director Fees earned during the ensuing Plan Year which is to be paid during such year and the percentage which is to be deferred under this Plan;

(3) the percentage of the amount deferred, if any, to be deferred in the form of Common Stock and the percentage, if any, to be deferred in the form of cash;

(4) the length of the period of deferral, if any amount has been elected to be deferred, whether in cash or in Common Stock, which deferral shall be for a period of years, to a date certain, to termination or to Retirement; and

(5) the form of payment of the amount that has been elected to be deferred: a lump sum or quarterly or annual installment payments of the principal amount plus the interest accrued after the distribution date, or last installment paid, if later, in the case of a deferral in the form of cash or of the total shares of Common Stock credited to him as of the date of distribution plus any other shares, cash or other property credited as dividends or other rights on those shares after the distribution date or last installment distributed, if later, in the case of a deferral in the form of Common Stock, over no less than three nor more than 20 years.

If a Participant elects a deferral period to Retirement, the participant shall also specify whether the deferral period shall end at termination or at the Participant's normal Retirement date, in the event of termination other than as a result of death, disability or Retirement. If a Participant elects a deferral period of a number of years or to a date certain, the deferral period shall end upon the Participant's Retirement if earlier.

The deferrals in the form of Common Stock elected by Participants to be allocated to their Accounts in any Plan Year must not exceed one percent of the shares of Common Stock outstanding on the first day of the Plan Year. In the event this maximum would be exceeded each Participant who elected to defer in the form of Common Stock shall have his election reduced on a pro rata basis as compared to all Participants who elected to defer in the form of Common Stock until those deferrals in the aggregate for that Plan Year equal the maximum and the portion of his Incentive Bonus which would have been deferred in the form of Common Stock shall instead be distributed to the Participant as provided in the Quanex Corporation Executive Incentive Compensation Plan.

Once an election has been made it becomes irrevocable for that Plan Year, except that the Participant may change his election of the form of payment he previously elected under Section 3.1(5) during a 30 day period ending one year prior to the end of the deferral period. In the event a Participant originally elected a deferral period of a number of years or until a date certain and, as a result of the

Participant's election to take Retirement, the Participant will retire before the end of the elected deferral period, the Participant may elect to change the form of payment during a 30 day period ending one year prior to the Retirement date chosen by the Participant by written notice to the Company. In the event a Participant changes his election, if the deferral period terminates early for any reason, which is beyond the control of the Participant, such as: involuntary termination of employment, death or disability, then the distribution or the first installment, whichever is applicable, shall not be made until one year after the election was changed; however, if the deferral period terminates early for any reason which is within the control of the Participant, such as: Retirement or voluntary termination of employment, then the change of election will be ineffective. If for any reason the deferral period does not end one year after the end of such 30 day period because of a postponement of Retirement or otherwise, the change of election shall remain in effect and no further changes of election shall be permitted.

The election to participate in the Plan for a given Plan Year will be effective only upon receipt by the Committee of the Participant's election on such form as will be determined by the Committee from time to time. If the Participant does not exercise his right to defer, subject to Section 3.4 below, the Participant will be deemed to have elected not to defer any part of his Incentive Bonus or Director Fees for that Plan Year and all of his Incentive Bonuses and Director Fees will be paid in cash. If the percentage of the Incentive Bonus and Director Fees elected to be deferred in

Common Stock results in a fractional share it shall be reduced to the next lowest full share and the fractional share shall be paid or deferred, as the case may be, in cash.

3.2 Company Match. The Company will credit to the Account of each Participant who has a portion of his Incentive Bonus or Director Fees deferred under this Plan in the form of Common Stock for a period of three full years or more additional shares of Common Stock equal to 20% of the amount which is deferred in the form of Common Stock, rounded to the next highest number of full shares.

3.3 Mandatory Deferral. If a Participant becomes entitled to a cash payment of part or all of an Incentive Bonus because the Participant did not elect to defer all of the Incentive Bonus but the Company determines that Section 162(m) of the Code may not allow the Company to take a deduction for part or all of the Incentive Bonus, then payment of the Incentive Bonus will be delayed until December 1st following the end of the Plan Year in which it occurred. Then on December 1st, if the Company's deduction is determined by the Company not to be affected, the Incentive Bonus in total will be paid immediately. However, if the Company determines that some portion of the Incentive Bonus is affected, then only that portion of the Incentive Bonus which is deductible by the Company shall be paid on December 1st and the remaining portion of the Incentive Bonus will be delayed to the first day of the first complete month of the second Plan Year, at which time it will be paid. The Committee may waive the mandatory deferral required by this Section 3.3 with respect to a Participant who is not a member of the Committee but such

waiver shall only be made on an individual basis and at the time the Incentive Bonus is determined and awarded.

ARTICLE IV

ACCOUNT

4.1 Establishing a Participant's Account. The Committee will establish an Account for each Participant in a special Deferred Compensation Ledger which will be maintained by the Company. The Account will reflect the amount of the Company's obligation to the Participant at any given time.

4.2 Credit of the Participant's Deferral and the Company's Match. Upon completion of the Plan Year the Committee will determine, as soon as administratively practicable, the amount of a Participant's Incentive Bonus or Director Fees that has been deferred for that Plan Year and the amount of the Company Match, if any, and will credit that or those amounts to the Participant's Account in the Deferred Compensation Ledger as of the end of the Plan Year during which the Incentive Bonus or Director Fees was earned. If the Participant elected his deferral to be in the form of Common Stock the number of shares credited to his Account as Common Stock shall be the number of full shares of Common Stock that could have been purchased with the dollar amount deferred, without taking into account any brokerage fees, taxes or other expenses which might be incurred in such a transaction, based upon the closing quotation on the NYSE, or if not traded on the NYSE, the principal market in which the Common Stock is traded on the date the amount would have been paid had it not been deferred pursuant to Article III, and

any additional fractional amount shall be credited to the Participant's Account in the form of cash.

4.3 Crediting of Dividends, Distributions and Interest.

When dividends are declared and paid on, or other distributions, whether stock, property, cash, rights or other, are made with respect to the Common Stock, those dividends and other distributions shall be accrued in a Participant's Account based upon the shares of Common Stock credited to the Participant's Account. The dividends or other distributions in the form of shares of Common Stock shall be credited to the Account as additional shares of Common Stock. The dividends or other distributions or rights in any other form shall be credited to the Participant's Account in the form of cash. For this purpose, all dividends and distributions not in the form of shares of Common Stock or cash shall be valued at the fair market value as determined by a resolution duly adopted by the Committee. Interest will be accrued on that portion of a Participant's Account held in the form of cash at the rate established by Section 4.4.

4.4 Interest Rate. Interest will be accrued on the last

day of each calendar month on each portion of a Participant's Account held in the form of cash (whether resulting from a cash deferral, cash dividends or other cash distributions on Common Stock or the conversion of a Common Stock credit in his Account to cash) from the later of (a) the time it is credited to his Account or (b) the last previous calendar month end at a rate equal to (x) the rate of interest announced by Chase Manhattan Bank, N.A., or its successor, if applicable as its prime rate of interest on

the last business day of the calendar quarter preceding the calendar quarter in which the month falls divided by (y) four. Interest so accrued on the last day of each calendar month shall be credited as cash to the Participant's Account and shall thereafter accrue interest. Interest will continue to be credited on the cash balance in the Participants Account until the entire cash balance has been distributed.

4.5 Common Stock Conversion Election. At any time during a period commencing three years prior to the earliest time a Participant could retire under the

Company's Retirement Plan and ending on the Participant's normal Retirement date as established under the Company's Retirement Plan, the Participant may elect a Retirement date under the Company's Retirement Plan and may elect to have all shares of Common Stock in his Account converted to cash. In that event, all shares of Common Stock shall be converted on the date notice is received by the Company based upon the closing quotation as described in Section 4.2, on that day, unless the Participant has specified no more than five different dates after the date of the notice on which the Participant desires all or a portion of the shares of Common Stock to be converted and the percentage of shares to be converted on each date. If the Participant has specified dates for and the percentage of shares to be converted, then the designated percentage of shares of Common Stock to be converted on each date shall be converted on the specified date based on the closing quotation as described in Section 4.2 on such specified dates.

At any time which is at least five years after Common Stock is credited to a Participant's account pursuant to Section 4.2, the Participant may elect to have such Common Stock converted to cash and credited to the Participant's Account. In that event, all shares of Common Stock specified by the Participant in a written notice to the Company which have been credited to the Participant's Account for at least five years prior to the giving of such notice shall be converted on the date notice is received by the Company based upon the closing quotation as described in Section 4.2, on that day.

ARTICLE V

VESTING AND EVENTS CAUSING FORFEITURE

5.1 Vesting. All deferrals of the Incentive Bonus and Director Fees and all income accrued on the deferrals will be 100% vested except for the events of forfeiture described in Sections 5.3 and 5.4. All Company matching accruals and all income accrued on those matching accruals will be 100% vested except for the events of forfeiture described in Section 5.2, 5.3 and 5.4.

5.2 Forfeiture of Company Match Because of Early Distribution. If, but for the provisions of this Section 5.2, a Participant would receive a benefit from this Plan for any reason, other than death, disability or Retirement, in respect of shares of Common Stock credited to the Participant's account pursuant to Section 4.2 as a result of the Company matching accrual of 20% provided for in Section 3.2 within three years after such shares were so credited, or if the Participant, prior to a Change of Control, ceases to be an employee with respect to a matching accrual resulting from deferral of an Incentive Bonus, or a director with respect to a matching accrual resulting from deferral of Directors Fees within three years after such shares are so credited, such matching accruals of shares of Common Stock and any dividends or other property or rights accumulated because of those shares of Common Stock shall be immediately forfeited.

5.3 Forfeiture For Cause. If the Committee finds, after

full consideration of the facts presented on behalf of both the Company and a former Participant, that the Participant was discharged by the Company for fraud, embezzlement, theft, commission of a felony, proven dishonesty in the course of his employment by the Company which damaged the Company, or for disclosing trade secrets of the Company, the entire amount credited to his Account in the Deferred Compensation Ledger, exclusive of an amount equal to the sum of the total deferrals of the Participant, will be forfeited. The decision of the Committee as to the cause of a former Participant's discharge and the damage done to the Company will be final. No decision of the Committee will affect the finality of the discharge of the Participant by the Company in any manner. Notwithstanding the foregoing, the forfeiture created by this Section will not apply to a Participant or former Participant discharged during the Plan Year in which a Change of Control occurs, or during the next three succeeding Plan Years following the Plan Year in which a Change of Controls occurs unless an arbitrator selected to review the Committee's findings agrees that the Committee has established by clear and convincing evidence that the grounds for forfeiture set forth in the first sentence have been met. The arbitrator will be selected by permitting the Company and the Participant to strike one name each from a panel of three names obtained from the American Arbitration Association. The person whose name is remaining will be the arbitrator.

5.4 Forfeiture for Competition. If at the time a

distribution is being made or is to be made to a Participant or former Participant, the Committee finds after full consideration of the facts presented on behalf of the Company and the Participant or former Participant, that the Participant or former Participant at any time within two years from his termination of employment from all Companies which adopted this Plan, and without written consent of the Company, directly or indirectly owns, operates, manages, controls or participates in the ownership, management, operation or control of or is employed by, or is paid as a consultant or other independent contractor by a business which competes or at any time did compete with the Company by which he was formerly employed in a trade area served by the Company at the time distributions are being made or to be made and in which the Participant or former Participant had represented the Company while employed by it; and, if the Participant or former Participant continues to be so engaged 60 days after written notice has been given to him, the Committee will forfeit all amounts otherwise due the Participant or former Participant, exclusive of an amount equal to the sum of the total deferrals of the Participant or former Participant. Notwithstanding the foregoing, the forfeiture created by this Section will not apply to any Participant or former Participant whose termination of employment from all Companies which adopted this Plan occurs during the Plan Year in which a Change of Control occurs or during the next three succeeding Plan Years following the Plan Year in which a Change of Control occurs.

ARTICLE VI
DISTRIBUTIONS

6.1 Form of Distributions or Withdrawals. Upon a distribution or withdrawal, at the option of Quanex, the number of shares of Common Stock credited to the Participant in the Deferred Compensation Ledger, if any, required to be distributed shall be distributed in kind or in cash, whether the distribution or withdrawal is in a lump sum or in installments. If distributed in cash, the amount per share of Common Stock which would otherwise be distributed in kind shall equal the closing quotation for the Common Stock on the NYSE (or if not traded on the NYSE, the principal market in which the Common Stock is traded) on the third business day prior to the date of distribution. If the distribution is in installments, all dividends and other property or rights accumulating on the shares still undistributed will be credited as provided in Section 4.3 and distributed with the next installment. If there are periodic installments to be made of the portion, if any, deferred as cash, income shall accumulate on that portion of the Account as described in Section 4.6 until the balance credited to the cash portion of the Participant's Account has been distributed. In that event income accumulating on the cash portion of the Account shall be distributed with the next installment to be distributed.

6.2 Death. Upon the death of a Participant prior to the expiration of the Term of Deferral, the Participant's Beneficiary or Beneficiaries will receive in

Common Stock or cash as required by Section 6.1, the balance then credited to the Participant's Account in the Deferred Compensation Ledger. The lump sum distribution or the first installment of the periodic distribution will be made 90 days after the Participant's death.

Each Participant, upon making his initial deferral election, will file with the Committee a designation of one or more Beneficiaries to whom distributions otherwise due the Participant will be made in the event of his death prior to the complete distribution of the amount credited to his Account in the Deferred Compensation Ledger. The designation will be effective upon receipt by the Committee of a properly executed form which the Committee has approved for that purpose. The Participant may from time to time revoke or change any designation of Beneficiary by filing another approved Beneficiary designation form with the Committee. If there is no valid designation of Beneficiary on file with the Committee at the time of the Participant's death, or if all of the Beneficiaries designated in the last Beneficiary designation have predeceased the Participant or otherwise ceased to exist, the Beneficiary will be the Participant's spouse, if the spouse survives the Participant, or otherwise the Participant's estate. A Beneficiary must survive the Participant by 60 days in order to be considered to be living on the date of the Participant's death. If any Beneficiary survives the Participant but dies or otherwise ceases to exist before receiving all amounts due the Beneficiary from the Participant's Account, the balance of the amount which would have been paid to that Beneficiary

will, unless the Participant's designation provides otherwise, be distributed to the individual deceased Beneficiary's estate or to the Participant's estate in the case of a Beneficiary which is not an individual. Any Beneficiary designation which designates any person or entity other than the Participant's spouse must be consented to in writing in a form acceptable to the Committee in order to be effective.

6.3 Disability. Upon the disability of a Participant prior to the expiration of the Term of Deferral, the Participant will receive in Common Stock or cash as required by Section 6.1, the balance then credited to the Participant's Account in the Deferred Compensation Ledger. The lump sum distribution or the first installment of the periodic distribution will be made 90 days after the Participant becomes disabled.

6.4 Expiration of Term of Deferral. Upon the expiration of the Term of Deferral the Participant shall receive in Common Stock or cash as required by Section 6.1, the balance credited to the Participant's Account in the Deferred Compensation Ledger. The lump sum distribution or the first installment of the periodic distribution will be made 90 days after the expiration of the Term of Deferral without regard to whether the Participant is still employed by the Company or not.

6.5 Hardship Withdrawals. Any Participant who is in the employ of a Company and is not entitled to a distribution from this Plan may request a hardship withdrawal. No hardship withdrawal can exceed the lesser of the amount credited to the Participant's Account or the amount reasonably needed to satisfy the

emergency need. Whether a hardship exists and the amount reasonably needed to satisfy the emergency need will be determined by the Committee based upon the evidence presented by the Participant and the rules established in this Section. If a hardship withdrawal is approved by the Committee it will be made in Common Stock or cash as required in Section 6.1 within 10 days of the Committee's determination. A hardship for this purpose is a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of a dependent (as defined in Section 152(a) of the Internal Revenue Code of 1986, as amended) of the Participant, loss of the Participant's property due to casualty, or any similar extraordinary and unforeseeable circumstance arising as a result of events beyond the control of the Participant. The circumstances that will constitute a hardship will depend upon the facts of each case, but, in any case, payment may not be made to the extent that the hardship is or may be relieved: (a) through reimbursement or compensation by insurance or otherwise, (b) by liquidation of the Participant's assets, to the extent the liquidation of such assets will not itself cause severe financial hardship, or (c) by cessation of deferrals under this Plan. Such foreseeable needs for funds as the need to send a Participant's child to college or the desire to purchase a home will not be considered to be a hardship.

6.6 Payment Restrictions on any Portion of a Benefit Determined Not to be Deductible. Except for hardship withdrawals under Section 6.5, if a Participant has a benefit that is due during a Plan Year and the Committee determines that

Section 162(m) of the Code could affect the Company's deduction on the amount paid, the distribution of his benefit will be delayed until December 1st following the end of the Plan Year. Then on December 1st if the Company's deduction is determined by the Committee not to be affected, the benefit in total will be distributed immediately; however, if the Committee determines that some portion of the benefit is affected then only that portion of the benefit which is deductible by the Company shall be distributed on December 1st and the distribution of the remaining portion of the benefit will be delayed to the first day of the first complete month of the Plan Year or Years on which a portion or all of the remaining distribution can be made and deducted by the Company on its federal income tax return. The Committee may waive the mandatory deferral required by this Section 6.6 with respect to a Participant who is not a member of the Committee but such waiver shall only be made on an individual basis and at the time the distribution is to be made.

6.7 Responsibility for Distributions and Withholding of Taxes. The Committee will furnish information, to the Company last employing the Participant, concerning the amount and form of distribution to any Participant entitled to a distribution so that the Company may make or cause the Rabbi Trust to make the distribution required. It will also calculate the deductions from the amount of the benefit paid under the Plan for any taxes required to be withheld by federal, state or local government and will cause them to be withheld. If a Participant has deferred compensation under the Plan while in the service of more than one Company, each

Company for which the Participant was working will reimburse the disbursing agent for the amount attributable to compensation deferred while the Participant was in the service of that Company if it has not already provided that funding to the disbursing agent.

ARTICLE VII
ADMINISTRATION

7.1 Committee Appointment. The Committee will be appointed by the Board of Directors. The initial Committee members will be Compensation Committee of the Board of Directors. Each Committee member will serve until his or her resignation or removal. The Board of Directors will have the sole discretion to remove any one or more Committee members and appoint one or more replacement or additional Committee members from time to time.

7.2 Committee Organization and Voting. The Committee will select from among its members a chairman who will preside at all of its meetings and will elect a secretary without regard to whether that person is a member of the Committee. The secretary will keep all records, documents and data pertaining to the Committee's supervision and administration of the Plan. A majority of the members of the Committee will constitute a quorum for the transaction of business and the vote of a majority of the members present at any meeting will decide any question brought before the meeting. In addition, the Committee may decide any question by vote, taken without a meeting, of a majority of its members. If a member of the Committee is ever appointed who is or becomes a Participant, that Committee member will not vote or act on any matter relating solely to himself.

7.3 Powers of the Committee. The Committee will have the exclusive responsibility for the general administration of the Plan according to the terms and provisions of the Plan and will have all powers necessary to accomplish those purposes, including but not by way of limitation the right, power and authority:

(a) to make rules and regulations for the administration of the Plan;

(b) to construe all terms, provisions, conditions and limitations of the Plan;

(c) to correct any defect, supply any omission or reconcile any inconsistency that may appear in the Plan in the manner and to the extent it deems expedient to carry the Plan into effect for the greatest benefit of all parties at interest;

(d) to designate the persons eligible to become Participants and to establish the maximum and minimum amounts that may be elected to be deferred;

(e) to determine all controversies relating to the administration of the Plan, including but not limited to:

(1) differences of opinion arising between the Company and a Participant except when the difference of opinion relates to the entitlement to, the amount of or the method or timing of a distribution of a benefit affected by a Change of Control, in which event it shall be decided by judicial action; and

(2) any question it deems advisable to determine in order to promote the uniform administration of the Plan for the benefit of all parties at interest; and

(f) to delegate by written notice those clerical and recordation duties of the Committee, as it deems necessary or advisable for the proper and efficient administration of the Plan.

7.4 Committee Discretion. The Committee in exercising any power or authority granted under this Plan or in making any determination under this Plan shall perform or refrain from performing those acts using its sole discretion and judgment. Any decision made by the Committee or any refraining to act or any act taken by the Committee in good faith shall be final and binding on all parties. The Committee's decision shall never be subject to de novo review. Notwithstanding the foregoing, the Committee's decision, refraining to act or acting is to be subject to judicial review for those incidents occurring during the Plan Year in which a Change of Control occurs and during the next three succeeding Plan Years.

7.5 Annual Statements. The Committee will cause each Participant to receive an annual statement as soon as administratively possible after the conclusion of each Plan Year containing the amounts deferred, the Company match, if any, and the income accrued on the deferred and matched amounts.

7.6 Reimbursement of Expenses. The Committee will serve without compensation for their services but will be reimbursed by Quanex for all expenses properly and actually incurred in the performance of their duties under the Plan.

ARTICLE VIII

ADOPTION BY SUBSIDIARIES

8.1 Procedure for and Status After Adoption. Any

Subsidiary may, with the approval of the Committee, adopt this Plan by appropriate action of its board of directors. The terms of the Plan will apply separately to each Subsidiary adopting the Plan and its Participants in the same manner as is expressly provided for Quanex and its Participants except that the powers of the Board of Directors and the Committee under the Plan will be exercised by the Board of Directors of Quanex alone. Quanex and each Subsidiary adopting the Plan will bear the cost of providing plan benefits for its own Participants. It is intended that the obligation of Quanex and each Subsidiary with respect to its Participants will be the sole obligation of the Company that is employing the Participant and will not bind any other Company.

8.2 Termination of Participation By Adopting Subsidiary.

Any Subsidiary adopting the Plan may, by appropriate action of its board of directors, terminate its participation in the Plan. The Committee may, in its discretion, also terminate a Subsidiary's participation in the Plan at any time. The termination of the participation in this Plan by a Subsidiary will not, however, affect the rights of any Participant who is working or has worked for the Subsidiary as to amounts or shares of Common Stock previously standing to his credit in his Account in the Deferred Compensation Ledger or reduce the income accrued on amounts deferred by

him or matched by the Company and credited to his Account whether in cash or in shares of Common Stock, prior to the distribution of the benefit to the Participant without his consent.

ARTICLE IX

AMENDMENT AND/OR TERMINATION

9.1 Amendment or Termination of the Plan. The Board of Directors may amend or terminate this Plan at any time by an instrument in writing without the consent of any adopting Company.

9.2 No Retroactive Effect on Awarded Benefits. No amendment will affect the rights of any Participant to the amounts, whether in cash or shares of Common Stock, then standing to his credit in his Account in the Deferred Compensation Ledger, to change the method of calculating the income already accrued or to accrue in the future on amounts already deferred by him or matched by the Company prior to the date of the amendment or to change a Participant's right under any provision relating to a Change of Control after a Change of Control has occurred, without the Participant's consent. However, the Board of Directors shall retain the right at any time to change in any manner the method of calculating the match by the Company and the income to accrue on all amounts to be deferred in the future by a Participant and/or to be matched in the future by the Company after the date of the amendment if it has been announced to the Participants.

9.3 Effect of Termination. If the Plan is terminated, all amounts, whether in cash or in shares of Common Stock, deferred by Participants and matched by the Company will continue to be held under the terms of this Plan until all

amounts have been distributed according to the elections made by the Participants or the directives made by the Committee prior to the deferrals. The forfeiture provisions of Sections 5.2, 5.3 and 5.4 and the restriction set out in Section 6.6 would continue to apply throughout the period after the termination of the Plan but prior to the completed distribution of all benefits.

ARTICLE X

FUNDING

10.1 Payments Under This Agreement are the Obligation of the Company. The Company will distribute the benefits due the Participants under this Plan; however should it fail to do so when a benefit is due and the funding trust contemplated by Section 10.2 exists, the benefit will be distributed by the trustee of that funding trust. In any event, if the trust fails to distribute a benefit for any reason, the Company still remains liable for all benefits provided by this Plan.

10.2 Agreement May Be Funded Through Rabbi Trust. It is specifically recognized by both the Company and the Participants that the Company may, but is not required to transfer any funds, shares or Common Stock or other assets that it finds desirable to a trust established to accumulate assets sufficient to fund the obligations of all of the Companies signatory to this Plan. However, under all circumstances, the Participants will have no rights to any of those assets; and likewise, under all circumstances, the rights of the Participants to the assets held in the trust will be no greater than the rights expressed in this agreement. Nothing contained in the trust agreement which creates the funding trust will constitute a guarantee by any Company that assets of the Company transferred to the trust will be sufficient to fund all benefits under this Plan or would place the Participant in a secured position ahead of general creditors should the Company become insolvent or

bankrupt. Any trust agreement prepared to fund the Company's obligations under this agreement must specifically set out these principles so it is clear in that trust agreement that the Participants in this Plan are only unsecured general creditors of the Company in relation to their benefits under this Plan.

10.3 Reversion of Excess Assets. Any adopting Company may, at any time, request the actuary, who last performed the annual actuarial valuation of the Quanex defined benefit Retirement plan, to determine the present Account balance, assuming the accrual rate for income not to be reduced (whether it actually is or not), as of the month end coincident with or next preceding the request, of all Participants and Beneficiaries of deceased Participants for which all Companies are or will be obligated to make benefit distributions under this Plan. If the fair market value of the assets held in the trust, as determined by the Trustee as of that same date, exceeds the total of the Account balances of all Participants and Beneficiaries by 25%, any Company may direct the trustee to return to each Company its proportionate part of the assets which are in excess of 125% of the Account balances. Each Company's share of the excess assets will be the Participants' Accounts accrued while in the employ of that Company as compared to the total of the Account balances accrued by all Participants under the Plan times the excess assets. If there has been a Change of Control, for the purpose of determining if there are excess funds, all contributions made prior to the Change of Control will be subtracted from the fair

market value of the assets held in the trust as of the determination date but before the determination is made.

10.4 Participants Must Rely Only on General Credit of the Company. It is also specifically recognized by both the Company and the Participants that this Plan is only a general corporate commitment and that each Participant must rely upon the general credit of the Company for the fulfillment of its obligations under this Plan. Under all circumstances the rights of Participants to any asset held by the Company will be no greater than the rights expressed in this agreement. Nothing contained in this agreement will constitute a guarantee by the Company that the assets of the Company will be sufficient to distribute any benefits under this Plan or would place the Participant in a secured position ahead of general creditors of the Company. Though the Company may establish or become a signatory to a Rabbi Trust, as indicated in Section 10.1, to accumulate assets to fulfill its obligations, the Plan and any such trust will not create any lien, claim, encumbrance, right, title or other interest of any kind in any Participant in any asset held by the Company, contributed to any such trust or otherwise designated to be used in fulfillment of any of its obligations created in this agreement. No specific assets of the Company have been or will be set aside, or will in any way be transferred to the trust or will be pledged in any way for the performance of the Company's obligations under this Plan which would remove such assets from being subject to the general creditors of the Company.

ARTICLE XI
MISCELLANEOUS

11.1 Limitation of Rights. Nothing in this Plan will be construed:

(a) to give any employee of any Company any right to be designated a Participant in the Plan;

(b) to give a Participant any right with respect to the compensation deferred, the Company match or the income accrued and credited in the Deferred Compensation Ledger except in accordance with the terms of this Plan;

(c) to limit in any way the right of the Company to terminate a Participant's employment with the Company at any time;

(d) to evidence any agreement or understanding, expressed or implied, that the Company will employ a Participant in any particular position or for any particular remuneration; or

(e) to give a Participant or any other person claiming through him any interest or right under this Plan other than that of any unsecured general creditor of the Company.

11.2 Distributions to Incompetents or Minors. Should a Participant become incompetent or should a Participant designate a Beneficiary who is a minor or incompetent, the Committee is authorized to distribute the benefit due to the parent of the minor or to the guardian of the minor or incompetent or directly to the minor or to apply those assets for the benefit of the minor or incompetent in any manner the Committee determines in its sole discretion.

11.3 Nonalienation of Benefits. No right or benefit provided in this Plan will be transferable by the Participant except, upon his death, to a named

Beneficiary as provided in this Plan. No right or benefit under this Plan will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same will be void. No right or benefit under this Plan will in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits. If any Participant or any Beneficiary becomes bankrupt or attempts to anticipate, alienate, sell, assign, pledge, encumber or charge any right or benefit under this Plan, that right or benefit will, in the discretion of the Committee, cease. In that event, the Committee may have the Company hold or apply the right or benefit or any part of it to the benefit of the Participant or Beneficiary, his or her spouse, children or other dependents or any of them in any manner and in any proportion the Committee believes to be proper in its sole and absolute discretion, but is not required to do so.

11.4 Expenses Incurred in Enforcing the Plan. The Company will, in addition, pay a Participant for all legal fees and expenses incurred by him in contesting or disputing his termination or in seeking to obtain or enforce any benefit provided by this Plan if the termination occurs in the Plan Year in which a Change of Control occurs or during the next three succeeding Plan Years following the Plan Year in which a Change of Control occurs except to the extent that the payment of those fees or expenses are restricted under Section 6.6.

11.5 Reliance Upon Information. The Committee will not be liable for any decision or action taken or not taken in good faith in connection with the administration of this Plan. Without limiting the generality of the foregoing, any decision or action taken or not taken by the Committee when it relies upon information supplied it by any officer of the Company, the Company's legal counsel, the Company's independent accountants or other advisors in connection with the administration of this Plan will be deemed to have been taken in good faith.

11.6 Severability. If any term, provision, covenant or condition of the Plan is held to be invalid, void or otherwise unenforceable, the rest of the Plan will remain in full force and effect and will in no way be affected, impaired or invalidated.

11.7 Notice. Any notice or filing required or permitted to be given to the Committee or a Participant will be sufficient if in writing and hand delivered or sent by U.S. mail to the principal office of the Company or to the residential mailing address of the Participant. Notice will be deemed to be given as of the date of hand delivery or if delivery is by mail, as of the date shown on the postmark.

11.8 Gender and Number. If the context requires it, words of one gender when used in this Plan will include the other genders, and words used in the singular or plural will include the other.

11.9 Governing Law. The Plan will be construed, administered and governed in all respects by the laws of the State of Texas.

11.10 Effective Date. This Plan will be operative and effective on October 12, 1995. However, those provisions relating to the Participants' right to defer in the form of Common Stock and to receive Common Stock when the period of deferral has been completed are contingent upon the shareholders of Quanex approving those provisions of the Plan at their meeting in 1996. Should they fail to do so, all provisions relating to the election to defer in the form of and to receive Common Stock are null and void and anyone who previously elected a deferral in the form of Common Stock shall instead receive that portion of his deferral in cash as soon as conveniently possible, with interest as if he had initially elected to defer in cash. Any distribution prior to the approval of the shareholders of Quanex shall be in the form of cash.

IN WITNESS WHEREOF, the Company has executed this document on this _____ day of _____, 1995, as authorized by the Board of Directors of Quanex on _____, 1995.

QUANEX CORPORATION

By _____

EXHIBIT 11

QUANEX CORPORATION
COMPUTATION OF EARNINGS PER COMMON SHARE

Years Ended October 31,	1995	1994	1993

(In thousands, except per share amounts)			
Income before extraordinary charge.....	\$ 33,860	\$ 18,852	\$ 8,428
Extraordinary charge - early extinguishment of debt.....	(2,021)	-	-
	-----	-----	-----
Net income	31,839	18,852	8,428
Preferred dividend requirements.....	(3,957)	(5,934)	(5,934)
	-----	-----	-----
Net income attributable to common stockholders.....	\$ 27,882	\$ 12,918	\$ 2,494
	=====	=====	=====
Weighted average shares outstanding-primary.....	13,580	13,496	13,551
	=====	=====	=====
Earnings per common share: Primary:			
Income before extraordinary charge.....	2.20	\$ 0.96	\$ 0.18
Extraordinary charge.....	(0.15)	-	-
	-----	-----	-----
Earnings per common share.....	\$ 2.05	\$ 0.96	\$ 0.18
	=====	=====	=====
Income before extraordinary charge.....	\$ 33,860	\$ 18,852	\$ 8,428
Extraordinary charge - early extinguishment of debt.....	(2,021)	-	-
	-----	-----	-----
Net income	31,839	18,852	8,428
Interest on 6.88% convertible subordinated debentures and amortization of related issuance costs, net of applicable income taxes.....	1,188	-	-
	-----	-----	-----
Adjusted net income.....	\$ 33,027	\$ 18,852	\$ 8,428
	=====	=====	=====
Weighted average shares outstanding-primary.....	13,580	13,496	13,551
Effect of common stock equivalents arising from stock options.....	-	72	45
Preferred stock assumed converted to common stock.....	1,825	2,738	2,738
Subordinated debentures assumed converted to common stock.....	899	-	-
	-----	-----	-----
Weighted average shares outstanding-fully diluted.....	16,304	16,306	16,334
	=====	=====	=====
Earnings per common share: Assuming full dilution:			
Earnings before extraordinary charge.....	\$ 2.15	\$ 1.16	\$ 0.52
Extraordinary charge.....	(0.12)	-	-
	-----	-----	-----
Earnings per common share.....	\$ 2.03	\$ 1.16	\$ 0.52
	=====	=====	=====

1
SALES BY MAJOR MARKETS

Markets	Market Description	Quanex Products	Sales (\$ millions)				
			1995	1994	1993	1992	1991
INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT	General Industrial Machinery (including mining, agriculture and construction)	Mechanical and pressure tubing, pipe, specialty forgings, extruded products, steel bars	\$ 177.8 20.0%	\$ 179.9 25.7%	\$ 180.4 29.3%	\$ 163.9 28.7%	\$ 146.4 24.8%
	Capital Equipment (including material handling, machine tools and office/household)	Mechanical tubing, steel bars	\$ 48.1 5.4%	\$ 46.8 6.7%	\$ 40.0 6.5%	\$ 30.3 5.3%	\$ 32.3 5.5%
	TOTAL INDUSTRIAL MACHINERY AND CAPITAL EQUIPMENT		\$ 225.9 25.4%	\$ 226.7 32.4%	\$ 220.4 35.8%	\$ 194.2 34.0%	\$ 178.7 30.3%
TRANSPORTATION	Aerospace	Seamless contoured rolled rings, mechanical tubing	\$.1 -	\$ - (1) -	\$ 6.2 (1) 1.0%	\$ 24.2 4.2%	\$ 26.8 4.6%
	Auto/Truck	Mechanical tubing, steel bars	\$ 230.8 25.9%	\$ 189.2 27.1%	\$ 153.1 24.8%	\$ 114.6 20.0%	\$ 93.6 15.9%
	Other Transportation (including ship/railroad, recreational vehicles and military transportation)	Mechanical tubing, steel bars	\$ 24.0 2.7%	\$ 17.0 2.4%	\$ 17.1 2.8%	\$ 20.1 3.5%	\$ 26.7 4.5%
	TOTAL TRANSPORTATION		\$ 254.9 28.6%	\$ 206.2 29.5%	\$ 176.4 28.6%	\$ 158.9 27.7%	\$ 147.1 25.0%
ENERGY	Exploration/Production	Oil field production tubing and casing, mechanical tubing, steel bars	\$ 12.6 1.4%	\$ 9.9 1.4%	\$ 13.9 2.3%	\$ 23.1 4.0%	\$ 42.7 7.3%
	Processing/Conversion (refining, petrochemical, power generation)	Pressure tubing, process pipe	\$ 66.2 7.4%	\$ 55.2 7.9%	\$ 61.9 10.0%	\$ 58.5 10.2%	\$ 61.8 10.5%
	TOTAL ENERGY		\$ 78.8 8.8%	\$ 65.1 9.3%	\$ 75.8 12.3%	\$ 81.6 14.2%	\$ 104.5 17.8%
ALUMINUM PRODUCTS	Residential and Commercial Building Materials, Other	Aluminum sheet, fabricated aluminum products, aluminum coil and coated aluminum coil	\$ 331.6 37.2%	\$ 200.9 28.7%	\$ 143.0 23.2%	\$ 137.1 24.0%	\$ 133.7 22.7%
OTHER			\$ - -	\$.4 .1%	\$.5 .1%	\$.3 .1%	\$ 24.9 4.2%
TOTAL SALES		\$ 891.2 100.0%	\$ 699.3 100.0%	\$ 616.1 100.0%	\$ 572.1 100.0%	\$ 588.9 100.0%	

(1) Decrease from prior years reflects the disposition of the Viking Metallurgical Corporation subsidiary during the second quarter of 1993.

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Years Ended October 31, 1995, 1994, and 1993

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Schedules not listed or discussed above have been omitted as they are either inapplicable or the required information has been given in the consolidated financial statements or the notes thereto.

GLOSSARY OF TERMS

The exact definitions of commonly used financial terms and ratios vary somewhat among different companies and investment analysts. The following list gives the definition of certain financial terms that are used in this report:

CAPITAL EXPENDITURES: Additions to property, plant and equipment.

BOOK VALUE PER COMMON SHARE: Stockholders' equity less the stated value of preferred stock divided by the number of common shares outstanding.

ASSET TURNOVER: Net sales divided by average total assets.

CURRENT RATIO: Current assets divided by current liabilities.

FIXED CHARGE COVERAGE: The sum of income before income taxes plus interest expense, plus the estimated interest component of rentals, less capitalized interest, plus amortization of previously capitalized interest, plus amortization of deferred debt issuance costs; divided by interest expense, plus the estimated interest component of rentals, plus amortization of deferred debt issuance costs.

RETURN ON INVESTMENT: The sum of net income and the after-tax effect of interest expense less capitalized interest divided by the sum of the averages for long-term debt and stockholders' equity.

RETURN ON COMMON STOCKHOLDERS' EQUITY: Net income attributable to common stockholders divided by average common stockholders equity.

FINANCIAL SUMMARY 1985-1995

(\$ thousands, except per share data)

(For definition of items, see page 33) Fiscal years ended October 31,	1995	1994	1993
REVENUES AND EARNINGS			
Net sales	\$ 891,195	699,314	616,145
Cost of sales	\$ 778,067	613,553	550,969
Gross profit	\$ 113,128	85,761	65,176
Selling, general and administrative expenses	\$ 46,647	44,898	42,243
Operating income (loss)	\$ 66,481	40,863	22,933
Percent of net sales	7.5	5.8	3.7
Other income (expense)-net	\$ 769	1,818	3,560
Interest expense-net of capitalized interest	\$ 8,870	10,178	11,962
Income (loss) before income taxes, extraordinary items, and cumulative effect of accounting change	\$ 58,380	32,503	14,531
Income taxes (credit)	\$ 24,520	13,651	6,103
Extraordinary items and cumulative effect of accounting changes, net of taxes(2)	(2,021) (2)	--	--
Net income (loss)	\$ 31,839	18,852	8,428
Percent of net sales	3.6	2.7	1.4
PER SHARE DATA			
Earnings (loss) per primary common share before extraordinary items and cumulative effect of accounting change	\$ 2.20	0.96	0.18
Net earnings (loss) per primary common share	\$ 2.05	0.96	0.18
Cash dividends declared	\$ 0.59	0.56	0.56
Book value	\$ 12.65	10.91	10.48
Average shares outstanding (000)	13,580	13,496	13,551
Market closing price range			
High	\$ 26	27	20 3/4
Low	\$ 18 3/8	16 1/4	14 1/4
FINANCIAL POSITION - YEAR END			
Working capital	\$ 77,167	124,645	148,338
Property, plant and equipment - net	\$ 258,564	262,261	242,346
Other assets	\$ 45,808	42,351	43,111
Noncurrent deferred income taxes	\$ 29,278	23,014	18,061
Long-term debt	\$ 132,862	128,400	128,695
Stockholders' equity	\$ 170,526	232,249	225,776
Total capitalization	\$ 303,388	360,649	354,471
Long-term debt percent of capitalization	43.8	35.6	36.3
OTHER DATA			
Asset turnover	1.6	1.3	1.2
Current ratio	1.5 TO 1	1.9 to 1	2.6 to 1
Fixed charge coverage	6.04	3.08	1.98
Return on average investment - percent	11.1	6.9	4.3
Return on average common equity - percent	17.6	9.0	1.7
Working capital provided (used) by operations(4)	\$ 72,552	51,243	40,061
Depreciation and amortization	\$ 32,433	28,535	29,352
Capital expenditures	\$ 26,654	44,557	36,961
Backlog for shipment in next 12 months	\$ 164,035	182,707	142,771
Number of stockholders	3,659	3,454	3,540
Average number of employees	2,719	2,603	2,622
Sales/employee	\$ 328	269	235

(1) On August 22, 1989, Quanex Corporation acquired Nichols-Homeshield, Inc. 1989 results include two months of Nichols-Homeshield operations.

(2) 1995-early extinguishment of debt; 1992-cumulative effect of accounting change for postretirement welfare benefits; 1988-primarily loss on early extinguishment of debt; 1987-reduction of income taxes arising from carryforward of prior year operating losses; 1985-loss on early extinguishment of debt.

1992	1991	1990	1989 (1)	1988	1987	1986	1985
572,090	588,888	650,316	501,991	462,916	345,409	324,835	296,974
506,778	514,894	551,929	418,580	383,399	305,725	304,330	263,746
65,312	73,994	98,387	83,411	79,517	39,684	20,505	33,228
46,534 (3)	38,914	41,207	30,136	29,495	23,415	26,476	26,452
18,778	35,080	57,180	53,275	50,022	16,269	(5,971)	6,776
3.3	6.0	8.8	10.6	10.8	4.7	(1.8)	2.3
2,399	673	(2,106)	703	1,596	6,758	83	9,405
10,495	14,306	9,880	6,837	15,081	17,019	17,255	10,861
10,682	21,447	45,194	47,141	36,537	6,008	(23,143)	5,320
4,487	9,007	17,174	17,891	13,600	2,958	(3,200)	(5,801)
(25,108) (2)	--	--	--	(4,464) (2)	2,158 (2)	--	(1,000) (2)
(18,913)	12,440	28,020	29,250	18,473	5,208	(19,943)	10,121
(3.3)	2.1	4.3	5.8	4.0	1.5	(6.1)	3.4
0.28	1.02	2.03	2.11	1.85	0.25	(1.63)	0.98
(1.70)	1.02	2.03	2.11	1.48	0.42	(1.63)	0.89
0.52	0.48	0.40	0.30	0.08	--	--	--
11.10	12.99	12.33	10.83	9.13	7.83	7.41	9.03
12,696	11,679	12,224	12,380	12,270	12,257	12,256	11,369
31 1/2	23	18 1/2	19	14 1/2	9	8	10 1/4
15 1/2	10 1/8	9 1/8	12 3/4	4 1/4	3	3 5/8	5 1/8
154,455	69,142	74,187	76,257	64,820	43,772	24,513	35,201
239,538	220,038	187,712	194,638	141,640	155,766	169,782	187,299
44,801	45,431	44,683	35,580	3,688	7,662	13,132	14,276
16,675	32,428	31,400	37,132	14,890	4,623	3,545	10,765
128,894	162,792	131,498	94,214	38,953	96,847	113,055	113,467
237,592	152,488	181,430	167,630	146,654	95,988	90,764	110,707
366,486	315,280	312,928	261,844	185,607	192,835	203,819	224,174
35.2	51.6	42.0	36.0	21.0	50.2	55.5	50.6
1.2	1.3	1.5	1.4	1.6	1.3	1.2	1.0
2.6 to 1	1.7 to 1	1.8 to 1	1.8 to 1	1.7 to 1	1.7 to 1	1.5 to 1	1.6 to 1
1.52	2.12	5.12	7.47	2.84	1.42	(0.16)	0.97
(3.8)	6.6	11.9	15.0	14.8	10.1	(2.4)	7.2
(14.2)	8.0	17.8	21.3	17.5	5.6	(19.8)	10.2
44,932	37,971	49,848	56,883	52,784	25,762	(2,918)	21,254
26,777	25,741	22,920	17,442	18,355	18,091	20,597	15,625
52,516	47,945	31,939	13,781	5,348	2,210	5,045	25,302
119,254	91,396	114,534	116,641	110,955	101,679	69,941	54,911
3,596	3,894	4,262	4,578	5,318	5,483	5,808	6,515
2,725	2,886	3,001	2,135	2,013	1,843	1,925	2,030
210	204	217	235	230	187	169	146

(3) Includes \$7.2 million facilities realignment charge.

(4) Working capital provided by operations is a supplemental financial measurement used in the evaluation of the company's business and should not be construed as an alternative to operating income or cash provided by operating activities since it excludes the effects of changes in working capital.

INDEPENDENT AUDITORS' REPORT

Board of Directors and Stockholders
 Quanex Corporation
 Houston, Texas

We have audited the accompanying consolidated balance sheets of Quanex Corporation and subsidiaries as of October 31, 1995 and 1994, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended October 31, 1995. Our audits also included the financial statement schedule listed in the index on page 33. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Quanex Corporation and subsidiaries as of October 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1995 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP
 Deloitte & Touche LLP
 Houston, Texas
 November 17, 1995
 (December 29, 1995 as to Note 16)

RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Quanex Corporation and subsidiaries were prepared by management, which is responsible for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles and include amounts that are based on management's best judgments and estimates.

Quanex's system of internal controls is designed to provide reasonable assurance, at justifiable cost, as to the reliability of financial records and reporting and the protection of assets. The system of controls provides for appropriate division of responsibility and the application of policies and procedures that are consistent with high standards of accounting and administration. Internal controls are monitored through recurring internal audit programs and are updated as our businesses and business conditions change.

The Audit Committee, composed solely of outside directors, determines that management is fulfilling its financial responsibilities by meeting periodically with management, Deloitte & Touche LLP, and Quanex's internal auditors, to review internal accounting control and financial reporting matters. The internal and independent auditors have free and complete access to the Audit Committee.

We believe Quanex's system of internal controls, combined with the activities of the internal and independent auditors and the Audit Committee, provides reasonable assurance of the integrity of our financial reporting.

/s/ ROBERT C. SNYDER
 Robert C. Snyder
 Chairman and
 Chief Executive Officer

/s/ WAYNE M. ROSE
 Wayne M. Rose
 Vice President and
 Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

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

Fiscal 1995 was a record year for the Company in terms of net sales, operating income, net income before extraordinary items, and earnings per share before extraordinary items. The Company's results for fiscal 1995 reflected a significant increase in revenues and income as compared to fiscal 1994 and 1993. The most significant gains were recognized in the Company's aluminum products and hot rolled steel bar businesses. The aluminum products business' operating income improved from an operating loss of \$437 thousand in fiscal 1993 to an operating income of \$9.6 million and \$22.1 million for fiscal 1994 and 1995, respectively. The hot rolled steel bar business' operating income in fiscal 1993, 1994 and 1995 was \$21.9 million, \$31.2 million and \$41.6 million, respectively. These improvements were principally due to higher volume and favorable business conditions.

The improved results for fiscal 1995 reflected more favorable market conditions in all segments due primarily to a stronger domestic economy, improved margins for certain products resulting from favorable pricing trends, greater market penetration for certain of the Company's manufactured products and the cost reduction programs initiated in earlier years and continuing to the present. The improved results also reflected the benefits realized from the Company's capital expenditure programs, which increased capacity and have allowed the Company to improve quality and better manage manufacturing costs.

The improvements in each of the Company's businesses resulted in the Company reporting a record operating income for fiscal 1995 of \$66.5 million, as compared to \$40.9 million and \$22.9 million for fiscal 1994 and 1993, respectively. Income before extraordinary charge for fiscal 1995 was \$33.9 million, as compared to \$18.9 million and \$8.4 million for fiscal 1994 and 1993, respectively. Fiscal 1995 included a \$2.0 million (\$3.5 million before tax) extraordinary charge for early extinguishment of debt relating to the acquisition by the Company of \$59.5 million principal amount of its 10.77% Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest.

Domestic and global market factors will impact the Company and any slowdown in the U.S. economy could affect demand and pricing for many of the Company's products. A softening in demand was experienced during the fourth quarter of fiscal 1995. However, the Company operated at near capacity during much of 1995 in both its hot rolled and cold finished steel bars segments. The softening in demand is continuing into the first quarter of fiscal 1996. The first quarter is typically the weakest quarter due to seasonal factors, with the unusually strong demand experienced in the first quarter of fiscal 1995 being an exception. Results for fiscal 1996 are expected to continue to reflect operational improvements, with financial improvements being dependent upon, among other things, whether the strong economic conditions experienced in fiscal 1995 are sustained. The Company expects fiscal 1996 results to be affected by the current sluggish demand and narrow profit margins in the aluminum products segment, and price discounting in the cold finished steel bar segment.

1995 COMPARED TO 1994

Net Sales -- Net sales for fiscal 1995 were \$891.2 million, representing an increase of \$191.9 million, or 27%, when compared to fiscal 1994. This increase was due to significantly higher volume in the aluminum products business, additional volume from increased production capacity as compared to last year, improvements in the economy, increases in demand and higher average selling prices.

Net sales for fiscal 1995 from the Company's hot rolled steel bar business were \$282.1 million, representing an increase of \$36.9 million, or 15%, when compared to fiscal 1994. This increase was primarily attributable to increased volume and a 9% increase in average selling prices. Volume increases reflected the additional capacity provided from the capital expenditures completed in March 1995. The hot rolled steel bar business also benefited from strength in the durable goods markets.

Net sales for fiscal 1995 from the Company's cold finished steel bar business were \$170.7 million, representing an increase of \$10.7 million, or 7%, when compared to fiscal 1994. The increase was primarily attributable to an increase in average selling price of 7%. Even though volume for the last half of the fiscal year was down 9% as compared to the last half of fiscal 1994, the strength experienced during the first half of the year, combined with the increase in average selling prices, resulted in the year-to-year net sales improvement.

Net sales from the Company's steel tube business for fiscal 1995 were \$119.9 million, representing an increase of \$13.8 million, or 13%, when compared to fiscal 1994. This increase in sales resulted principally from an increase in volume of 16%. The Company's steel tube business was adversely affected in fiscal 1994, and to a lesser degree in fiscal 1995, by downward pricing pressure from imports on certain products and a general weakness in this

segment's primary markets, which include power generation and the petrochemical and refining industries. In June 1994, the Company filed petitions alleging that imports of carbon and alloy seamless pipe up to 4.5 inches in diameter from four countries were being dumped or subsidized. In August 1994, the International Trade Commission (the "ITC") made an affirmative preliminary determination that imports of small-diameter pipe from these countries were causing injury to the U.S. industry and in January 1995, dumping bonds were imposed on imports of these products by these countries. In July 1995, the ITC made a final determination that imports of small diameter seamless carbon and alloy standard, line and pressure pipe from four countries had caused injury to the U.S. industry. This final ruling results in the ongoing enforcement of dumping margins imposed by the U.S. Department of Commerce. The Company believes that the volume improvement in fiscal 1995 over fiscal 1994 was due, in part, to the favorable ruling.

Net sales from the Company's aluminum products business for fiscal 1995 were \$331.6 million, representing an increase of \$130.6 million, or 65%, when compared to fiscal 1994. This increase was attributable to an increase in volume of 49% due to improved demand and market share and an increase in average selling price of 11%. First and second quarter results for 1994 were adversely affected by the fire at the Company's Lincolnshire plant. 1995 results were affected by aluminum price increases, which generally increased by more than the Company's average selling price because of a change in product mix.

Operating Income -- Consolidated operating income for fiscal 1995 was \$66.5 million, representing an increase of \$25.6 million, or 63%, when compared to fiscal 1994. This increase was principally due to higher net sales.

Operating income from the Company's hot rolled steel bar business for fiscal 1995 was \$41.6 million, representing an increase of \$10.3 million, or 33%, when compared to fiscal 1994. This increase was principally due to higher volume, higher net sales and improved margins.

Operating income from the Company's cold finished steel bar business for fiscal 1995 was \$11.5 million, representing an increase of \$2.8 million, or 33%, when compared to fiscal 1994. This increase was principally due to higher net sales and improved margins.

Operating income from the Company's steel tube business for fiscal 1995 was \$8.7 million, representing an increase of \$2.2 million, or 34%, when compared to fiscal 1994. This increase was principally due to higher volume and net sales.

Operating income from the Company's aluminum products business for fiscal 1995 was \$22.1 million, representing an increase of \$12.5 million, or 130%, when compared to fiscal 1994. This increase was principally due to substantially higher volume and net sales. For the first quarter of fiscal 1996, management expects that softer demand and weaker margins will impact the operating results of this business. Additionally, an aluminum products customer has indicated its intention to replace at some future date a current product with a substitute product of their own manufacture. The Company believes this potential loss of business may reduce annual operating earnings by approximately \$2 million to \$3 million; however, the Company would seek to offset this loss through sales to new customers.

Selling, General and Administrative Expenses -- Selling, general and administrative expenses increased in fiscal 1995 by \$1.7 million, or 4%, as compared to fiscal 1994. However, as a percentage of net sales, selling, general and administrative expenses were 5.2% in fiscal 1995 as compared to 6.4% in fiscal 1994.

Interest Expense and Capitalized Interest -- Interest expense decreased by \$3.2 million as compared to fiscal 1994 primarily as a result of the early extinguishment of a portion of the Company's senior debt late in the first fiscal quarter of 1995. Interest expense is expected to increase in fiscal 1996 following the Company's exchange of its 6.88% Cumulative Convertible Exchangeable Preferred Stock ("Preferred Stock") for \$84.9 million principal amount of its 6.88% Convertible Subordinated Debentures due June 30, 2007 ("6.88% Debentures") on June 30, 1995. Although this exchange will reduce net income through interest charges, net income attributable to common shareholders will benefit from the resulting tax savings. Interest expense is expected to decrease in fiscal 1996 as a result of the early extinguishment of the remaining senior debt in December 1995 (See Note 16). Capitalized interest decreased by \$1.9 million as compared to fiscal 1994 due to the completion in early 1995 of the construction at the Company's hot rolled steel bar business facilities.

Other -- Included in "Other, net" for fiscal 1995, was a \$1.1 million pretax gain related to a life insurance policy on a deceased former officer. Included in "Other, net" for fiscal 1994 was a \$1.7 million pretax charge related to certain financing contracts, partially offset by \$1.0 million of income relating to partial reimbursement of a business interruption loss for the fire that occurred at the Company's Lincolnshire facility in August 1993. Also, included in "Other, net" was investment income of \$783 thousand for fiscal 1995, as compared to \$3.0 million for fiscal 1994. The decrease in investment income was due to a decline in cash and short-term investments as such funds were used to reduce debt, and losses on sales of short-term investments.

Extraordinary Charge -- Included in fiscal 1995 was an extraordinary charge of \$2.0 million (\$3.5 million before tax) relating to early extinguishment of debt.

Net Income -- Net income attributable to common shareholders for fiscal 1995 was \$27.9 million, as compared to \$12.9 million for fiscal 1994. Preferred dividends reduced net income attributable to common shareholders by

\$4.0 million for fiscal 1995, as compared to \$5.9 million for fiscal 1994. The improvement in net income attributable to common shareholders was primarily attributable to improved operating income.

1994 COMPARED TO 1993

Net Sales -- Net sales for fiscal 1994 were \$699.3 million, an increase of \$83.2 million, or 13%, as compared to fiscal 1993 sales of \$616.1 million.

Net sales for fiscal 1994 from the Company's hot rolled steel bar business increased by \$31.1 million, or 15%. The increase was attributable to a 5% increase in tonnage shipped due to improved demand, particularly in the automotive and light truck markets, and an increase in average net selling prices of 9%.

Net sales for fiscal 1994 from the Company's cold finished steel bar business increased by \$15.6 million, or 11%. This increase was primarily attributable to improved demand related to better market conditions. The improved demand resulted in a 4% increase in tons shipped. Average net selling prices increased by 7%.

Net sales for fiscal 1994 from the Company's steel tube business decreased by \$15.0 million, or 12%. However, net sales for 1993 included revenues from the Bellville Tube Division that was sold in April of 1993. Excluding the net sales of Bellville Tube Division from the 1993 data, net sales increased by \$4.6 million, or 5%. The steel tube business was adversely affected during the year by increased foreign competition and lower prices for certain products. The increased pressure from imports on certain products was partially offset by improved demand and prices in automotive related business. Weakness in this segment's primary markets, which include power generation and the petrochemical and refining industries, continued to depress revenues.

Net sales for fiscal 1994 from the Company's aluminum products business increased by \$57.9 million, or 41%. The increase was primarily attributable to a larger customer base, which resulted in a higher market share, and improved demand related to the economy. Overall average selling prices declined 6% in fiscal 1994 due to product mix changes.

Operating Income -- Consolidated operating income for fiscal 1994 was \$40.9 million, an increase of \$17.9 million, or 78%, as compared to fiscal 1993 operating income of \$22.9 million. This increase was principally due to higher net sales and lower costs per unit resulting from operating at higher levels of volume and continuing cost reduction programs. Included in 1993 results was \$3.2 million of operating income from the Company's Bellville Tube Division and Viking Metallurgical Subsidiary which were sold during fiscal 1993.

Operating income from the Company's hot rolled steel bar business was \$31.2 million in fiscal 1994 compared to \$21.9 million in fiscal 1993, an increase of 43%. This increase was due to higher net sales as well as lower variable production costs per ton.

Operating income from the cold finished steel bar business was \$8.6 million in fiscal 1994, an increase of \$2.1 million, or 33%, as compared to fiscal 1993 operating income of \$6.5 million. The improvement resulted from increased volume as well as better margins related to higher selling prices. The cold finished steel bar business segment operated near capacity during 1994.

Operating income from the steel tube business for fiscal 1994 was \$6.5 million, a decrease of \$2.9 million, or 31% as compared to fiscal 1993 operating income of \$9.4 million. This decrease reflects primarily the absence of operating income from Bellville Tube Division. After excluding the impact of the Bellville Tube Division, operating income for fiscal 1994 was essentially flat as compared to fiscal 1993 notwithstanding increased sales. Operating income in the steel tube business reflected reduced margins due to pricing pressures from imports.

Operating income from the aluminum products business for fiscal 1994 was \$9.6 million as compared to an operating loss in fiscal 1993 of \$437 thousand. The improved results are due to significantly higher sales combined with lower variable conversion costs per pound. The lower costs per pound resulted from both cost reductions as well as from economies related to operating at higher levels of volume. Also contributing to improved operating income in 1994 was the partial elimination of outside service costs as the additional finishing equipment became operational at the Company's Lincolnshire facility. Pricing pressures declined in fiscal 1994 due to a reduction in the excess supply of aluminum ingot, which allowed for improved profit margins.

Selling, General and Administrative Expenses -- Selling, general and administrative expenses increased \$2.7 million, or 6%, in fiscal 1994 as compared to fiscal 1993. This increase was primarily due to increased levels of business activity. However, as a percentage of net sales, selling, general and administrative expenses decreased slightly in fiscal 1994 from fiscal 1993.

Interest Expense and Capitalized Interest -- Interest expense was flat at \$13.9 million for both fiscal years 1994 and 1993. Capitalized interest increased by \$1.9 million due to continued construction at the Company's MacSteel facilities which was completed in 1995.

Net Income -- Net income attributable to common stockholders for fiscal 1994 was \$12.9 million as compared to \$2.5 million in fiscal 1993, after deducting preferred dividends of \$5.9 million from both periods.

Interest income, included in "Other, net", was \$3.0 million in fiscal 1994 as compared to \$5.0 million in fiscal 1993. The decrease reflects lower yields on short-term investments and lower average cash balances available for investment as a result of the Company's investment of cash in its businesses.

Included in net income for fiscal 1994 and 1993 are certain items classified as "Other, net" on the income statement. In fiscal 1994, \$1.0 million of income relating to partial reimbursement of a business interruption loss for the fire that occurred at the Company's Lincolnshire facility in August 1993 was received. In addition, included in fiscal 1994 and 1993 are a \$1.7 million pre-tax charge and a \$1.4 million pre-tax gain, respectively realized from certain financing contracts.

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

	Years Ended October 31,		
	1995	1994 (1)	1993 (1)
	(In thousands)		
Hot Rolled Steel Bars:			
Units shipped (Tons).....	503.0	476.1	451.6
Net sales.....	\$282,100	\$245,219	\$214,139
Operating income.....	41,552	31,209	21,875
Depreciation and amortization.....	15,284	12,862	12,724
Identifiable assets.....	\$172,544	\$167,583	\$157,078
Cold Finished Steel Bars:			
Units shipped (Tons).....	182.9	182.9	175.9
Net sales.....	\$170,675	\$160,010	\$144,445
Operating income.....	11,461	8,618	6,464
Depreciation and amortization.....	1,310	1,268	1,195
Identifiable assets.....	\$ 54,985	\$ 51,405	\$ 49,400
Steel Tubes:			
Units shipped (Tons).....	94.2	81.4	113.2
Net sales.....	\$119,915	\$106,136	\$121,126
Operating income.....	8,724	6,492	9,436
Depreciation and amortization.....	1,966	1,992	2,811
Identifiable assets.....	\$ 43,777	\$ 38,939	\$ 37,821
Aluminum Products:			
Units shipped (Pounds).....	230,473	154,503	103,149
Net sales.....	\$331,565	\$200,932	\$142,990
Operating income.....	22,080	9,606	(437)
Depreciation and amortization.....	13,135	12,077	11,700
Identifiable assets.....	\$230,586	\$221,332	\$193,183

(1) Excludes the effects of charges to a \$7.2 million general write-down reserve recorded against manufacturing facilities in 1992 that could not be allocated against specific facilities or between businesses and was therefore reflected as a charge against "Corporate and Other" operations and the identifiable assets included within "Corporate and Other" operations. In 1993, \$2.9 million was charged against the reserve, which included \$2.2 million relating to the aluminum products business and \$700 thousand relating to the sale of Viking Metallurgical Corporation and Bellville Tube Division. In 1994, \$4.3 million was charged against the reserve, which included \$2.5 million relating to the aluminum products business, \$900 thousand relating to the steel tubes business and \$900 thousand relating to write-downs of assets classified in "Corporate and Other". (See Note 10 to consolidated financial statements).

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and, if needed, borrowings under a \$48 million unsecured revolving credit facility with a group of banks (the "Bank Agreement"). All borrowings under the Bank Agreement bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. The Bank Agreement was amended in December 1994 to extend the maturity of the facility to March 31, 1999. In December 1995, the Bank Agreement was amended to increase the amount of the credit facility to \$75 million. At October 31, 1995, there were \$10.0 million of outstanding borrowings and \$2.1 million of outstanding letters of credit under the Bank Agreement. In December 1995, the amount outstanding under the Bank Agreement increased to \$60 million. The additional borrowings were used to fund the repurchase of the Company's remaining Senior Notes (See Note 16).

On June 30, 1995, the Company exercised its right under the terms of its Cumulative Convertible Exchangeable Preferred Stock to exchange such stock for an aggregate of \$84,920,000 of its 6.88% Convertible Subordinated Debentures due June 30, 2007 ("Debentures"). Interest is payable semi-annually on June 30 and December 31 of

each year. The Debentures are subject to mandatory annual sinking fund payments sufficient to redeem 25% of the Debentures issued on each of June 30, 2005 and June 30, 2006, to retire a total of 50% of the Debentures before maturity. The Debentures are subordinate to all senior indebtedness of the Company and are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$31.50 per share.

At October 31, 1995, the Company had outstanding \$44.7 million in Senior Notes ("Senior Notes"). The Senior Notes are unsecured and bear interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes contain customary affirmative and negative covenants, as well as requirements to maintain a minimum capital base, as defined. In addition, the Senior Notes limit the payment of dividends and certain restricted investments. In December 1994, the Company acquired \$59.5 million principal amount of the Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest. The acquisition was funded with the Company's available cash, proceeds from the sale of its short-term investments and \$10 million in borrowings under the Bank Agreement. On December 29, 1995, the Company acquired the remaining Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The acquisition premium and related expenses will result in a one-time, after-tax extraordinary charge of approximately \$2.5 million in the first quarter of 1996. The December 29, 1995 acquisition was funded with current cash balances and additional short-term borrowings.

At October 31, 1995, the Company had commitments of \$10 million for the purchase or construction of capital assets. During the first quarter of fiscal 1995, the Company's Board of Directors approved a \$5 million capital project for the purchase and installation of a fully integrated coil-to-bar cold drawing line at LaSalle Steel's Hammond, Indiana operation. The Company's \$52 million (not including approximately \$9 million in capitalized interest) Phase II MacSteel expansion project and \$8 million Nichols-Homeshield annealing expansion were both completed in March 1995. In December 1995, the Company's Board of Directors approved Phase III of the MacSteel expansion project. Phase III is designed to improve melting and casting capabilities and is expected to increase capacity by approximately 70,000 tons. The project also includes significant upgrades to pollution control systems to ensure compliance with new EPA standards under the Clean Air Act. Phase III is expected to cost approximately \$60 million and should be completed during fiscal year 1998. The Company plans to fund this capital investment through cash flow from operations and, if necessary, additional borrowings.

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

Operating Activities

Cash provided by operating activities during fiscal 1995 was \$67.1 million. This represents an increase of \$21.1 million, or 46%, as compared to fiscal 1994. The improvement resulted principally from higher operating income in 1995.

Investment Activities

Net cash provided by investment activities in fiscal 1995 was \$25.6 million as compared to net cash used of \$41.3 million in fiscal 1994. The increase in cash provided by investment activities was principally due to the liquidation of short-term investments to fund the Company's acquisition of its Senior Notes. In addition, capital expenditures decreased by \$17.9 million as compared to fiscal 1994 primarily due to the completion of the Phase II MacSteel expansion project. Fiscal 1994 included \$6.4 million of proceeds from the sale of the Company's Viking Metallurgical Corporation subsidiary. The Company estimates that fiscal 1996 capital expenditures will approximate \$50 to \$60 million.

Financing Activities

Net cash used by financing activities for fiscal 1995 was \$81.5 million, principally consisting of \$59.5 million related to the early extinguishment of the Senior Notes, \$21.0 million in repayments of long-term debt, \$7.9 million in common dividends and \$4.5 million in preferred dividends. These uses of cash were partially offset by notes payable borrowings of \$10.0 million.

EFFECTS OF INFLATION

Inflation has not had a significant effect on earnings and other financial statement items.

Quanex Corporation
CONSOLIDATED BALANCE SHEETS

	October 31,	1995	1994

(In thousands)			
ASSETS			
Current assets:			
Cash and equivalents.....		\$ 45,213	\$ 34,041
Short-term investments.....		--	54,070
Accounts and notes receivable, less allowance for doubtful accounts of \$3,581,000 in 1995 and \$3,593,000 in 1994.....		104,240	83,082
Inventories (Note 4).....		84,676	81,800
Deferred income taxes (Note 3).....		6,848	6,114
Prepaid expenses.....		1,398	289
		-----	-----
Total current assets.....		242,375	259,396
Property, plant and equipment, net (Note 5).....		258,564	262,261
Goodwill, net (Note 1).....		32,064	33,017
Other assets.....		13,744	9,334
		-----	-----
		\$546,747	\$564,008
		=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Notes payable (Note 7).....		\$ 10,000	\$ --
Accounts payable.....		91,730	75,515
Accrued expenses (Note 6).....		42,087	37,118
Current maturities of long-term debt (Note 7).....		20,968	20,958
Income taxes payable (Note 3).....		423	1,160
		-----	-----
Total current liabilities.....		165,208	134,751
Long-term debt (Note 7).....		111,894	107,442
Deferred pension credits (Note 8).....		16,656	15,810
Deferred postretirement welfare benefits (Note 9).....		53,185	50,742
Deferred income taxes (Note 3).....		29,278	23,014
		-----	-----
Total liabilities.....		376,221	331,759
Stockholders' equity (Notes 11, 12, and 13):			
Preferred stock, no par value, 1,000,000 shares authorized; No shares in 1995 and 345,000 shares in 1994 issued and outstanding.....		--	86,250
Common stock, \$.50 par value, 25,000,000 shares authorized; 13,485,312 shares in 1995 and 13,377,724 shares in 1994 issued and outstanding.....		6,743	6,688
Additional paid-in capital.....		92,406	86,323
Retained earnings.....		74,426	55,081
Unearned compensation.....		(317)	(370)
Adjustment for minimum pension liability (Note 8).....		(2,732)	(1,723)
		-----	-----
Total stockholders' equity.....		170,526	232,249
		-----	-----
		\$546,747	\$564,008
		=====	=====

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended October 31, 1995	1994	1993
(In thousands, except per share amounts)			
Net sales.....	\$891,195	\$699,314	\$616,145
Costs and expenses:			
Cost of sales.....	778,067	613,553	550,969
Selling, general and administrative.....	46,647	44,898	42,243
Operating income.....	66,481	40,863	22,933
Other income (expense):			
Interest expense.....	(10,742)	(13,944)	(13,871)
Capitalized interest.....	1,872	3,766	1,909
Other, net.....	769	1,818	3,560
Income before income taxes and extraordinary charge.....	58,380	32,503	14,531
Income tax expense (Note 3).....	(24,520)	(13,651)	(6,103)
Income before extraordinary charge.....	33,860	18,852	8,428
Extraordinary charge -- early extinguishment of debt (Note 7).....	(2,021)	--	--
Net income.....	31,839	18,852	8,428
Preferred dividends.....	(3,957)	(5,934)	(5,934)
Net income attributable to common stockholders.....	\$ 27,882	\$ 12,918	\$ 2,494
Earnings per common share:			
Earnings before extraordinary charge.....	\$ 2.20	\$.96	\$.18
Extraordinary charge.....	(0.15)	--	--
Net earnings.....	\$ 2.05	\$.96	\$.18
Weighted average number of shares outstanding.....	13,580	13,496	13,551

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollar amounts in thousands)

Years Ended October 31, 1995 1994 and 1993	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Adjustment for Minimum Pension Liability/ Unearned Compensation	Total Stock- holders' Equity
	Shares	Amount	Shares	Amount				
Balance at October 31, 1992.....	345,000	\$86,250	13,638,005	\$6,819	\$87,260	\$ 57,263	--	\$237,592
Net Income.....	--	--	--	--	--	8,428	--	8,428
Stock purchases.....	--	--	(340,100)	(170)	(2,252)	(2,574)	--	(4,996)
Common dividends (\$.56 per share)..	--	--	--	--	--	(7,548)	--	(7,548)
Preferred dividends.....	--	--	--	--	--	(5,934)	--	(5,934)
Adjustment for minimum pension liability.....	--	--	--	--	--	--	\$(1,984)	(1,984)
Exercise of stock options.....	--	--	16,932	8	210	--	--	218
Balance at October 31, 1993.....	345,000	86,250	13,314,837	6,657	85,218	49,635	(1,984)	225,776
Net Income.....	--	--	--	--	--	18,852	--	18,852
Common dividends (\$.56 per share)..	--	--	--	--	--	(7,472)	--	(7,472)
Preferred dividends.....	--	--	--	--	--	(5,934)	--	(5,934)
Adjustment for minimum pension liability.....	--	--	--	--	--	--	261	261
Unearned compensation.....	--	--	--	--	--	--	(370)	(370)
Exercise of stock options and restricted stock awards.....	--	--	62,887	31	1,105	--	--	1,136
Balance at October 31, 1994.....	345,000	86,250	13,377,724	6,688	86,323	55,081	(2,093)	232,249
Net income.....	--	--	--	--	--	31,839	--	31,839
Common dividends (\$.59 per share)..	--	--	--	--	--	(7,932)	--	(7,932)
Preferred dividends.....	--	--	--	--	--	(4,451)	--	(4,451)
Conversion of preferred stock to subordinated debentures.....	(339,681)	(84,920)	--	--	3,350	--	--	(81,570)
Conversion of preferred stock to common stock.....	(5,319)	(1,330)	42,211	21	1,309	--	--	--
Adjustment for minimum pension liability.....	--	--	--	--	--	--	(1,009)	(1,009)
Unearned compensation.....	--	--	--	--	--	--	53	53
Other.....	--	--	65,377	34	1,424	(111)	--	1,347
Balance at October 31, 1995.....	--	\$ --	13,485,312	\$6,743	\$92,406	\$ 74,426	\$(3,049)	\$170,526

See notes to consolidated financial statements.

Quanex Corporation
CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended October 31,	1995	1994	1993

(In thousands)				
OPERATING ACTIVITIES:				
Net Income.....		\$ 31,839	\$ 18,852	\$ 8,428
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization.....		32,433	28,535	29,352
Facilities realignment charge (See Note 1).....		--	(4,264)	(2,936)
Deferred income taxes.....		6,910	4,786	4,593
Deferred pension costs.....		(1,073)	151	(1,400)
Deferred postretirement welfare benefits.....		2,443	3,183	2,024
		-----	-----	-----
		72,552	51,243	40,061
Changes in assets and liabilities net of effects from acquisitions and dispositions:				
Increase in accounts and notes receivable.....		(21,158)	(17,206)	(3,008)
Increase in inventory.....		(2,876)	(4,901)	(6,763)
Increase (decrease) in accounts payable.....		16,215	13,166	(3,076)
Increase in accrued expenses.....		4,969	4,614	2,723
Other, net.....		(2,580)	(900)	(9)
		-----	-----	-----
Cash provided by operating activities.....		67,122	46,016	29,928
INVESTMENT ACTIVITIES:				
Capital expenditures, net of retirements.....		(26,601)	(42,457)	(35,866)
Decrease (increase) in short-term investments.....		54,070	(6,415)	(47,655)
Proceeds from the sale of Bellville Tube Division and Viking Metallurgical Subsidiary.....		--	6,390	15,500
Other, net.....		(1,878)	1,195	1,941
		-----	-----	-----
Cash provided (used) by investment activities.....		25,591	(41,287)	(66,080)
		-----	-----	-----
Cash provided (used) by operating and investment activities.....		92,713	4,729	(36,152)
FINANCING ACTIVITIES:				
Notes payable borrowings.....		10,000	--	--
Purchase of Senior Notes.....		(59,500)	--	--
Repayments of long-term debt.....		(20,958)	(295)	(199)
Common dividends paid.....		(7,932)	(7,472)	(7,548)
Preferred dividends paid.....		(4,451)	(5,934)	(5,934)
Purchases of Quanex common stock.....		--	--	(4,996)
Other, net.....		1,300	766	218
		-----	-----	-----
Cash used by financing activities.....		(81,541)	(12,935)	(18,459)
		-----	-----	-----
Increase (decrease) in cash and equivalents.....		11,172	(8,206)	(54,611)
Cash and equivalents at beginning of period.....		34,041	42,247	96,858
		-----	-----	-----
Cash and equivalents at end of period.....		\$ 45,213	\$ 34,041	\$ 42,247
		=====	=====	=====

See notes to consolidated financial statements.

 1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Quanex Corporation and its subsidiaries (the "Company"), all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in consolidation.

SCOPE OF OPERATIONS

The Company operates primarily in four industry segments: the manufacturing of hot rolled steel bars, cold finished steel bars, steel tubes, and aluminum products. The Company's operations are conducted in the United States. For the years ended October 31, 1995, 1994 and 1993, no single customer accounted for more than 10% of the Company's revenue (See Note 10).

STATEMENTS OF CASH FLOWS

The Company generally considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Similar investments with original maturities beyond three months are considered short-term investments. For fiscal years 1995, 1994 and 1993 cash paid for income taxes was \$17,572,000, \$10,144,000 and \$4,037,000, respectively. These amounts are before refunds of \$47,000, \$294,000 and \$1,412,000, respectively. Cash paid for interest for fiscal 1995, 1994 and 1993 was \$10,324,000, \$13,990,000 and \$13,941,000, respectively. Cash payments related to the facilities realignment charge recorded in fiscal 1992 were \$625,000 and \$1,712,000, respectively, for fiscal 1994 and 1993. Non-cash investing and financing activities in fiscal 1995 included the exchange of \$84,920,000 of the Company's Cumulative Convertible Exchangeable Preferred Stock for the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007, and the conversion of \$1,330,000 of the Company's Cumulative Convertible Exchangeable Preferred Stock to the Company's common stock.

INVENTORIES

Inventories are valued at the lower of cost or market. Costs related to substantially all manufacturing inventories are determined by the last-in, first-out ("LIFO") method (See Note 4).

GOODWILL

Goodwill represents the excess of the purchase price over the fair value of acquired companies and is being amortized on a straight line basis over forty years. At October 31, 1995 and 1994, accumulated amortization was \$5,807,000 and \$4,854,000, respectively.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment is stated at cost and is depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of certain categories are as follows:

	Years

Land improvements.....	10 to 25
Buildings.....	10 to 40
Machinery and equipment.....	3 to 18

HEDGING

The Company uses futures and option contracts to hedge a portion of its exposure to price fluctuations of aluminum. Hedging gains and losses are recognized concurrently with the related sales transactions (See Note 14).

INCOME TAXES

Effective November 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". This statement requires the use of the asset and liability approach for financial accounting and reporting for income taxes. Adoption of this statement did not have a material effect on the Company's financial position or results of operations (See Note 3).

EARNINGS PER SHARE DATA

Primary earnings per share is computed by deducting preferred dividends from net income in order to determine net income attributable to common stockholders. This amount is then divided by the weighted average number of common shares outstanding and common stock equivalents.

RECLASSIFICATION

Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 1995 presentations.

2. ACQUISITIONS AND DISPOSITIONS

During the second quarter of fiscal 1993, the Company sold the stock of its Viking Metallurgical Corporation subsidiary and the assets of its Bellville Tube Division for \$15.5 million in cash and a \$6.4 million note. The aggregate consideration approximated the book value. These sales did not have a significant effect on the Company's financial results.

3. INCOME TAXES

Effective November 1, 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes." This statement requires the use of the asset and liability approach for financial accounting and reporting for income taxes. Adoption of this statement did not have a material effect on the Company's financial position or results of operations. Prior year financial statements have not been restated.

Income tax expense (benefit) consists of the following:

	Years Ended October 31,		
	1995	1994	1993

	(In thousands)		
Current:			
Federal.....	\$16,302	\$ 9,738	\$4,226
State.....	1,940	1,359	802
	-----	-----	-----
	18,242	11,097	5,028
Deferred.....	6,278	2,554	1,075
	-----	-----	-----
	24,520	13,651	6,103
Reduction of taxes from extinguishment of debt.....	(1,463)	--	--
	-----	-----	-----
	\$23,057	\$13,651	\$6,103
	=====	=====	=====

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. At October 31, 1995 and 1994, \$6,848,000 and \$6,114,000, respectively, of deferred tax assets were classified as current assets.

Significant components of the Company's net deferred tax liability are as follows:

	October 31,	
	1995	1994

	(In thousands)	
Deferred tax liability:		
Property, plant and equipment.....	\$39,604	\$38,406
Inventory.....	3,887	3,885
Other.....	15,446	8,547
	-----	-----
	58,937	50,838
Deferred tax assets:		
Postretirement benefit obligation.....	20,834	19,786
Other employee benefit obligations.....	9,982	8,647
Other accrued liabilities.....	5,691	5,505
	-----	-----
	36,507	33,938
Net deferred tax liability.....	\$22,430	\$16,900
	=====	=====

Income tax expense differs from the amount computed by applying the statutory federal income tax rate to earnings before income taxes for the following reasons:

	Years Ended October 31,		
	1995	1994	1993
	(In thousands)		
Income tax expense at statutory federal tax rate.....	\$20,433	\$11,376	\$5,039
Increase in taxes resulting from:			
State income taxes, net of federal effect.....	3,190	1,720	694
Goodwill.....	334	331	332
Other items, net.....	563	224	38
	===== \$24,520	===== \$13,651	===== \$6,103

4. INVENTORIES

Inventories consist of the following:

	October 31,	
	1995	1994
	(In thousands)	
Inventories valued at lower of cost (principally LIFO method) or market:		
Raw materials.....	\$27,655	\$25,946
Finished goods and work in process.....	48,071	47,684
	----- 75,726	----- 73,630
Other.....	8,950	8,170
Total.....	===== \$84,676	===== \$81,800

With respect to inventories valued using the LIFO method, replacement cost exceeded the LIFO value by approximately \$24,000,000 and \$15,000,000 at October 31, 1995 and 1994, respectively.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	October 31,	
	1995	1994
	(In thousands)	
Land and land improvements	\$ 17,462	\$ 17,365
Leasehold improvements	94	94
Buildings	76,364	70,795
Machinery and equipment	424,266	353,927
Construction in progress	7,139	57,617
	----- 525,325	----- 499,798
Less accumulated depreciation and amortization.....	266,761	237,537
	===== \$258,564	===== \$262,261

Maintenance and repair expense was \$26,397,000, \$21,488,000, and \$19,572,000 in 1995, 1994 and 1993, respectively. The Company had commitments for the purchase or construction of capital assets amounting to approximately \$10,000,000 at October 31, 1995.

6. ACCRUED EXPENSES

Accrued expenses consist of the following:

	October 31,	
	1995	1994
	(In thousands)	
Accrued contribution to pension funds.....	\$ 2,703	\$ 1,435
Interest.....	3,080	2,661
Payroll, payroll taxes and employee benefits.....	23,479	20,392
State and local taxes.....	3,346	3,271
Other.....	9,479	9,359

\$42,087
=====

\$37,118
=====

7. LONG-TERM DEBT AND FINANCING ARRANGEMENTS

Long-term debt consists of the following:

	October 31,	
	1995	1994
	(In thousands)	
Senior notes.....	\$ 44,667	\$125,000
Convertible subordinated debentures.....	84,920	--
Industrial Revenue and Economic Development Bonds, unsecured, payable in annual installments through the year 2005, bearing interest ranging from 7.40% to 8.375%.....	3,275	3,400
	-----	-----
	\$132,862	\$128,400
Less maturities due within one year included in current liabilities.....	20,968	20,958
	-----	-----
	\$111,894	\$107,442
	=====	=====

At October 31, 1995, and 1994, the Company had \$44.7 million and \$125.0 million, respectively, in Senior Notes ("Senior Notes"). The Senior Notes bear interest at the rate of 10.77% per annum, payable semi-annually. The Senior Notes require annual repayments of \$20.8 million beginning August 23, 1995, with a final payment of \$3.0 million on August 23, 1998. In December 1994, the Company acquired \$59.5 million principal amount of the Senior Notes for a purchase price equal to 105% of the principal amount plus accrued interest. The Company recorded an extraordinary charge of \$2.0 million (\$3.5 million before tax) in the first quarter of 1995 related to the call premium and write-off of deferred debt issuance costs for the Senior Notes that were repurchased. On December 29, 1995, the Company repurchased the remaining Senior Notes (See Note 16).

On June 30, 1995, the Company exercised its right under the terms of its Cumulative Convertible Exchangeable Preferred Stock to exchange such stock for an aggregate of \$84,920,000 of its 6.88% Convertible Subordinated Debentures due June 30, 2007 ("Debentures"). Interest is payable semi-annually on June 30 and December 31 of each year. The Debentures are subject to mandatory annual sinking fund payments sufficient to redeem 25% of the Debentures issued on each of June 30, 2005 and June 30, 2006, to retire a total of 50% of the Debentures before maturity. The Debentures are subordinate to all senior indebtedness of the Company and are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$31.50 per share.

As of October 31, 1995, the Company had an unsecured \$48 million Revolving Credit and Letter of Credit Agreement ("Bank Agreement") with a group of banks. In December 1995, the Bank Agreement was amended to increase the amount of the credit facility to \$75 million. The Bank Agreement consists of a revolving line of credit ("Revolver"), and up to \$20 million for standby letters of credit, limited to the undrawn amount available under the Revolver. The Bank Agreement is renewable annually and was amended in December 1994 to extend the maturity to March 31, 1999. All borrowings under the Revolver bear interest, at the option of the Company, at either floating prime or a reserve adjusted Eurodollar rate. The Bank Agreement contains customary affirmative and negative covenants and requirements to maintain a minimum consolidated tangible net worth, as defined. The Bank Agreement limits the payment of dividends and certain restricted investments. At October 31, 1995 and 1994, \$10 million and zero, respectively, were outstanding under the Revolver and \$2.1 million and \$93 thousand, respectively, were issued under Letters of Credit. In December 1995, the amount outstanding under the Revolver increased to \$60 million. The additional borrowings were used to fund the repurchase of the Company's remaining Senior Notes (See Note 16). The weighted average interest rate on borrowings under the Revolver was 7.1% during fiscal 1995. As of October 31, 1995, the Company was in compliance with all Bank Agreement covenants. Under the Company's most restrictive loan covenants, retained earnings of \$25,483,000 at October 31, 1995, were available for dividends.

Aggregate maturities of long-term debt at October 31, 1995, are as follows (in thousands):

1996.....	\$ 20,968
1997.....	20,978
1998.....	3,156
1999.....	165
2000.....	180
Thereafter.....	87,415

	\$132,862
	=====

The above aggregate maturities will decrease in 1996, 1997 and 1998 by approximately \$20.8 million, \$20.8 million and \$3.0 million, respectively, as a result of the repurchase of the Senior Notes in December 1995 (See Note 16).

The Company had entered into financing arrangements in order to manage a portion of its exposure to interest rate fluctuations. These arrangements effectively converted a portion of the Company's debt from fixed-rate to variable rate. In 1994, the Company accrued its maximum potential pretax loss on open agreements of \$1.7 million. These agreements expired in 1995. In 1993, the Company recognized a \$1.4 million gain on the close out of certain financing contracts.

8. PENSION PLANS AND RETIREMENT BENEFITS

The Company has retirement plans covering substantially all employees. The plans provide for defined benefits. The plans pay benefits to employees at retirement using formulas based upon years of service and compensation rates near retirement. The Company's funding policy is generally to make the minimum annual contributions required by applicable regulations.

The plans' funded status was as follows:

	Assets exceed accumulated benefit obligation		Accumulated benefit obligation exceeds assets	
	October 31,			
	1995	1994	1995	1994
Assets available for benefits	\$ 26,013	\$ 22,564	\$ 12,823	\$ 10,363
Projected benefit obligation				
Vested	(21,630)	(20,457)	(18,939)	(16,329)
Nonvested	(371)	(340)	(5,185)	(3,217)
Accumulated benefit obligation	(22,001)	(20,797)	(24,124)	(19,546)
Effect of future salary increases	(11,024)	(8,725)	(299)	(278)
Total projected benefit obligation	(33,025)	(29,522)	(24,423)	(19,824)
Assets less than projected benefit obligation	\$ (7,012)	\$ (6,958)	\$ (11,600)	\$ (9,461)
Consisting of:				
Amounts to be offset against future pension costs:				
Assets in excess of obligation at adoption	\$ 979	\$ 1,083	\$ 233	\$ 321
Obligation (increase) decrease due to plan amendments	350	405	(4,621)	(4,343)
Actuarial gains and losses	(235)	(383)	(5,046)	(3,425)
Minimum liability adjustment	--	--	9,087	7,168
Amounts recognized in consolidated balance sheets:				
Deferred pension credit	(7,489)	(7,497)	(9,167)	(8,313)
Accrued contribution to pension funds	(617)	(566)	(2,086)	(869)
	\$ (7,012)	\$ (6,958)	\$ (11,600)	\$ (9,461)

In accordance with the provisions of Statement of Financial Accounting Standards No. 87, the Company recorded additional minimum pension liabilities as of October 31, 1995 and 1994, representing the excess of the accumulated benefit obligations over the fair value of plan assets and accrued pension liabilities. The Company recorded additional pension liabilities of \$9,087,000 and \$7,168,000; intangible assets of \$4,607,000 and \$4,343,000; and stockholders' equity reductions, net of income taxes, of \$2,732,000 and \$1,723,000, as of October 31, 1995 and 1994, respectively.

The projected unit credit method was used to determine the actuarial present value of the accumulated benefit obligation and the projected benefit obligation. For 1995, 1994 and 1993 the discount rates were 7.5%, 8% and 7%, respectively. The expected long term rate of return on assets was 10% for the three year period ending October 31, 1995. The assumed rate of increase in future compensation levels was 4.5% in 1995, 5% in 1994 and 4% in 1993. The plans invest primarily in marketable equity and debt securities.

Net pension costs for defined benefit plans were as follows:

	Years Ended October 31,		
	1995	1994	1993
	(In thousands)		
Benefits earned during the year.....	\$ 3,067	\$ 3,040	\$ 2,631
Interest cost on projected benefit obligation.....	4,075	3,388	3,231
Actual return on plan assets.....	(4,566)	(275)	(3,715)
Net amortization and deferral.....	1,490	(2,727)	1,153
	\$ 4,066	3,426	\$ 3,300
	=====	=====	=====

The Company has various defined contribution plans in effect for certain eligible employees. The Company makes contributions to the plans subject to certain limitations outlined in the plans. Contributions to these plans were approximately \$2,767,000, \$2,478,000, and \$2,277,000 during fiscal 1995, 1994, and 1993, respectively.

The Company has a Supplemental Benefit Plan covering certain key officers of the Company. Earned vested benefits under the Supplemental Benefit Plan were approximately \$4,107,000, \$2,982,000, and \$2,543,000 at October 31, 1995, 1994 and 1993, respectively. These benefits are funded with life insurance policies on the officers purchased by the Company.

9. POSTRETIREMENT BENEFITS OTHER THAN PENSIONS

The Company provides certain health care and life insurance benefits for eligible retired employees. Employees may become eligible for those benefits if they reach normal retirement age while working for the Company. The Company continues to fund benefit costs on a pay-as-you-go basis; and, for fiscal year 1995, the Company made benefit payments totaling \$2,547,000, compared to \$1,892,000 and \$2,460,000 in fiscal 1994 and 1993, respectively.

The following table sets forth the funded status of the Company's projected postretirement benefits other than pensions, reconciled with amounts recognized in the Company's consolidated balance sheets at:

	October 31,	
	1995	1994
	(In thousands)	
Accumulated postretirement benefit obligation:		
Retirees.....	\$ (35,021)	\$ (29,995)
Fully eligible active plan participants.....	(7,764)	(5,764)
Other active plan participants.....	(15,874)	(14,209)
	(58,659)	(49,968)
Plan assets at fair value.....	--	--
Accumulated postretirement benefit obligation in excess of plan assets.....	(58,659)	(49,968)
Unrecognized prior service cost.....	(2,941)	(3,232)
Unrecognized net loss from past experience different from that assumed and from changes in assumption.....	8,415	2,458
Accrued postretirement benefit cost.....	\$ (53,185)	\$ (50,742)
	=====	=====

	Years Ended October 31,		
	1995	1994	1993
	(In thousands)		
Net periodic postretirement benefit cost:			
Service cost -- benefits attributed to service during the period.....	\$ 780	\$ 945	\$ 824
Interest cost on accumulated postretirement benefit obligation.....	4,166	3,839	3,634
Net amortization and deferral.....	44	291	26
Net periodic postretirement benefit cost.....	\$4,990	\$5,075	\$4,484
	=====	=====	=====

The assumed health care cost trend rate was 9.9% in 1995, decreasing uniformly to 5.5% in the year 2002 and remaining level thereafter. The assumed discount rate used to measure the accumulated postretirement benefit obligation was 7.5% at October 31, 1995, and 8% at October 31, 1994.

If the health care cost trend rate assumptions were increased by 1%, the accumulated postretirement benefit obligation as of October 31, 1995 would be increased by 6.1%.

The effect of this change on the sum of the service cost and interest cost would be an increase of 13.3%.

10. INDUSTRY SEGMENT INFORMATION

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

Year ended October 31, 1995	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
(In thousands)						
Units shipped:						
To unaffiliated companies.....	480.7 Tons	182.9 Tons	94.2 Tons	230,473 Lbs.		
Intersegment	22.3	--	--	--		
Total.....	503.0 Tons	182.9 Tons	94.2 Tons	230,473 Lbs.		
Net sales:						
To unaffiliated companies.....	\$269,040	\$170,675	\$119,915	\$331,565	--	\$891,195
Intersegment(2).....	13,060	--	--	--	\$(13,060)	--
Total.....	\$282,100	\$170,675	\$119,915	\$331,565	\$(13,060)	\$891,195
Operating income (loss).....	\$ 41,552	\$ 11,461	\$ 8,724	\$ 22,080	\$(17,336)	\$ 66,481
Depreciation and amortization:						
Operating.....	\$ 15,284	\$ 1,310	\$ 1,966	\$ 12,183	\$ 113	\$ 30,856
Other.....	--	--	--	952	625	1,577
	\$ 15,284	\$ 1,310	\$ 1,966	\$ 13,135	\$ 738	\$ 32,433
Capital expenditures.....	\$ 12,215	\$ 2,108	\$ 3,478	\$ 8,704	\$ 149	\$ 26,654
Identifiable assets.....	\$172,544	\$ 54,985	\$ 43,777	\$230,586	\$ 44,855	\$546,747

(1) Included in "Corporate and Other" are intersegment eliminations and corporate expenses.

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

Year ended October 31, 1994(3)	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other(1)	Consolidated
(In thousands)						
Units shipped:						
To unaffiliated companies.....	452.4 Tons	182.9 Tons	81.4 Tons	154,503 Lbs.		
Intersegment.....	23.7	--	--	--		
Total.....	476.1 Tons	182.9 Tons	81.4 Tons	154,503 Lbs.		
Net sales:						
To unaffiliated companies.....	\$232,236	\$160,010	\$106,136	\$200,932	--	\$699,314
Intersegment(2).....	12,983	--	--	--	\$(12,983)	--
Total.....	\$245,219	\$160,010	\$106,136	\$200,932	\$(12,983)	\$699,314
Operating income (loss).....	\$ 31,209	\$ 8,618	\$ 6,492	\$ 9,606	\$(15,062)	\$ 40,863
Depreciation and amortization:						
Operating.....	\$ 12,862	\$ 1,268	\$ 1,992	\$ 11,130	\$ 97	\$ 27,349
Other.....	--	--	--	947	239	1,186
	\$ 12,862	\$ 1,268	\$ 1,992	\$ 12,077	\$ 336	\$ 28,535
Capital expenditures.....	\$ 23,931	\$ 893	\$ 1,907	\$ 17,741	\$ 85	\$ 44,557
Identifiable assets.....	\$167,583	\$ 51,405	\$ 38,939	\$221,332	\$ 84,749	\$564,008

(1) Included in "Corporate and Other" are intersegment eliminations and corporate expenses.

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

(3) During 1994, \$4.3 million was charged against a general facilities realignment reserve recorded in 1992 and included in "Corporate and Other". Of the \$4.3 million total charge, \$2.5 million related to the Aluminum Products segment, \$900 thousand related to the Steel Tubes segment and \$900 thousand related to write-downs of assets classified in "Corporate and Other".

Year ended October 31, 1993(3)	Hot Rolled Steel Bars	Cold Finished Steel Bars	Steel Tubes	Aluminum Products	Corporate and Other (1)	Consolidated
(In thousands)						
Units shipped:						
To unaffiliated companies.....	427.3 Tons	175.9 Tons	113.2 Tons	103,149 Lbs.		
Intersegment.....	24.3	--	--	--		
Total.....	451.6 Tons	175.9 Tons	113.2 Tons	103,149 Lbs.		
Net sales:						
To unaffiliated companies.....	\$201,419	\$144,445	\$121,126	\$142,990	\$ 6,165	\$616,145
Intersegment(2).....	12,720	--	--	--	(12,720)	--
Total.....	\$214,139	\$144,445	\$121,126	\$142,990	\$ (6,555)	\$616,145
Operating income (loss).....	\$ 21,875	\$ 6,464	\$ 9,436	\$ (437)	\$ (14,405)	\$ 22,933
Depreciation and amortization:						
Operating.....	\$ 12,724	\$ 1,195	\$ 2,811	\$ 10,752	\$ 296	\$ 27,778
Other.....	--	--	--	948	626	1,574
	\$ 12,724	\$ 1,195	\$ 2,811	\$ 11,700	\$ 922	\$ 29,352
Capital expenditures.....	\$ 26,734	\$ 1,457	\$ 1,388	\$ 7,078	\$ 304	\$ 36,961
Identifiable assets.....	\$157,078	\$ 49,400	\$ 37,821	\$193,183	\$ 91,385	\$528,867

- (1) Included in "Corporate and Other" are intersegment eliminations, Viking Metallurgical Corporation and corporate expenses.
- (2) Intersegment sales are conducted on an arm's-length basis.
- (3) During 1993, \$2.9 million was charged against a general facilities realignment reserve recorded in 1992 and included in "Corporate and Other". Of the \$2.9 million total charge, \$2.2 million related to the Aluminum Products segment and \$700 thousand related to the sale of Viking Metallurgical Corporation and Bellville Tube Division.

11. PREFERRED STOCK PURCHASE RIGHTS

The Company declared a dividend in 1986 of one Preferred Stock Purchase Right (a "Right") on each outstanding share of its common stock. This action was intended to assure that all shareholders would receive fair treatment in the event of a proposed takeover of the Company. On April 26, 1989, the Company amended the Rights to provide for additional protection to shareholders and to provide the Board of Directors of the Company with needed flexibility in responding to abusive takeover tactics. Each Right, when exercisable, entitles the holder to purchase 1/100th of a share of the Company's Series A Junior Participating Preferred Stock at an exercise price of \$60. Each 1/100th of a share of Series A Junior Participating Preferred Stock will be entitled to a dividend equal to the greater of \$.01 and the dividend declared on each share of common stock, and will be entitled to 1/100th of a vote, voting together with the shares of common stock. The Rights will be exercisable only if, without the Company's prior consent, a person or group of persons acquires or announces the intention to acquire 20% or more of the Company's common stock. If the Company is acquired through a merger or other business combination transaction, each Right will entitle the holder to purchase \$120 worth of the surviving company's common stock for \$60. Additionally, if someone acquires 20% or more of the Company's common stock, each Right not owned by the 20% or greater shareholder would permit the holder to purchase \$120 worth of the Company's common stock for \$60. The Rights are redeemable, at the option of the Company, at \$.02 per Right at any time until ten days after someone acquires 20% or more of the common stock. The Rights expire in 1999.

As a result of the Rights distribution, 150,000 of the 1,000,000 shares of authorized Preferred Stock were reserved for issuance as Series A Junior Participating Preferred Stock.

12. PREFERRED STOCK -- DEPOSITARY CONVERTIBLE EXCHANGEABLE PREFERRED SHARES

During May 1992, the Company issued 3,450,000 Depositary Convertible Exchangeable Preferred Shares ("Depositary Shares"), each representing 1/10th of a share of the Company's 6.88% Cumulative Convertible Exchangeable Preferred Stock ("Preferred Stock"). The net proceeds from the issuance was \$82.9 million. The dividend per annum and liquidation preference for each share of Preferred Stock were \$17.20 and \$250, respectively, and for each Depositary Share were \$1.72 and \$25, respectively. Dividends on the Preferred Stock and Depositary Shares were cumulative and payable quarterly, commencing September 30, 1992. The Company was prohibited from paying any dividends on Common Stock (other than in Common Stock or junior stock) unless all required preferred dividends had been paid.

The Preferred Stock was convertible at the option of the holder into shares of the Company's Common Stock at a conversion price of \$31.50 per share, subject to adjustment in certain events. The Preferred Stock was

exchangeable at the option of the Company, in whole but not in part, on any dividend payment date commencing June 30, 1995 for the Company's 6.88% Convertible Subordinated Debentures due June 30, 2007 ("6.88% Debentures") at the rate of \$250 principal amount of 6.88% Debentures for each share of Preferred Stock and \$25 principal amount of 6.88% Debentures for each Depositary Share.

On June 30, 1995, the Company exercised its right under the terms of its Cumulative Convertible Exchangeable Preferred Stock to exchange such stock for an aggregate of \$84,920,000 of its 6.88% Debentures. Interest is payable semi-annually on June 30 and December 31 of each year. The Debentures are subject to mandatory annual sinking fund payments sufficient to redeem 25% of the Debentures issued on each of June 30, 2005 and June 30, 2006, to retire a total of 50% of the Debentures before maturity. The Debentures are subordinate to all senior indebtedness of the Company and are convertible, at the option of the holder, into shares of the Company's common stock at a conversion price of \$31.50 per share.

13. RESTRICTED STOCK AND STOCK OPTION PLANS

The Company has restricted stock and stock option plans which provide for the granting of common shares or stock options to key employees. Under the Company's restricted stock plan, common stock may be awarded to key employees. The recipient is entitled to all of the rights of a shareholder, except that during the forfeiture period the shares are nontransferable. The award vests during an eight year period based on the price of the Company's stock. Upon issuance of stock under the plan, unearned compensation equal to the market value at the date of grant is charged to stockholders' equity and subsequently amortized to expense over the restricted period. Restricted shares granted were none in 1995, 22,400 in 1994, and none in 1993. The amount charged to compensation expense was \$53,000 in 1995, \$92,000 in 1994 and none in 1993.

Options are granted at prices determined by the Board of Directors which may not be less than the fair market value of the shares at the time the options are granted. Unless otherwise provided by the Board at the time of grant, options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of grant and must be exercised no later than ten years from the date of grant. No options may be granted under the plans after December 1, 2002. There were 140,151, 435,151, and 652,951 shares available for granting of options at October 31, 1995, 1994 and 1993, respectively. Stock option transactions for the three years ended October 31, 1995, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1992.....	190,885	481,871	\$16
Granted.....	=====	198,700	20
Exercised.....		(13,932)	10
Cancelled.....		(32,838)	17
Balance at October 31, 1993.....	287,412	633,801	17
Granted.....	=====	198,800	26
Exercised.....		(34,400)	15
Cancelled.....		(3,400)	19
Balance at October 31, 1994.....	405,299	794,801	19
Granted.....	=====	295,000	20
Exercised.....		(28,768)	15
Cancelled.....		--	--
Balance at October 31, 1995.....	567,243	1,061,033	\$20
	=====	=====	

The Company also has a stock option plan which provides for the granting of stock options to non-employee Directors to purchase up to an aggregate amount of 100,000 shares of common stock. The plan provides that each non-employee Director and each future non-employee Director as of the first anniversary of the date of his election as a Director of the Company will be granted an option to purchase 10,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of the grant.

Options become exercisable in 33 1/3% increments maturing cumulatively on each of the first through third anniversaries of the date of the grant and must be exercised no later than 10 years from the date of grant. No options may be granted under the plan after June 22, 1997. There were 40,000 shares available for granting of options at October 31, 1995, 1994 and 1993. Stock option transactions for the three years ended October 31, 1995, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1992.....	10,000	10,000	\$14
Granted.....	-----	10,000	21
Exercised.....		--	--
Cancelled.....		--	--
Balance at October 31, 1993.....	10,000	20,000	17
Granted.....	-----	--	--
Exercised.....		--	--
Cancelled.....		--	--
Balance at October 31, 1994.....	13,333	20,000	17
Granted.....	-----	--	--
Exercised.....		--	--
Cancelled.....		--	--
Balance at October 31, 1995.....	16,666	20,000	\$17

In addition, the Company has a stock option plan which provides for the granting of stock options to non-employee Directors to purchase up to an aggregate of 210,000 shares of common stock. The plan provides that each non-employee Director as of December 6, 1989, was granted an option to purchase 3,000 shares of common stock at a price per share of common stock equal to the fair market value of the common stock as of the date of grant. Also, each non-employee Director who is a director of the Company on any subsequent October 31, while the plan is in effect and shares are available for the granting of options hereunder, shall be granted on such October 31, an option to purchase 3,000 shares of common stock at a price equal to the fair market value of the common stock as of such October 31. Options become exercisable at any time commencing six months after the grant and must be exercised no later than 10 years from the date of grant. No option may be granted under the plan after December 5, 1999. There were 72,000, 93,000, and 114,000 shares available for granting of options at October 31, 1995, 1994 and 1993, respectively. Stock option transactions for the three years ended October 31, 1995, were as follows:

	Shares Exercisable	Shares Under Option	Average Price Per Share
Balance at October 31, 1992.....	36,000	57,000	\$18
Granted.....	-----	21,000	20
Exercised.....		(3,000)	11
Cancelled.....		--	--
Balance at October 31, 1993.....	54,000	75,000	19
Granted.....	-----	21,000	25
Exercised.....		(9,000)	15
Cancelled.....		--	--
Balance at October 31, 1994.....	66,000	87,000	20
Granted.....	-----	21,000	20
Exercised.....		--	--
Cancelled.....		--	--
Balance at October 31, 1995.....	87,000	108,000	\$20

On October 1, 1992, Carl E. Pfeiffer retired as the Chief Executive Officer of the Company. In connection with such retirement, the Company replaced options to purchase 60,000 shares of Common Stock at a weighted average exercise price of \$15.85 held by Mr. Pfeiffer, under the Company's employee stock option plans with new options having the same exercise prices and expiration dates. Such options are substantially similar to the options

previously held by him with the exception that vesting is not contingent upon his continued employment with the Company and the options expire on various dates between October 25, 1999, and October 13, 2001, instead of one year after retirement. There were 60,000, 60,000 and 50,000 shares exercisable at October 31, 1995, 1994, and 1993, respectively. There were no transactions related to these stock options during the years ended October 31, 1995 and 1994.

14. FINANCIAL INSTRUMENTS

Required disclosure of fair value of certain financial assets and liabilities, as well as the methods and assumptions to estimate fair value are as follows:

	October 31,			
	1995		1994	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and equivalents.....	\$ 45,213	\$ 45,213	\$ 34,041	\$ 34,041
Short-term investments.....	--	--	54,070	53,688
Financial liabilities and equities:				
Long-term debt (including current portion).....	\$132,862	\$129,843	\$128,400	\$133,792
Preferred stock.....	--	--	86,250	83,663

The fair values of cash and equivalents approximate amounts included in the balance sheet due to the short-term maturity of the instruments. The fair value of short-term investments was arrived at using quoted market prices. The fair value of long-term debt was based on the quoted market price, recent transactions, or based on rates available to the Company for instruments with similar terms and maturities. The fair value of preferred stock was calculated using the quoted market price.

The Company had open financing contracts in a net payable position as of October 31, 1994 of \$1.4 million (none as of October 31, 1995). The fair values of open financing contracts were the net cash amounts payable in 1995.

The Company uses futures and option 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. Firm price commitments do not extend beyond December, 1996. Hedging gains and losses are included in "Cost of sales" in the income statement concurrently with the hedged sales. Unrealized gains and losses related to open contracts are not reflected in the financial statements.

15. CONTINGENCIES

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, which are constantly changing, govern the discharge of materials in the environment and may require the Company to make environmental expenditures on an on-going basis. Environmental expenditures are expensed or capitalized depending on their future economic benefit. The Company has been identified as potentially responsible for cleanup of several contaminated sites under the Federal Superfund law or similar statutes. Although in some circumstances, Superfund might be deemed to impose joint and several liability upon each responsible party at a site, the extent of the Company's allocated financial contribution to the cleanup of these sites is expected to be limited based on the number of companies participating, the volumes of waste involved, and/or the nature of the Company's alleged connection. Although the level of reasonably possible future expenditures, if any, beyond amounts already accrued for environmental purposes, including cleanup obligations, is impossible to determine with any degree of probability, it is management's opinion that, based on current knowledge and the extent of such expenditures to date, the ultimate aggregate cost of environmental remediation will not have a material adverse effect on the Company's financial condition.

16. SUBSEQUENT EVENT

On December 29, 1995, the Company acquired all of its outstanding 10.77% Senior Notes for a purchase price equal to 107.5% of the principal amount plus accrued interest. The acquisition and related expenses will result in a one-time, after-tax extraordinary charge of approximately \$2.5 million in the first quarter of 1996.

Quanex Corporation
SUPPLEMENTARY FINANCIAL DATA

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Selected quarterly information for the years ended October 31, 1995 and 1994 is as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(In thousands except per share amounts)				
1995:				
Net sales.....	\$199,886	\$234,347	\$228,172	\$228,790
Gross profit.....	22,697	29,747	30,156	30,528
Income before extraordinary charge.....	4,653	9,822	9,603	9,782
Extraordinary charge -- early extinguishment of debt.....	(2,021)	--	--	--
Net income.....	2,632	9,822	9,603	9,782
Earnings per share:				
Primary before extraordinary charge.....	.23	.62	.63	.72
Extraordinary charge -- early extinguishment of debt...	(.15)	--	--	--
Primary.....	.08	.62	.63	.72
Assuming full dilution.....	.08	.60	.59	.65
1994:				
Net sales.....	\$149,522	\$172,235	\$181,088	\$196,469
Gross profit.....	14,330	20,383	23,534	27,514
Net income.....	1,768	3,777	5,777	7,530
Earnings per share.....	\$.02	\$.17	\$.32	\$.45

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

Description	Balance at beginning of year	Charted to costs and expenses	Write-offs	Other	Balance at end of year
(In thousands)					
Allowance for doubtful accounts:					
Year ended October 31, 1995.....	\$ 3,593	\$ 574	\$ (586)	\$ --	\$ 3,581
Year ended October 31, 1994.....	\$ 2,025	\$ 1,805	\$ (237)	\$ --	\$ 3,593
Year ended October 31, 1993.....	\$ 2,610	\$ 13	\$ (8)	\$ (590) (1)	\$ 2,025

(1) Relates to sale of Viking Metallurgical Corporation and Bellville Tube Division (See Note 2).

QUARTERLY FINANCIAL RESULTS

	1995	1994	1993	1992	1991
NET SALES (millions)					
January	199.89	149.52	141.43	124.88	142.51
April	234.35	172.23	161.37	148.41	142.64
July	228.17	181.09	153.50	141.90	152.28
October	228.79	196.47	159.85	156.90	151.46
Total	891.20	669.31	616.15	572.09	588.89
GROSS PROFIT (millions)					
January	22.70	14.33	11.64	12.04	16.30
April	29.75	20.38	16.37	18.38	16.81
July	30.15	23.54	16.92	15.20	20.68
October	30.53	27.51	20.25	19.69	20.20
Total	113.13	85.76	65.18	65.31	73.99
NET INCOME (LOSS) (millions)					
January	2.63	1.77	.49	(24.55)	2.45
April	9.82	3.78	1.90	3.15	2.10
July	9.61	5.77	2.68	2.23	3.49
October	9.78	7.53	3.36	.26	4.40
Total	31.84	18.85	8.43	(18.91)	12.44
NET EARNINGS (LOSS) PER PRIMARY COMMON SHARE					
January .....	.08	.02	(.07)	(2.05)	.16
April .....	.62	.17	.03	.25	.19
July .....	.63	.32	.09	.08	.29
October .....	.72	.45	.13	(.09)	.38
Total	2.05	.96	.18	(1.70)	1.02
QUARTERLY COMMON STOCK DIVIDENDS					
January .....	.14	.14	.14	.13	.12
April .....	.15	.14	.14	.13	.12
July .....	.15	.14	.14	.13	.12
October .....	.15	.14	.14	.13	.12
Total .....	.59	.56	.56	.52	.48
COMMON STOCK SALES PRICE (High and Low)					
January	24 5/8-20	21 1/4-16 1/8	27-17 5/8	27-16 1/8	13 3/4-10 1/4
April	23 7/8-21	22 3/8-19 1/8	20 7/8-14 1/4	29 7/8-24 3/4	18 5/8-13 1/2
July	26 5/8-22 1/8	23-18 1/8	17 3/4-14	31 3/4-21 1/2	17 3/4-14 1/8
October	26-18 5/8	27 1/4-20 3/4	20 3/4-16 1/2	24 3/4-15 1/2	23-15 1/4

Subsidiaries of

QUANEX CORPORATION

LaSalle Steel Company
Michigan Seamless Tube Company
Quanex Foreign Sales Corporation
Quanex Metals, Inc.
Quanex Wire, Inc.
Verdi Springs Water Co., Inc.

Jurisdiction of
Incorporation

Delaware
Delaware
U.S. Virgin Islands
Delaware
Delaware
Nevada

Exhibit No. 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 33-23474, No. 33-29585, No. 33-22550, No. 33-35128, No. 33-38702, No. 33-46824, No. 33-57235, No. 33-54081, No. 33-54085, and No. 33-54087 of Quanex Corporation on Form S-8 of our report dated November 17, 1995 (December 29, 1995 as to Note 16) appearing in this Annual Report on Form 10-K of Quanex Corporation for the year ended October 31, 1995.

DELOITTE & TOUCHE LLP
January 22, 1996

This schedule contains summary financial information extracted from the balance sheet as of October 31, 1995 and the income statement for the twelve months ended October 31, 1995 and is qualified in its entirety by reference to such financial statements.

1,000

YEAR		
	OCT-31-1995	
	NOV-01-1994	
	OCT-31-1995	45,213
		0
		104,240
		3,581
		84,676
	242,375	525,325
	266,761	
	546,747	
165,208		111,894
		6,743
0		0
		163,783
546,747		891,195
	891,195	778,067
		778,067
		0
		574
	10,742	
	58,380	
	24,520	
33,860		0
	2,021	0
		31,839
		2.050
		2.030