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

(Mark One)

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

For the quarterly period ended January 31, 2001

OR

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

For the transition period from _____ to _____.

Commission File Number 1-5725

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

DELAWARE	38-1872178
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1900 WEST LOOP SOUTH, SUITE 1500, HOUSTON, TEXAS 77027
(Address of principal executive offices and zip code)

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

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

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

CLASS	OUTSTANDING AT JANUARY 31, 2001
Common Stock, par value $0.50 per share	13,418,102

QUANEX CORPORATION
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)

	January 31, 2001 (Unaudited)	October 31, 2000 (Audited)
ASSETS		
Current assets:		
Cash and equivalents	$ 18,879	$ 22,409
Accounts and notes receivable, net	94,579	98,465
Inventories	103,625	101,274
Deferred income taxes	12,657	12,771
Prepaid expenses	2,553	1,027
Total current assets	232,293	235,946
Property, plant and equipment	698,771	681,992
Less accumulated depreciation and amortization	(354,409)	(343,744)
Property, plant and equipment, net	344,362	338,248
Goodwill, net	61,316	47,539
Other assets	26,083	24,126
	$ 664,054	$ 645,859
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 68,910	$ 77,339
Accrued expenses	41,751	50,189
Income taxes payable	5,552	3,218
Other current liabilities	688	--
Current maturities of long-term debt	427	256
Total current liabilities	117,328	131,002
Long-term debt	222,492	191,657
Deferred pension credits	6,601	7,026
Deferred postretirement welfare benefits	7,708	7,634
Deferred income taxes	26,232	27,620
Other liabilities	17,369	14,423
Total liabilities	397,730	379,362
Stockholders' equity:		
Preferred stock, no par value	--	--
Common stock, $.50 par value	7,065	7,110
Additional paid-in capital	109,113	111,061
Retained earnings	167,651	165,841
Unearned compensation	(467)	(467)
Accumulated other comprehensive income	(2,801)	(301)
	280,561	283,244
Less: Common stock held by rabbi trust	(1,856)	(3,349)
Less: Cost of shares of common stock in treasury	(12,381)	(13,398)
Total stockholders' equity	266,324	266,497
	$ 664,054	$ 645,859

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

	Three Months Ended January 31,	
	2001	2000
	(Unaudited)	
Net sales	$ 193,825	$ 199,294
Cost and expenses:		
Cost of sales	162,667	165,643
Selling, general and administrative expense	11,728	13,282
Depreciation and amortization	11,236	12,162
Operating income	8,194	8,207
Other income (expense):		
Interest expense	(3,968)	(3,330)
Capitalized interest	314	544
Other, net	1,130	1,002
Income before income taxes and extraordinary gain	5,670	6,423
Income tax expense	(1,985)	(2,248)
Income before extraordinary gain	3,685	4,175
Extraordinary gain - early extinguishment of debt (net of taxes)	372	--
Net income	$ 4,057	$ 4,175
Earnings per common share:		
Basic:		
Income before extraordinary gain	$ 0.27	$ 0.29
Extraordinary gain	0.03	--
Total basic net earnings	$ 0.30	$ 0.29
Diluted:		
Income before extraordinary gain	$ 0.27	$ 0.29
Extraordinary gain	0.03	--
Total diluted net earnings	$ 0.30	$ 0.29
Weighted average shares outstanding:		
Basic	13,424	14,172
Diluted	13,562	14,360
Common stock dividends per share	$ 0.16	$ 0.16

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)

	Three Months Ended January 31,	
	2001	2000
	(Unaudited)	
Operating activities:		
Net income	$ 4,057	$ 4,175
Adjustments to reconcile net income to cash provided by operating activities:		
Extraordinary gain on early extinguishment of debt (net of taxes of $201)	(372)	--
Depreciation and amortization	11,362	12,300
Noncash income from derivative instruments	(1,064)	--
Deferred income taxes	(41)	30
Deferred pension and postretirement benefits	(351)	273
Changes in assets and liabilities net of effects from acquisitions and dispositions:		
Decrease in accounts and notes receivable	7,210	811
Decrease (increase) in inventory	292	(6,103)
Increase (decrease) in accounts payable	(10,490)	4,150
Decrease in accrued expenses	(9,819)	(9,642)
Other, net (including income tax refund)	154	8,107
Cash provided by operating activities	938	14,101
Investment activities:		
Acquisition of Golden Aluminum, net of cash acquired	--	(6,406)
Acquisition of Temroc Metals, Inc., net of cash acquired	(17,922)	--
Capital expenditures, net of retirements	(11,974)	(14,458)
Other, net	(1,590)	(892)
Cash used by investment activities	(31,486)	(21,756)
Cash used by operating and investment activities	(30,548)	(7,655)
Financing activities:		
Bank borrowings, net	33,000	9,169
Purchase of subordinated debentures	(3,942)	--
Purchase of Quanex common stock	(364)	(3,785)
Common dividends paid	(2,167)	(2,296)
Issuance of common stock, net	800	620
Other, net	(309)	(24)
Cash provided by financing activities	27,018	3,684
Effect of exchange rate changes on cash and equivalents	--	52
Decrease in cash and equivalents	(3,530)	(3,919)
Cash and equivalents at beginning of period	22,409	25,874
Cash and equivalents at end of period	$ 18,879	$ 21,955
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 4,557	$ 4,390
Cash paid during the period for income taxes	$ 787	$ --
Cash received during the period for income tax refunds	$ (210)	$ (7,007)
Supplemental disclosures of non-cash investing activity:		
The Company acquired the assets of Golden Aluminum in the first quarter of fiscal 2000. In conjunction with the acquisition, the following transaction took place:		
Purchase price of Golden Aluminum		$ 21,462
Cash paid in first fiscal quarter		(8,000)
Payable balance for acquisition as of January 31, 2000		$ 13,462
Golden Aluminum cash acquired		$ 1,594

QUANEX CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. ACCOUNTING POLICIES

The interim consolidated financial statements of Quanex Corporation and subsidiaries ("Quanex" or the "Company") are unaudited, but include all adjustments which the Company deems necessary for a fair presentation of its financial position and results of operations. All such adjustments are of a normal recurring nature. Results of operations for interim periods are not necessarily indicative of results to be expected for the full year. All significant accounting policies conform to those previously set forth in the Company's fiscal 2000 Annual Report on Form 10-K which is incorporated by reference. Certain amounts for prior periods have been reclassified in the accompanying consolidated financial statements to conform to 2001 classifications.

2. INVENTORIES

Inventories consist of the following:	January 31, 2001	October 31, 2000
	(In thousands)	
Raw materials	$ 25,781	$ 26,473
Finished goods and work in process	70,750	67,981
	96,531	94,454
Other	7,094	6,820
	$ 103,625	$ 101,274

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

LIFO	$ 72,888	$ 69,028
FIFO	30,737	32,246
	$ 103,625	$ 101,274

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

3. ACQUISITIONS

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

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

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

4. EARNINGS PER SHARE

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

	For the Three Months Ended January 31, 2001			For the Three Months Ended January 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount	Income (Numerator)	Shares (Denominator)	Per-Share Amount
BASIC EPS						
Income before extra. gain	$ 3,685	13,424	$ 0.27	$ 4,175	14,172	$ 0.29
Extra. Gain - early debt ext	372		0.03	--		--
Total basic net earnings	$ 4,057		$ 0.30	$ 4,175		$ 0.29
EFFECT OF DILUTIVE SECURITIES						
Effect of common stock equiv. arising from stock options	--	11		--	62	
Effect of common stock held by rabbi trust	--	127		--	126	
Effect of conversion of subordinated debentures (1)	--	--		--	--	
DILUTED EPS						
Income before extra. gain	$ 3,685	13,562	$ 0.27	$ 4,175	14,360	$ 0.29
Extra. Gain - early debt ext	372		0.03	--		--
Total basic net earnings	$ 4,057		$ 0.30	$ 4,175		$ 0.29

(1) Conversion of the Company's 6.88% convertible subordinated debentures into common stock is anti-dilutive for the periods presented and therefore not included in the calculation of diluted earnings per share.

5. COMPREHENSIVE INCOME ($ IN THOUSANDS)

Total comprehensive income for the three months ended January 31, 2001 and 2000 is $1,557 and $4,038, respectively. Included in comprehensive income is net income, the change in the cumulative foreign currency translation adjustment balance (for fiscal 2000 only), the change in the adjustment for minimum pension liability balance and the effective portion of the gains and losses on derivative instruments designated as cash flow hedges.

6. LONG-TERM DEBT

Long-term debt consists of the following:

(In thousands)	January 31, 2001	October 31, 2000
Bank Agreement Revolver	$ 143,000	$ 110,000
Convertible subordinated debentures	58,727	63,337
Temroc Industrial Development Revenue Bonds	2,742	--
Industrial Revenue and Economic Development Bonds	3,275	3,275
State of Alabama Industrial Development Bonds	4,500	4,755
Scott County, Iowa Industrial Waste Recycling Revenue Bonds	2,800	2,800
Other	7,875	7,746
	$ 222,919	$ 191,913
Less maturities due within one year included in current liabilities	427	256
	$ 222,492	$ 191,657

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

8. INDUSTRY SEGMENT INFORMATION

Three Months Ended January 31, 2001	Engineered Steel Bars	Aluminum Mill Sheet Products(3)	Engineered Products (4) (5)	Piper Impact	Corporate and Other (1)	Consolidated
			(In thousands)			
Net Sales:						
To unaffiliated companies	$ 70,063	$ 74,950	$ 25,963	$ 22,849	$ --	$ 193,825
Intersegment (2)	1,535	3,866	--	--	(5,401)	--
Total	$ 71,598	$ 78,816	$ 25,963	$ 22,849	$ (5,401)	$ 193,825
Operating income (loss)	$ 7,335	$ 280	$ 1,933	$ 1,144	$ (2,498)	$ 8,194

Three Months Ended January 31, 2000	Engineered Steel Bars	Aluminum Mill Sheet Products	Engineered Products	Piper Impact(6)	Corporate And Other(1)	Consolidated
			(In thousands)			
Net Sales:						
To unaffiliated companies	$ 78,315	$ 75,762	$ 18,418	$ 26,799	$ --	$ 199,294
Intersegment (2)	1,427	3,958	--	--	(5,385)	--
Total	$ 79,742	$ 79,720	$ 18,418	$ 26,799	$ (5,385)	$ 199,294
Operating income (loss)	$ 11,835	$ 2,203	$ 1,847	$ (3,473)	$ (4,205)	$ 8,207

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

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

(3) Fiscal 2001 results include Nichols Aluminum - Golden operations acquired January 25, 2000.

(4) Fiscal 2001 results include Imperial Fabricated Products operations acquired April 3, 2000.

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

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

9. STOCK REPURCHASE PROGRAM - TREASURY STOCK

In December 1999, Quanex announced that its board of directors approved a program to repurchase up to 2 million shares of the Company's common stock in the open market or in privately negotiated transactions. During the three months ended January 31, 2001, the Company repurchased 20,000 shares at a cost of $364 thousand. These shares were not canceled, but instead were treated as treasury stock of the Company.

The cumulative cost of shares acquired as treasury shares, net of shares reissued, is $12.4 million as of January 31, 2001 and is reflected as a reduction of stockholders' equity in the balance sheet.

10. EXTRAORDINARY ITEM

During the period ended January 31, 2001, the Company accepted unsolicited block offers to buy back $4.6 million principal amount of the 6.88% Convertible Subordinated Debentures for $3.9 million in cash. An after tax extraordinary gain of $372 thousand was recorded on this transaction. The principal amount of the convertible subordinated debentures outstanding as of January 31, 2001 was $58,727,300.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

METAL EXCHANGE FORWARD CONTRACTS

The Company routinely enters into metal exchange forward contracts to hedge price risk of forecasted aluminum raw material purchases. The Company's risk management policy as it relates to metal exchange forward contracts is to enter into such contracts to hedge its exposure to price fluctuations of aluminum raw material purchases that relate to the Company's backlog of aluminum sales orders with committed prices as well as a certain level of forecasted aluminum sales for which a sales price increase would lag a raw material cost increase. The Company has designated the metal exchange forward contracts as cash flow hedges of forecasted aluminum raw material purchases.

On November 1, 2000, the Company recorded a derivative liability of $372 thousand representing the fair value of these contracts as of that date. A corresponding amount, net of taxes of $145 thousand, was recorded to other comprehensive income.

As of January 31, 2001, open forward contracts have maturity dates extending through October 2003. At January 31, 2001 these contracts covered notional volumes of 23,699,669 pounds and had fair values of approximately $800 thousand (gain), which is recorded as a derivative asset in the financial statements.

Gains and losses related to the forward contracts that are reported in other comprehensive income will be reclassified into earnings in the periods in which the related inventory is sold. As of January 31, 2001, losses of approximately $274 thousand ($167 thousand net of taxes) are expected to be reclassified from other comprehensive income into earnings over the next twelve months. Gains and losses on these contracts, including amounts recorded related to hedge ineffectiveness, are reflected in "Cost of Sales" in the income statement. A net gain of $1.3 million was recognized in "Cost of sales" during the period ending January 31, 2001 representing the amount of the hedges' ineffectiveness.

INTEREST SWAP AGREEMENT

In fiscal 1996, the Company entered into interest rate swap agreements, which effectively converted $100 million of its variable rate debt under the Bank Agreement to fixed rate. The Company's risk management policy related to these swap agreements is to hedge the exposure to interest rate movements on a portion of its long-term debt. Under the swap agreements, payments are made based on a fixed rate ($50 million at 7.025% and $50 million at 6.755%) and received on a LIBOR based variable rate (5.60% at January 31, 2001). Differentials to be paid or received under the agreements are recognized as interest expense. The agreements mature in 2003. The Company has designated the interest rate swap agreements as cash flow hedges of future interest payments on its variable rate long-term debt.

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

The fair value of the swaps as of January 31, 2001 was a loss of $4.0 million, which is recorded as a derivative liability. Gains and losses related to the swap agreements will be reclassified into earnings in the periods in which the related hedged interest payments are made. As of January 31, 2001, losses of approximately $1.6 million ($971 thousand net of taxes) are expected to be reclassified into earnings over the next twelve months. Gains and losses on these agreements, including amounts recorded related to hedge ineffectiveness, will be reflected in "other income and expense" in the income statement. A net loss of $193 thousand was recorded in other income and expense in the period ending January 31, 2001 representing the amount of the hedge's ineffectiveness.

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

GENERAL

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

PRIVATE SECURITIES LITIGATION REFORM ACT

Certain forward-looking information contained herein is being provided in accordance with the provisions of the Private Securities Litigation Reform Act. Such information is subject to certain assumptions and beliefs based on current information known to the Company and is subject to factors that could produce actual results materially different from those anticipated in the forward-looking statements contained in this report. Such factors include domestic and international economic activity, prevailing prices of steel and aluminum scrap and other raw material costs, energy costs, interest rates, construction delays, market conditions for the Company's customers, any material changes in purchases by the Company's principal customers, environmental regulations changes in estimates of costs for known environmental remediation projects and situations, world-wide political stability and economic growth, the Company's successful implementation of its internal operating plans, performance issues with key customers, suppliers and subcontractors, and regulatory changes and legal proceedings. Accordingly, there can be no assurance that the forward-looking statements contained herein will occur or that objectives will be achieved.

RESULTS OF OPERATIONS

OVERVIEW

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

	THREE MONTHS ENDED JANUARY 31,			
	2001		2000	
	Dollar Amount	% of Sales	Dollar Amount	% of Sales
Net Sales	$193.8	100%	$199.3	100%
Cost of Sales	162.7	84	165.6	83
Sell., gen. and admin	11.7	6	13.3	7
Deprec. and amort	11.2	6	12.2	6
Operating Income	8.2	4%	8.2	4%
Interest Expense	(3.9)	(2)	(3.3)	(1)
Capitalized Interest	.3	0	.5	0
Other, net	1.1	1	1.0	0
Income tax expense	(2.0)	(1)	(2.2)	(1)
Income from continuing operations	$ 3.7	2%	$ 4.2	2%

During the period ended January 31, 2001, the Company experienced slower demand for automotive, building and construction products. The first quarter of the fiscal year is historically the Company's slowest due to the seasonal nature of our markets, holiday shutdowns and fewer production days. This year's first quarter was made more difficult due to the slow economy, particularly in the manufacturing area, and a harsher winter than has been experienced in the last few years. When compared to business activity this time last year, demand now is certainly weaker across all product lines.

BUSINESS SEGMENTS

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

	Three Months Ended January 31,	
	2001	2000
	(In thousands)	
ENGINEERED STEEL BARS:		
Net sales	$ 71,598	$ 79,742
Operating income	7,335	11,835
Deprec. and amort	5,235	4,926
Identifiable assets	$ 263,335	$ 250,439
ALUMINUM MILL SHEET PRODUCTS:(1)		
Net sales	$ 78,816	$ 79,720
Operating income	280	2,203
Deprec. and amort	3,589	3,341
Identifiable assets	$ 229,331	$ 230,421
ENGINEERED PRODUCTS: (2) (3)		
Net sales	$ 25,963	$ 18,418
Operating income	1,933	1,847
Deprec. and amort	1,222	773
Identifiable assets	$ 88,600	$ 45,374
PIPER IMPACT: (4)		
Net sales	$ 22,849	$ 26,799
Operating income (loss)	1,144	(3,473)
Deprec. and amort	1,050	3,071
Identifiable assets	$ 52,420	$ 160,250

(1) Fiscal 2001 results include Nichols Aluminum - Golden operations acquired January 25, 2000.

(2) Fiscal 2001 results include Imperial Fabricated Products operations acquired April 3, 2000.

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

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

FISCAL QUARTER ENDED JANUARY 31, 2001 VS. 2000

NET SALES - Consolidated net sales for the three months ended January 31, 2001 were $193.8 million, representing a decrease of $5.5 million, or 3%, when compared to consolidated net sales for the same period in 2000. All operating segments, with the exception of the engineered products group, experienced decreased net sales.

Net sales from the Company's engineered steel bar business for the three months ended January 31, 2001, were $71.6 million representing a decrease of $8.1 million, or 10%, when compared to the same period last year. This decrease was principally due to lower sales volume resulting from weaker markets in the transportation and capital goods industry. The business continued to experience pricing pressures; however the overall average sales price showed some improvement due to the increased volume of MACPLUS, a value added product, as compared to the same period during the prior year.

Net sales from the Company's aluminum mill sheet products business for the three months ended January 31, 2001, were $78.8 million, representing a decrease of $0.9 million, or 1%, when compared to the same period last year. The quarter ending January 31, 2001, included the results of Nichols Aluminum Golden which was acquired January 25, 2000. The decrease in net sales was

largely due to lower sales volume. The decline in sales volume was a result of more severe winter weather than was experienced in the prior year, as well as a general economic slowdown which negatively affected the building and construction markets.

Net sales from the Company's engineered products business for the three months ended January 31, 2001, were $26.0 million, representing an increase of $7.5 million, or 41%, when compared to the same period last year. The increase was largely due to the contributions from Imperial Fabricated Products ("Imperial"), which was acquired in April 2000, and Temroc Metals, Inc. ("Temroc"), acquired November 30, 2000. Additionally, the group's net sales benefited from the capital expansion project at AMSCO which was completed in November 2000.

Net sales from the Company's Piper Impact business for the three months ended January 31, 2001, were $22.8 million, representing a decrease of $4.0 million, or 15%, when compared to the same period last year. Net sales for the period ending January 31, 2000 included sales from Piper Impact Europe which was sold in July of 2000. Comparable net sales of Piper's operations excluding Piper Europe improved 13% over the prior year as a result of increased sales volumes of aluminum airbags as well as obtaining new business for recreational products.

OPERATING INCOME - Consolidated operating income for the three months ended January 31, 2001 remained flat at $8.2 million when compared to the same period last year. The lower operating income results at the Company's engineered steel bar and aluminum mill sheet businesses were offset by improved operating results at the engineered products and Piper Impact businesses as well as lower expenses at corporate and other.

Operating income from the Company's engineered steel bar business for the three months ended January 31, 2001, was $7.3 million, representing a decrease of $4.5 million, or 38%, when compared to the same period last year. This decrease was due largely to lower net sales resulting from the slowing demand in the transportation and capital goods markets. The lower scrap prices helped offset some of the impact of reduced volume. The business also experienced increased utility costs as energy prices rose and higher outside processing costs with the increased MACPLUS volume.

Operating income from the Company's aluminum mill sheet products business for the three months ended January 31, 2001, was $0.3 million, representing a decrease of $1.9 million, or 87%, when compared to the same period last year. The decline resulted from lower sales volumes and higher energy costs.

Operating income from the Company's engineered products business for the three months ended January 31, 2001, was $1.9 million, compared to $1.8 million in the same period last year. The operating results of Imperial, acquired in April of 2000 and Temroc, acquired November 30, 2000, contributed partly to the improved operating income for the period ending January 31, 2001.

Operating income from the Company's Piper Impact business for the three months ended January 31, 2001 was $1.1 million, compared to operating losses of $3.5 million for the same prior year period. The prior year's results included the operating loss of Piper Impact Europe which was sold in July of 2000. Comparative operating income excluding Piper Europe improved 145% from the prior year's results. This improvement is a result of increased volume and net sales as well as lower costs resulting from the cellular manufacturing and cost cutting efforts. Additionally, depreciation expense declined with the reduced asset base, which resulted from the asset impairment charge recorded in the fourth quarter of fiscal 2000.

In addition to the four operating segments mentioned above, operating expenses for corporate and other, for the three months ended January 31, 2001,

were $2.5 million, compared to $4.2 million, for the same period last year. Included in corporate and other are the corporate office expenses, impact of LIFO valuation method of inventory accounting and intersegment eliminations as well as an intercompany gain from derivative instruments. (See Note 2 to the financial statements regarding LIFO valuation method of inventory accounting.)

Effective November 1, 2000, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. (See Note 11 to the financial statements.) The impact of this statement on operating income in the period ended January 31, 2001 was a gain of $1.3 million. An additional expense of $0.2 million was recorded in other income and expense.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES decreased by $1.6 million, or 12%, for the three months ended January 31, 2001, as compared to the same period of last year. The decline largely resulted from the sale of Piper Impact Europe, as well as cost cutting measures at the remaining Piper Impact facilities. Corporate office expenses were also down compared to the prior year. These lower costs were partially offset by the expenses at the newly acquired Imperial and Temroc operations.

DEPRECIATION AND AMORTIZATION decreased by $0.9 million, or 8%, for the three months ended January 31, 2001, as compared to the same period of last year. The engineered steel bar, aluminum mill sheet products and engineered products business all had increased depreciation due to recently completed capital projects as well as the acquisitions of Nichols Aluminum Golden, Imperial and Temroc. This increase was more than offset, however, by the decreased depreciation at Piper Impact which resulted from the sale of Piper Impact Europe as well as the asset impairment charge taken in the fourth quarter of the prior fiscal year.

INTEREST EXPENSE increased by $638 thousand or 19% for the three months ended January 31, 2001, as compared to the same fiscal period of 2000. The increase was primarily due to the additional borrowings made during the period to finance the acquisition of Temroc as well as the purchase of company stock and subordinated debentures. (See Notes 3, 9 and 10 to the financial statements.)

CAPITALIZED INTEREST decreased by $230 thousand for the three months ended January 31, 2001, as compared to the same periods of 2000 due to the completion of the Phase V expansion project at MACSTEEL(R) in December 2000.

OTHER, NET increased $128 thousand for the three months ended January 31, 2001, as compared to the same periods of 2000 primarily as a result of increased investment income. This increase was partially offset by a charge recorded for the interest rate swaps as a result of adopting SFAS No. 133. (See Note 11 for further explanation.)

NET INCOME was $4.1 million for the three months ended January 31, 2001, compared to $4.2 million for the same periods of 2000. In addition to the items mentioned above, the three month period ended January 31, 2001 included an extraordinary gain of $372 thousand on the purchase of subordinated debentures.

OUTLOOK

The Company's first quarter is historically its least profitable quarter of each fiscal year due to the seasonal nature of its markets, holiday shutdowns and fewer production days. However, the slow economy, particularly in the manufacturing area, and a harsher winter than those experienced during the last few years made the first quarter of fiscal 2001 more difficult. The Company continues to experience slower demand in the automotive, capital goods, building and construction markets. When compared with the business

activity this time last year, the Company's primary markets are expected to be down significantly during the second quarter. Hence, the Company's operating results for the second quarter of fiscal 2001 are expected to be well below those reported for the same period last year.

While Piper Impact showed a significant improvement for the period ended January 31, 2001 as compared to the same prior year period in volume, net sales and costs, the aluminum air bag component business is expected to continue to decline. Piper is developing new products that it hopes will replace this business; however, the results are slow. In light of this expected decline, an asset impairment charge was taken in the fourth quarter of fiscal 2000. The Company is continuing to evaluate other strategic alternatives for this business, including its possible sale.

Although, the Company is optimistic about the business returning to more normal levels as the year progresses, the domestic and global market factors and the slowing economy would affect demand and pricing for many of its products. Continuing global pricing pressures in the Engineered Steel Bar business and the impact of falling consumer confidence level on automotive, building and construction markets will offer significant challenges to our operations in maintaining sales levels and gross margins for the balance of the fiscal year 2001. Achieving earnings levels similar to those reported for the second half of fiscal 2000 will depend on, among other things, whether the strength of the economy improves together with the markets which the Company serves, successful new product developments at Piper Impact and the Engineered Products businesses, and whether the fiscal 2000 margin levels at the Aluminum Mill Sheet Products business can be sustained.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are cash on hand, cash flow from operations, and borrowings under its $250 million unsecured Revolving Credit and Term Loan Agreement ("Bank Agreement"). At January 31, 2001, the Company had $143 million borrowed under the Bank Agreement. This represents a $33 million increase over October 31, 2000 borrowing levels. The borrowings were primarily used to finance the acquisition of Temroc (see Note 3 to the financial statements) and to repurchase $4.6 million principal amount of the Company's subordinated debentures. There have been no significant changes to the terms of the Company's debt structure during the three month period ended January 31, 2001. (See Note 6 to the financial statements for detail regarding the outstanding borrowings under the Company's various facilities)

At January 31, 2001, the Company had commitments of approximately $29 million for the purchase or construction of capital assets. The Company plans to fund these capital expenditures through cash flow from operations and, if necessary, additional borrowings.

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

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

OPERATING ACTIVITIES

Cash provided by operating activities during the three months ended January 31, 2001 decreased by $13.2 million compared to the same three month period of 2000. The decrease was a result of the following items:

1) The period ended January 31, 2000 included a $7.0 million tax refund resulting from overpayment of estimated taxes in fiscal 1999, compared to a $210 thousand refund received in the same period of 2001.

2) The period ended January 31, 2001 included higher working capital requirements as compared to the same period of the prior year.

3) Despite the fact that net income was flat in the period ended January 31, 2001 as compared to the same prior year period, the current year's net income included lower depreciation expense and $1.1 million of non-cash income from the adoption of SFAS No. 133. (See Note 11 for further discussion of SFAS No. 133.)

INVESTMENT ACTIVITIES

Net cash used by investment activities during the three months ended January 31, 2001 was $31.5 million compared to $21.8 million for the same period of 2000. Fiscal 2001 cash used by investment activities included cash paid for the acquisition of Temroc totaling $17.9 million, net of cash acquired. Fiscal 2000 cash used by investing activities included cash paid for the acquisition of Nichols Aluminum Golden totaling $6.4 million, net of cash acquired. Capital expenditures and other investment activities decreased $1.8 million in the three month period ended January 31, 2001 as compared to the same period of 2000. The Company estimates that fiscal 2001 capital expenditures will total approximately $55 to 60 million.

FINANCING ACTIVITIES

Net cash provided by financing activities for the three months ended January 31, 2001 was $27.0 million, compared to $3.7 million for the same prior year period. The Company's net borrowings were $33.0 million during the first three months of fiscal 2001, compared to $9.2 million during the same period last year. During the three months ended January 31, 2001, the Company paid $3.9 million to purchase $4.6 million principal amount of subordinated debentures. Also, during the three months ended January 31, 2001, the Company paid $364 thousand to repurchase 20,000 shares of it's own common stock; however, in the same period last year, it paid $3.8 million to repurchase approximately 157,000 shares.

NEW ACCOUNTING PRONOUNCEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Effective November 1, 2000, the Company adopted SFAS No. 133, which requires the Company to measure all derivatives at fair value and to recognize them in the balance sheet as an asset or liability, depending on the Company's rights or obligations under the applicable derivative contract. The Company utilizes certain "derivative instruments" to manage its exposure to market risk. Prior to the adoption of SFAS No. 133, these derivative instruments were not recorded in the financial statements until their settlement. (See Note 11 for further discussion.)

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

The Company holds certain floating-rate obligations. The exposure of these obligations to increases in short-term interest rates is limited by interest rate swap agreements entered into by the Company. These swap agreements effectively fix the interest rate on most of the Company's variable rate debt, thus limiting the potential impact that increasing interest rates would have on earnings. At October 31, 2000 (prior to the adoption of SFAS No. 133) the unrealized losses related to the interest rate swap agreements were $918 thousand. As of January 31, 2001, a liability of $4.0 million related to the interest rate swap agreements was recorded in the financial statements. If the floating rates were to change by 10% from January 31, 2001 levels, the fair market value of these swaps would change by approximately $1.1 million. It should be noted that any change in value of these contracts, real or hypothetical, would be significantly offset by an inverse change in the value of the underlying hedged item.

The Company uses futures contracts to hedge a portion of its exposure to price fluctuations of aluminum. The exposure is related to the Company's backlog of aluminum sales orders with committed prices as well as future aluminum sales for which a sales price increase would lag a raw material cost increase. Hedging gains and losses are included in "Cost of sales" in the income statement. Prior to the adoption of SFAS No. 133, gains and losses related to open contracts were unrealized and not reflected in the consolidated statements of income. At October 31, 2000, the Company had open futures contracts with unrealized losses of $372 thousand. As of January 31, 2001, (after the adoption of SFAS No. 133) the Company had open futures contracts with fair values of approximately $800 thousand which was recorded as a derivative asset. At October 31, 2000 and January 31, 2001, these contracts covered a notional volume of 25,738,940 and 23,699,669 pounds of aluminum, respectively. A hypothetical 10% change from the January 31, 2001 average London Metal Exchange ("LME") ingot price of $.730 per pound would increase or decrease the unrealized pretax gains/losses related to these contracts by approximately $1.7 million. However, it should be noted that any change in the value of these contracts, real or hypothetical, would be substantially offset by an inverse change in the cost of purchased aluminum scrap.

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

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

On or about August 2, 1999, the United States District Court for the Southern District of Texas entered a consent decree resolving the federal government's allegations that the Company and Vision Metals, Inc. had violated water discharge requirements at the Company's former tube plant in Rosenberg, Texas. The consent decree required the Company to pay in three installments an aggregate civil penalty of $466,421 plus interest. Pursuant to the purchase agreement by which Vision Metals acquired the Rosenberg facility and assumed certain environmental liabilities, Vision Metals acknowledged its responsibility for the penalty and made the first two payments, which totaled $310,946 plus interest. Because Vision Metals filed a bankruptcy petition on or about November 13, 2000, it was necessary for the Company to make the final scheduled payment of $155,475 plus interest on February 28, 2001. The Company's obligations under the consent decree terminated upon payment of the total penalty.

ITEM 5 - OTHER INFORMATION

On February 22, 2001 the Company announced that Raymond A. Jean was named president and chief executive officer. Mr. Jean was also elected to the board of directors.

Prior to joining Quanex, Mr. Jean was corporate vice president and a member of the board of directors for Amsted Industries, a diversified, privately held manufacturer of railroad, vehicular, building, and general industrial products. He will remain a member of the board of directors for Amsted Industries.

Prior to joining Amsted Industries, through its acquisition of Varlen Corporation in August 1999, Mr. Jean had served as president and CEO of this NASDAQ-traded company, a leading manufacturer of engineered components for transportation markets.

Mr. Jean, 58, holds a B. S. in engineering physics from the University of Maine and a M. B. A. from the University of Chicago.

Mr. Jean replaces Vernon E. Oechsle who previously announced his intent to retire. Mr. Oechsle will continue as chairman of the board for a brief transition period.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K.

a) Exhibits

Exhibit 10.1	Amendment and Restatement of Quanex Corporation Employee Savings Plan dated December 28, 2000, effective January 1, 1998.
Exhibit 10.2	First Amendment to Quanex Corporation Employee Savings Plan, effective January 1, 2001.
Exhibit 10.3	Amended and Restated Piper Impact 401(k) Plan dated effective January 1, 1998.
Exhibit 10.4	First Amendment to Piper Impact 401(k) Plan dated effective January 1, 1999.
Exhibit 10.5	Second Amendment to Piper Impact 401(k) Plan dated effective January 1, 2001.

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Quarterly Report on Form 10-Q certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such

instruments does not exceed 10% of the total assets of the Registrants and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

b) Reports on Form 8-K

A report on Form 8-K was filed by the Company on December 8, 2000 regarding the acquisition of Temroc Metals, Inc. On November 30, 2000, pursuant to an Acquisition Agreement and Plan of Merger ("Agreement") dated October 23, 2000, between Quanex Corporation ("Parent" or "Company"), Quanex Five, Inc., a Delaware corporation and wholly owned subsidiary of Parent ("Sub"), and Temroc Metals, Inc., a Minnesota corporation ("Temroc"), the Company completed the merger between Sub and Temroc, whereby Temroc, as a surviving corporation, became a wholly owned subsidiary of the Company.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUANEX CORPORATION

/s/ Viren M. Parikh

Viren M. Parikh
Date: March 9, 2001 Controller (Chief Accounting Officer)

/s/ Terry M. Murphy

Terry M. Murphy
Vice President - Finance and Chief
Date: March 9, 2001 Financial Officer

Index to Exhibits

Exhibit Number	Description of Exhibits
Exhibit 10.1	Amendment and Restatement of Quanex Corporation Employee Savings Plan dated December 28, 2000, effective January 1, 1998.
Exhibit 10.2	First Amendment to Quanex Corporation Employee Savings Plan, effective January 1, 2001.
Exhibit 10.3	Amended and Restated Piper Impact 401(k) Plan dated effective January 1, 1998.
Exhibit 10.4	First Amendment to Piper Impact 401(k) Plan dated effective January 1, 1999.
Exhibit 10.5	Second Amendment to Piper Impact 401(k) Plan dated effective January 1, 2001.

EXHIBIT 10.1

QUANEX CORPORATION
EMPLOYEE SAVINGS PLAN

AMENDMENT AND RESTATEMENT
EFFECTIVE JANUARY 1, 1998

QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

THIS AGREEMENT adopted by Quanex Corporation, a Delaware corporation (the "Sponsor"),

WITNESSETH:

WHEREAS, effective April 1, 1986, the Sponsor established Quanex Corporation Employee Savings Plan (the "Plan").

WHEREAS, the Plan is intended to be a profit sharing plan;

WHEREAS, the Sponsor desires to amend and restate the Plan;

NOW, THEREFORE, the Plan is hereby amended and restated in its entirety as set forth below.

TABLE OF CONTENTS

ARTICLE I
DEFINITIONS

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

1.01 "ACCOUNT" means all ledger accounts pertaining to a Participant which are maintained by the Committee to reflect the Participant's interest in the Trust. The Committee shall establish the following Accounts and any additional Accounts that the Committee considers necessary to reflect the entire interest of the Participant in the Trust. Each of the Accounts listed below and any additional Accounts established by the Committee shall reflect the Contributions or amounts transferred to the Trust, if any, and the appreciation or depreciation of the assets in the Trust and the income earned or loss incurred on the assets in the Trust attributable to the Contributions and/or other amounts transferred to the Account.

(a) Salary Deferral Contribution Account - the Participant's before-tax contributions, if any, made pursuant to Section 3.01.

(b) After-Tax Contribution Account - the Participant's after-tax contributions, if any, made pursuant to Section 3.02.

(c) Matching Contribution Account - the Employer's matching contributions, if any, made pursuant to Section 3.03.

(d) Supplemental Contribution Account - the Employer's contributions, if any, made pursuant to Section 3.04.

(e) QNEC Account - the Employer's contributions, known as "qualified nonelective employer contributions", made as a means of passing the actual deferral percentage test of section 401(k) of the Code.

(f) Rollover Account - funds transferred from another qualified plan or individual retirement account for the benefit of a Participant.

1.02 "ACTIVE SERVICE" means the Periods of Service which are counted for eligibility and vesting purposes as calculated under Article IX.

1.03 "AFFILIATED EMPLOYER" means the Employer and any employer which is a member of the same controlled group of corporations within the meaning of section 414(b) of the Code or which is a trade or business (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), which is a member of an affiliated service group (within the meaning of section 414(m) of the Code) with the Employer, or which is required to be aggregated with the Employer under section 414(o) of the Code. For purposes of the limitation on allocations contained in Appendix A, the definition of Affiliated Employer is modified by substituting the phrase "more than 50 percent" in place of the phrase "at least 80 percent" each place the latter phrase appears in section 1563(a)(1) of the Code.

1.04 "ANNUAL COMPENSATION" means the Employee's wages from the Affiliated Employers as defined in section 3401(a) of the Code for purposes of federal income tax withholding at the source (but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed) modified by including elective contributions under a cafeteria plan described in section 125 of the Code and elective contributions to any plan qualified under section 401(k), 408(k), or 403(b) of the Code. Except for purposes of Section A.4.1 of Appendix A of the Plan, Annual Compensation in excess of $150,000.00 (as adjusted by the Secretary of Treasury) shall be disregarded. If the Plan Year is ever less than 12 months, the $150,000.00 limitation (as adjusted by the Secretary of Treasury) will be prorated by multiplying the limitation by a fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is 12.

1.05 "ANNUITY STARTING DATE" means the first day of the first period for which an amount is payable as an annuity, or in the case of a benefit payable in the form of a lump sum, the date on which the Trustee disburses the lump sum.

1.06 "BENEFICIARY" OR "BENEFICIARIES" means the person or persons, or the trust or trusts created for the benefit of a natural person or persons or the Participant's or former Participant's estate, designated by the Participant or former Participant to receive the benefits payable under the Plan upon his death.

1.07 "BOARD" or "BOARD OF DIRECTORS" means the board of directors of the Sponsor.

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

1.09 "COMMITTEE" means the committee appointed by the Sponsor to administer the Plan.

1.10 "CONSIDERED COMPENSATION" means Annual Compensation paid to a Participant by an Affiliated Employer for a Plan Year, REDUCED by all of the following items (even if includable in gross income): all reimbursements or other expense allowances (such as the payment of moving expenses or automobile mileage reimbursements), cash and noncash fringe benefits (such as the use of an automobile owned by the Employer, club memberships, tax gross-ups, attendance and safety awards, fitness reimbursements, housing allowances, financial planning benefits and Beneflex dollars), deferred compensation (such as amounts realized upon the exercise of a nonqualified stock option or upon the premature disposition of an incentive stock option, pay for accrued vacation upon Separation From Service, amounts realized when restricted property or other property held by a Participant either becomes freely transferable or no longer subject to a substantial risk of forfeiture under section 83 of the Code), and welfare benefits (such as severance pay). An Employee's Considered Compensation paid to him during any period in which he is not eligible to participate in the Plan under Article II shall be disregarded. Considered Compensation in excess of $150,000.00 as adjusted by the Secretary of Treasury for increases in the cost of living in accordance with section 401(a)(17)(B) of the Code shall be disregarded. If the Plan Year is ever less than 12 months, the $150,000.00 limitation (as adjusted by the Secretary of Treasury) will be prorated by multiplying the limitation by a

fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is 12.

1.11 "CONTRIBUTION" means the total amount of contributions made under the terms of the Plan. Each specific type of Contribution shall be designated by the type of contribution made as follows:

(a) Salary Deferral Contribution - a before-tax contribution made by the Employer pursuant to the Employee's salary deferral agreement.

(b) After-Tax Contribution - an after-tax contribution made by the Employee.

(c) Matching Contribution - a contribution made by the Employer pursuant to Section 3.03.

(d) Supplemental Contribution - a contribution made by the Employer pursuant to Section 3.04.

(e) QNEC - an extraordinary contribution, known as a "qualified nonelective employer contribution", made by the Employer as a means of passing the actual deferral percentage test of section 401(k) of the Code or the actual contribution percentage test of section 401(m) of the Code.

(f) Rollover Contribution - a contribution made by a Participant which consists of any part of an eligible rollover distribution (as defined in section 402 of the Code) from a qualified employee trust described in section 401(a) of the Code.

1.12 "DIRECT ROLLOVER" means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

1.13 "DISABILITY" means a mental or physical disability which, in the opinion of a physician selected by the Committee, shall prevent the Participant from earning a reasonable livelihood with any Affiliated Employer and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months and which: (a) was not contracted, suffered or incurred while the 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 receives a military pension.

1.14 "DISTRIBUTEE" means an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the alternate payee under a Qualified Domestic Relations Order, are Distributees with regard to the interest of the Spouse or former Spouse.

1.15 "ELIGIBLE RETIREMENT PLAN" means an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in

section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

1.16 "ELIGIBLE ROLLOVER DISTRIBUTION" as defined in section 402 of the Code means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: (a) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's Beneficiary, or for a specified period of ten years or more; (b) any distribution to the extent the distribution is required under section 401(a)(9) of the Code; (c) the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities); and, effective for distributions after December 31, 1998, (d) any financial hardship distribution described in section 401(k)(2) of the Code from a Participant's Salary Deferral Contribution Account or from the Participant's QNEC Account (to the extent that QNECs were treated as Section 401(k) Contributions under Appendix A).

1.17 "EMPLOYEE" means, except as otherwise specified in this Section, all common law employees of an Affiliated Employer and all Leased Employees.

1.18 "EMPLOYER" OR "EMPLOYERS" means the Sponsor and any other business organization that adopts the Plan.

1.19 "ENTRY DATE" means the first day of each calendar quarter, January 1, April 1, July 1, and October 1.

1.20 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.21 "FIVE PERCENT OWNER" means an Employee who is a five percent owner as defined in section 416(i) of the Code.

1.22 "HIGHLY COMPENSATED EMPLOYEE" means an Employee or an Affiliated Employer who, during the Plan Year or the preceding Plan Year, (a) was at any time a Five Percent Owner at any time during the Plan Year or the preceding Plan Year or (b) had Annual Compensation from the Affiliated Employers in excess of $80,000.00 (as adjusted from time to time by the Secretary of the Treasury) for the preceding Plan Year.

1.23 "HOUR OF SERVICE" means each hour that an Employee is paid or entitled to payment by an Affiliated Employer for the performance of duties.

1.24 "LEASED EMPLOYEE" means any person who (a) is not a common law employee of an Affiliated Employer, (b) pursuant to an agreement between an Affiliated Employer and any other person, has performed services for an Affiliated Employer (or for an Affiliated Employer and related persons determined in accordance with section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one year and (c) performs the services under primary direction and control of the recipient.

1.25 "MATERNITY OR PATERNITY ABSENCE" means a period in which an Employee is absent from work (a) by reason of the pregnancy of the Employee, (b) by reason of the birth of a child of the Employee, (c) by reason of the placement of a child with the Employee in connection with the adoption of the child by the Employee, or (d) for purposes of caring for such child for a period immediately following such birth or placement for adoption.

1.26 "NONFORFEITABLE INTEREST" means a Participant's nonforfeitable interest in amounts credited to his Account determined in accordance with Article VII.

1.27 "NON-HIGHLY COMPENSATED EMPLOYEE" means an Employee who is not a Highly Compensated Employee.

1.28 "PARTICIPANT" means an Employee who is eligible to participate in the Plan under the provisions of Article II.

1.29 "PERIOD OF SERVICE" means a period of employment with an Affiliated Employer which commences on the later of (1) April 1, 1986 or (2) the day on which an Employee performs his initial Hour of Service or performs his initial Hour of Service after he Severs Service, whichever is applicable, and ends on the date the Employee subsequently Severs Service.

1.30 "PERIOD OF SEVERANCE" means the period of time commencing on the Employee's Severance From Service Date and ending on the date the Employee subsequently performs an Hour of Service.

1.31 "PLAN" means the Quanex Corporation Employee Savings Plan, as amended from time to time.

1.32 "PLAN YEAR" means the calendar year.

1.33 "QUALIFIED DOMESTIC RELATIONS ORDER" means a qualified domestic relations order as defined in section 414(p) of the Code.

1.34 "REGULATION" means the Department of Treasury regulation specified, as it may be changed from time to time.

1.35 "REQUIRED BEGINNING DATE" means:

(a) effective January 1, 2001, in the case of an individual who is not a Five Percent Owner in the Plan Year that ends in the calendar year in which he attains age 70 1/2, the Required Beginning Date is April 1 of tHe calendar year following the later of (1) the calendar year in which the individual attains age 70 1/2, or (2) the calendar year in which tHe individual incurs a Separation From Service;

(b) in the case of an individual who is a Five Percent Owner in the Plan Year that ends in the calendar year in which he attains age 70 1/2, tHe Required Beginning Date is April 1 of the calendar year following the calendar year in which he attains age 70 1/2.;

(c) notwithstanding subsection(a), in the case of an individual who attained age 70 1/2 prior to January 1, 2001, the Required Beginning DaTe is April 1 of the calendar year following the calendar year in which the individual attained age 70 1/2.

1.36 "RETIREMENT AGE" means age 65.

1.37 "ROLLOVER CONTRIBUTION" means the amount contributed by a Participant of the Plan which consists of any part of an Eligible Rollover Distribution from a qualified employee trust described in section 401(a) of the Code.

1.38 "SEPARATION FROM SERVICE" means an individual's termination of employment with an Affiliated Employer WITHOUT commencing or continuing employment with (a) any other Affiliated Employer or (b) any other entity under circumstances where, under Regulations and Internal Revenue Service rulings, the individual is not deemed to have incurred a Separation From Service within the meaning of Section 401(k)(2) of the Code.

1.39 "SEVERANCE FROM SERVICE DATE" means the earlier of the date of the Employee's Separation From Service, or the first anniversary of the date on which the Employee is absent from service (with or without pay) for any reason other than his Separation From Service or a Maternity or Paternity Absence, such as vacation, holiday, sickness, or leave of absence. The Severance From Service Date of an Employee who is absent beyond the first anniversary of his first day of absence by reason of a Maternity or Paternity Absence is the second anniversary of the first day of the absence.

1.40 "SEVERS SERVICE" means the occurrence of a Participant's Severance From Service Date.

1.41 "SPONSOR" means Quanex Corporation, a Delaware corporation.

1.42 "SPONSOR STOCK" means the common stock of the Sponsor or such other publicly-traded stock of an Affiliated Employer as meets the requirements of section 407(d)(5) of ERISA with respect to the Plan.

1.43 "SPOUSE" means the person to whom the Participant or former Participant is married under applicable local law. In addition, to the extent provided in a Qualified Domestic Relations Order, a surviving former spouse of a Participant or former Participant will be treated as the Spouse of the Participant or former Participant, and to the same extent any current spouse of the Participant or former Participant will not be treated as a Spouse of the Participant or former Participant.

1.44 "TRUST" means the trust estate created to fund the Plan.

1.45 "TRUSTEE" means collectively one or more persons or corporations with trust powers which have been appointed by the initial Sponsor and have accepted the duties of Trustee and any successor appointed by the Sponsor.

1.46 "VALUATION DATE" means each business day of the Plan Year.

ARTICLE II

ELIGIBILITY

2.01 ELIGIBILITY REQUIREMENTS. Each Employee who is employed by an Employer shall be eligible to participate in the Plan beginning on the Entry Date that occurs with or next follows the date on which the Employee completes three months of Active Service. However, an Employee who is included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer shall be excluded, even if he has met the requirements for eligibility, if there has been good faith bargaining between the Employer and the Employees' representative pertaining to retirement benefits and the agreement does not require the Employer to include such Employees in the Plan. In addition, a Leased Employee shall not be eligible to participate in the Plan unless the Plan's qualified status is dependent upon coverage of the Leased Employee. An Employee who is compensated on an hourly rated basis for services rendered at the Sponsor's MacSteel-Arkansas Division is not eligible to participate in the Plan. An Employee who is employed by the Sponsor at one of the Sponsor's Nichols divisions or the Sponsor's Fabricated Products division is not eligible to participate in the Plan. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and receives no earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) is not eligible to participate in the Plan. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and who does receive earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) all of which is exempt from United States income tax under an applicable tax convention is not eligible to participate in the Plan. During any period in which an individual is classified by an Employer as an independent contractor with respect to such Employer, the individual is not eligible to participate in the Plan (even if he is subsequently reclassified by the Internal Revenue Service as a common law employee of the Employer and the Employer acquiesces to the reclassification). Finally, an Employee who is employed outside the United States is not eligible to participate in the Plan unless the Committee elects to permit him to participate in the Plan.

2.02 EARLY PARTICIPATION FOR ROLLOVER PURPOSES. An Employee who satisfies the eligibility requirements specified in Section 2.01 other than the service requirement shall be eligible to make Rollover Contributions to the Plan on the Entry Date next following (not coincident with) the date on which he completes an Hour of Service.

2.03 ELIGIBILITY UPON REEMPLOYMENT. If an Employee incurs a Separation From Service prior to the date he initially begins participating in the Plan, he shall be eligible to begin participation in the Plan on the later of the date he would have become a Participant if he did not incur a Separation From Service or the date on which he performs an Hour of Service after he incurs a Separation From Service. Subject to Section 2.04, once an Employee becomes a Participant, his eligibility to participate in the Plan shall continue until he Severs Service.

2.04 CESSATION OF PARTICIPATION. An individual who has become a Participant will cease to be a Participant on the earliest of the date on which he (a) Severs Service, (b) is

transferred from the employ of an Employer to the employ of an Affiliated Employer that has not adopted the Plan, (c) becomes included in a unit of employees covered by a collective bargaining agreement that does not require coverage of those employees under the Plan, (d) becomes a Leased Employee, or (e) becomes included in another classification of Employees who, under the terms of the Plan, are not eligible to participate. Under these circumstances, the Participant's Account becomes frozen; he cannot contribute to the Plan or share in the allocation of any Contributions for the frozen period. However, his Accounts shall continue to share in any Plan income allocable to his Accounts during the frozen period of time.

2.05 RECOMMENCEMENT OF PARTICIPATION. A former Participant will again become a Participant on the day on which he again becomes included in a classification of Employees that, under the terms of the Plan, is eligible to participate.

ARTICLE III

CONTRIBUTIONS

3.01 SALARY DEFERRAL CONTRIBUTIONS. Each Employer shall make a Salary Deferral Contribution in an amount equal to the amount by which the Considered Compensation of its Employees who are Participants was reduced on a pre-tax basis pursuant to salary deferral agreements. Any such salary deferral agreement shall be an agreement in a form satisfactory to the Committee to prospectively receive Considered Compensation from the Employer in a reduced amount and to have the Employer contribute an amount equal to the amount of the reduction to the Trust on account of the Participant. Any such salary deferral agreement shall be revocable in accordance with its terms, provided that no revocation shall be retroactive or permit payment to the Participant of the amount required to be contributed to the Trust. A Participant's right to benefits attributable to Salary Deferral Contributions made to the Plan on his behalf shall be nonforfeitable.

The maximum amount a Participant may elect to reduce his Considered Compensation under his salary deferral agreement and have contributed to the Plan on a pre-tax basis shall be determined by the Committee, in its sole discretion from time to time. The election to have Salary Deferral Contributions made, the ability to change the rate of Salary Deferral Contributions, the right to suspend Salary Deferral Contributions, and the manner of commencing new Salary Deferral Contributions shall be permitted under any uniform method determined by the Committee from time to time.

3.02 AFTER-TAX CONTRIBUTIONS. To the extent permitted by the Committee, each Participant may make voluntary after-tax contributions to the Plan through payroll deductions or in a lump sum in cash. A Participant's right to benefits attributable to After-Tax Contributions made to the Plan on his behalf shall be nonforfeitable.

The maximum amount a Participant may elect to contribute to the Plan on an after-tax basis shall be determined by the Committee from time to time. The election to have After-Tax Contributions made, the ability to change the rate of After-Tax Contributions, the right to suspend After-Tax Contributions, and the manner of commencing new After-Tax Contributions shall be permitted under any uniform method determined by the Committee from time to time.

3.03 MATCHING CONTRIBUTIONS. Each Employer will make a Matching Contribution on behalf of each of its Employees who is a Participant in an amount equal to 50 percent of the first five percent of such Participant's Considered Compensation contributed to the Plan pursuant to such Participant's Salary Deferral Contributions and After-Tax Contributions for the Plan Year.

3.04 SUPPLEMENTAL CONTRIBUTIONS. Each Employer may contribute for a Plan Year a Supplemental Contribution to be allocated among Participants in such amount, if any, as shall be determined by the Employer. The rate of the Supplemental Contribution need not be uniform among all divisions of the Employer.

3.05 ROLLOVER CONTRIBUTIONS AND PLAN-TO-PLAN TRANSFERS. The Committee may permit Rollover Contributions by Participants and/or direct transfers to or from another qualified

plan on behalf of Participants from time to time. If Rollover Contributions and/or direct transfers to or from another qualified plan are permitted, the opportunity to make those contributions and/or direct transfers must be made available to Participants on a nondiscriminatory basis. For this purpose only, all Employees who are included in a classification of Employees who are eligible to participate in the Plan shall be considered to be Participants of the Plan even though they may not have met the Active Service requirements for eligibility. However, they shall not be entitled to elect to have Salary Deferral Contributions made or to share in Employer Contributions or forfeitures unless and until they have met the requirements for eligibility, contributions and allocations. A Rollover Contribution shall not be accepted unless it is directly rolled over to the Plan in a rollover described in section 401(a)(31) of the Code. A Participant shall not be permitted to make a Rollover Contribution if the property he intends to contribute is for any reason unacceptable to the Trustee. A Participant's right to benefits attributable to his Rollover Contributions made to the Plan shall be nonforfeitable.

3.06 QNECS - EXTRAORDINARY EMPLOYER CONTRIBUTIONS. Any Employer may make a QNEC in such amount, if any, as shall be determined by it. A Participant's right to benefits attributable to QNECs made to the Plan on his behalf shall be nonforfeitable. In no event will QNECs be distributed before Salary Deferral Contributions may be distributed from the Plan.

3.07 RESTORATION CONTRIBUTIONS. The Employer shall, for each Plan Year, make a restoration contribution in an amount equal to the sum of (a) such amount, if any, as shall be necessary to fully restore all Matching Contribution Accounts and Supplemental Contribution Accounts required to be restored pursuant to the provisions of Section 8.02 after the application of all forfeitures available for such restoration; plus (b) an amount equal in value to the value of forfeited benefits required to be restored under Section 8.03, after the application of all forfeitures available for such restoration.

3.08 NONDEDUCTIBLE CONTRIBUTIONS NOT REQUIRED. Notwithstanding any other provision of the Plan, no Employer shall be required to make any contribution that would be a "nondeductible contribution" within the meaning of section 4972 of the Code.

3.09 FORM OF PAYMENT OF CONTRIBUTIONS. Contributions may be paid to the Trustee either in cash or in qualifying employer securities (as such term is defined in section 407(d) of ERISA) or any combination thereof, provided that payment may not be made in any form constituting a prohibited transaction under section 4975 of the Code or section 406 of ERISA.

3.10 DEADLINE FOR PAYMENT OF CONTRIBUTIONS. Salary Deferral Contributions and After-Tax Contributions shall be paid to the Trustee in installments. The installment for each payroll period shall be paid as soon as administratively feasible. The Matching Contributions, Supplemental Contributions and QNECs for a Plan Year shall be paid to the Trustee in one or more installments, as the Employer may from time to time determine; provided, however, that such contributions may not be paid later than the time prescribed by law (including extensions thereof) for filing the Employer's income tax return for its taxable year ending with or within such Plan Year.

3.11 RETURN OF CONTRIBUTIONS FOR MISTAKE, DISQUALIFICATION OR DISALLOWANCE OF DEDUCTION. Subject to the limitations of section 415 of the Code, the assets of the Trust shall not

revert to any Employer or be used for any purpose other than the exclusive benefit of Participants, former Participants and their Beneficiaries and the reasonable expenses of administering the Plan except:

(a) any Employer Contribution made because of a mistake of fact may be repaid to the Employer within one year after the payment of the Contribution; and

(b) all Employer Contributions are conditioned upon their deductibility under section 404 of the Code; therefore, to the extent the deduction is disallowed, the Contributions may be repaid to the Employer within one year after the disallowance.

The Employer has the exclusive right to determine if a Contribution or any part of it is to be repaid or is to remain as a part of the Trust except that the amount to be repaid is limited, if the Contribution is made by mistake of fact or if the deduction for the Contribution is disallowed, to the excess of the amount contributed over the amount that would have been contributed had there been no mistake or over the amount disallowed. Earnings which are attributable to any excess contribution cannot be repaid. Losses attributable to an excess contribution must reduce the amount that may be repaid. All repayments of Contributions made due to a mistake of fact or with respect to which a deduction is disallowed are limited so that the balance in a Participant's or former Participant's Account cannot be reduced to less than the balance that would have been in the Participant's or former Participant's Account had the mistaken amount or the amount disallowed never been contributed.

ARTICLE IV

ALLOCATION AND VALUATION OF ACCOUNTS

4.01 INFORMATION STATEMENTS FROM EMPLOYER. Upon request by the Committee, the Employer shall provide the Committee with a schedule setting forth the amount of its Salary Deferral Contribution, Supplemental Contribution, QNEC, and restoration contribution; the names of its Participants, the number of years of Active Service of each of its Participants, the amount of Considered Compensation and Annual Compensation paid to each Participant, and the amount of Considered Compensation and Annual Compensation paid to all its Participants. Such schedules shall be conclusive evidence of such facts.

4.02 ALLOCATION OF SALARY DEFERRAL CONTRIBUTIONS. The Committee or its designee shall allocate the Salary Deferral Contribution among the Participants by allocating to each Participant the amount by which his Considered Compensation was reduced pursuant to a salary deferral agreement (as described in Section 3.01) and shall credit each such Participant's share to his Salary Deferral Contribution Account.

4.03 ALLOCATION OF AFTER-TAX CONTRIBUTIONS. The Committee or its designee shall allocate After-Tax Contributions made by a Participant in the amount of such After-Tax Contributions and shall credit such After-Tax Contributions to the Participants After-Tax Contribution Account.

4.04 ALLOCATION OF MATCHING CONTRIBUTIONS. The Committee or its designee shall separately allocate the Matching Contribution made by an Employer among the Employer's Participants in the proportion which the matched Salary Deferral Contributions and matched After-Tax Contributions of each such Participant bears to the total matched Salary Deferral Contributions and matched After-Tax Contributions of all such Participants. Each Participant's proportionate share shall be credited to his Matching Contribution Account.

4.05 ALLOCATION OF SUPPLEMENTAL CONTRIBUTIONS. For each Plan Year, the Committee or its designee shall allocate the Supplemental Contribution made by an Employer among the Participants who are employed by the Employer during the Plan Year, based upon each such Participant's Considered Compensation paid by the Employer as compared to the Considered Compensation for all such Participants employed by the Employer and eligible for the allocation.

4.06 ALLOCATION OF QNECS. The Committee or its designee shall separately allocate the QNEC among the Non-Highly Compensated Employees who are Participants based upon each such Participant's Considered Compensation as compared to the Considered Compensation of all such Participants.

4.07 ALLOCATION OF FORFEITURES. At the time a forfeiture occurs pursuant to Article VIII, the amount forfeited will first be used to reinstate any Account required to be reinstated under Article VIII, and any remaining amount will be applied to the payment of Matching Contributions or Supplemental Contributions.

4.08 VALUATION OF ACCOUNTS. A Participant's or former Participant's Accounts shall be valued by the Trustee at fair market value on each Valuation Date. The earnings and losses

attributable to any asset in the Trust will be allocated solely to the Account of the Participant or former Participant on whose behalf the investment in the asset was made. In determining the fair market value of the Participants' or former Participant's Accounts, the Trustee shall utilize such sources of information as it may deem reliable including, but not limited to, stock market quotations, statistical evaluation services, newspapers of general circulation, financial publications, advice from investment counselors or brokerage firms, or any combination of sources which in the opinion of the Trustee will provide the price such assets were last traded at on a registered stock exchange; provided, however, that with respect to regulated investment company shares, the Trustee shall rely exclusively on information provided to it by the investment adviser to such funds.

4.09 NO RIGHTS UNLESS OTHERWISE PRESCRIBED. No allocations, adjustments, credits, or transfers shall ever vest in any Participant or former Participant any right, title, or interest in the Trust except at the times and upon the terms and conditions set forth in the Plan.

ARTICLE V

BENEFITS

5.01 RETIREMENT BENEFIT. Upon his Separation From Service, a Participant or former Participant is entitled to receive his Nonforfeitable Interest in his Account balances.

5.02 DEATH BENEFIT. If a Participant or former Participant dies, the death benefit payable to his Beneficiary shall be the Participant's Nonforfeitable Interest in 100 percent of the remaining amount of his Account balances.

5.03 DISTRIBUTION METHOD. Any distribution under the Plan shall be made in the form of a cash lump sum.

5.04 IMMEDIATE PAYMENT OF SMALL AMOUNT UPON SEPARATION FROM SERVICE. Each Participant or former Participant whose Nonforfeitable Interest in his Account balance at the time of a distribution to him on account of his Separation From Service is, in the aggregate, less than or equal to $5,000.00, shall be paid in the form of an immediate single sum cash payment and/or as a Direct Rollover, as elected by him under section 5.05. However, if a Distributee who is subject to this Section 5.04 does not furnish instructions in accordance with Plan procedures to directly roll over his Plan benefit within 45 days after he has been given direct rollover forms, he will be deemed to have elected to receive an immediate lump sum cash distribution of his entire Plan benefit. If a Participant's or former Participant's Nonforfeitable Interest in his Account balance payable upon his Separation From Service is zero (because he has no Nonforfeitable Interest in his Account balance), he will be deemed to receive an immediate distribution of his entire Nonforfeitable Interest in his Account balance.

5.05 DIRECT ROLLOVER OPTION. To the extent required under Regulations, a Distributee has the right to direct that any portion of his Eligible Rollover Distribution will be directly paid to an Eligible Retirement Plan specified by him that will accept the Eligible Rollover Distribution.

5.06 DISTRIBUTION UPON DISPOSITION OF ASSETS OR A SUBSIDIARY. A Participant or former Participant who is employed by an Employer that is a corporation is entitled to receive a lump sum cash distribution of his Nonforfeitable Interest in his Account balance in the event of the sale or other disposition by the Employer of at least 85 percent of all of the assets used by the Employer in a trade or business of the Employer to an unrelated corporation if (a) the Employer continues to maintain the Plan after the disposition and (b) in connection with the disposition the Participant or former Participant is transferred to the employ of the corporation acquiring the assets

A Participant or former Participant is entitled to receive a lump sum cash distribution of his Nonforfeitable Interest in his Account balance in the event of the sale or other disposition by the Sponsor of its interest in a subsidiary (within the meaning of Section 409(d)(3) of the Code) to an unrelated entity or individual if (a) the Sponsor continues to maintain the Plan after the disposition and (b) in connection with the disposition the Participant continues employment with the subsidiary.

The selling Employer is treated as continuing to maintain the Plan after the disposition only if the purchaser does not maintain the Plan after the disposition. A purchaser is considered to maintain the Plan if it adopts the Plan, becomes an employer whose employees accrue benefits under the Plan, or if the Plan is merged or consolidated with, or any assets or liabilities are transferred from the Plan to, a plan maintained by the purchaser in a transaction that is subject to Section 414(1)(1) of the Code. An unrelated corporation, entity or individual is one that is not required to be aggregated with the selling Employer under Section 414(b), (c), (m), or (o) of the Code after the sale or other disposition.

If a Participant's Nonforfeitable Interest in his Account balance is $5,000.00 or less on the date of the disposition, the Committee will direct the Trustee to pay to the Participant, a lump sum cash distribution of his Nonforfeitable Interest in his Account balance as soon as administratively practicable following the disposition and any Internal Revenue Service approval of the distribution that the Committee deems advisable to obtain.

If a Participant's Nonforfeitable Interest in his Account balance is more than $5,000.00 on the date of the disposition, he may elect (1) to receive a lump sum cash distribution of his Nonforfeitable Interest in his Account balance as soon as administratively practicable following the disposition and receipt of any Internal Revenue Service approval of the distribution that the Committee deems advisable to obtain, or (2) he may elect to defer receipt of his Nonforfeitable Interests in his Account balance until the first day of the month coincident with or next following the date that he attains Retirement Age. In the manner and at the time required under Regulations, the Committee will provide the Participant with a notice of his right to defer receipt of his Account balance described in Section 5.09.

However, no distribution shall be made to a Participant under this Section 5.06 after the end of the second calendar year following the calendar year in which the disposition occurred. In addition, no distribution shall be made under this Section unless it is a lump sum distribution within the meaning of section 402(e)(4)(D) of the Code, without regard to subclauses (I), (II), (III), and (IV) of clause (i) thereof.

5.07 TIME OF DISTRIBUTION. Notwithstanding any other provision of the Plan, any benefit payable under the Plan shall be distributed in compliance with the following provisions:

(a) DISTRIBUTION DEADLINES FOR PARTICIPANTS OR FORMER PARTICIPANTS WHO ARE 70 1/2 OR OLDER. If a Participant or former Participant attains 70 1/2, the Participant or former Participant must elect to receive the distribution required under section 401(a)(9) of the Code in one lump sum which must be paid by his Required Beginning Date.

(b) DISTRIBUTION DEADLINE FOR DEATH BENEFITS. If a Participant or former Participant dies before the distribution of his Plan benefit has commenced, his entire interest shall be distributed within five years after his death.

(c) LIMITATIONS ON DEATH BENEFITS. Benefits payable under the Plan shall not be provided in any form that would cause a Participant's death benefit to be more than incidental. Any distribution required to satisfy the incidental benefit requirement shall be considered a required distribution for purposes of section 401(a)(9) of the Code.

(d) COMPLIANCE WITH SECTION 401(A)(9). All distributions under the Plan will be made in accordance with the requirements of section 401(a)(9) of the Code and all Regulations promulgated thereunder. The provisions of the Plan reflecting section 401(a)(9) of the Code override any distribution options in the Plan inconsistent with such Section.

(e) COMPLIANCE WITH SECTION 401(A)(14). Unless the Participant or former Participant otherwise elects, the payment of benefits under the Plan to the Participant or former Participant will begin not later than the 60th day after the close of the Plan Year in which occurs the latest of (a) the date on which the Participant or former Participant attains the later of age 62 or Retirement Age, (b) the tenth anniversary of the year in which the Participant or former Participant commenced participation in the Plan, or (c) the Participant's or former Participant's Separation From Service.

5.08 CONSENT TO DISTRIBUTION. Notwithstanding any other provision of the Plan, no benefit shall be distributed or commence to be distributed to a Participant or former Participant prior to his attainment of the later of age 62 or Retirement Age without his consent, unless the benefit is payable immediately under Section 5.04. Any such consent shall be valid only if given not more than 90 days prior to the Participant's or former Participant's Annuity Starting Date and after his receipt of the notice regarding benefits described in Section 5.09(a).

5.09 INFORMATION PROVIDED TO PARTICIPANTS. Information regarding the form of benefits available under the Plan shall be provided to Participants or former Participants in accordance with the following provisions:

(a) GENERAL INFORMATION. The Sponsor shall provide each Participant or former Participant with a written general explanation of the Participant's or former Participant's right, if any, to defer receipt of the distribution.

(b) TIME FOR GIVING NOTICE. The written general explanation or description regarding any optional forms of benefit available under the Plan shall be provided to a Participant or former Participant no less than 30 days and no more than 90 days before his Annuity Starting Date unless he legally waives this requirement.

5.10 DESIGNATION OF BENEFICIARY. Each Participant and former Participant has the right to designate and to revoke the designation of his Beneficiary or Beneficiaries. Each designation or revocation must be evidenced by a written document in the form required by the Committee, signed by the Participant or former Participant and filed with the Committee. If no designation is on file at the time of a Participant's or former Participant's death or if the Committee determines that the designation is ineffective, the designated Beneficiary shall be the Participant's or former Participant's Spouse, if living, or if not, the executor, administrator or other personal representative of the Participant's or former Participant's estate. If a Participant or former Participant is considered to be married under local law, his designation of any Beneficiary, other than his Spouse, shall not be valid unless the Spouse acknowledges in writing that the Spouse understands the effect of the Participant's or former Participant's beneficiary designation and consents to it. The consent must be to a specific Beneficiary. The written acknowledgement and consent must be filed with the Committee, signed by the Spouse and at

least two witnesses, one of whom must be a member of the Committee or a notary public. However, if the Spouse cannot be located or there exist other circumstances as described in sections 401(a)(11) and 417(a)(2) of the Code, the requirement of the Participant's or former Participant's Spouse's acknowledgement and consent may be waived. If a Beneficiary other than the Participant's or former Participant's Spouse is named, the designation shall become invalid if the Participant or former Participant is later determined to be married under local law, the Participant's or former Participant's missing Spouse is located or the circumstances which resulted in the waiver of the requirement of obtaining the consent of his Spouse no longer exist.

5.11 DISTRIBUTIONS TO DISABLED PERSONS. If the Committee determines that any person to whom a payment is due is unable to care for his affairs because of physical or mental disability, it shall have the authority to cause the payments to be made to the Spouse, brother, sister or other person the Committee determines to have incurred, or to be expected to incur, expenses for that person unless a prior claim is made by a qualified guardian or other legal representative. The Committee and the Trustee shall not be responsible to oversee the application of those payments. Payments made pursuant to this power shall be a complete discharge of all liability under the Plan and the Trust and the obligations of the Employer, the Trustee, the Trust and the Committee.

5.12 DISTRIBUTIONS PURSUANT TO QUALIFIED DOMESTIC RELATIONS ORDERS. The Committee will instruct the Trustee to pay benefits in accordance with the terms of any order that has been determined, in accordance with Plan procedures, to be a Qualified Domestic Relations Order. A Qualified Domestic Relations Order may require the payment of an immediate cash lump sum to an alternate payee even if the Participant or former Participant is not then entitled to receive an immediate payment of Plan benefits.

5.13 CLAIMS PROCEDURE. When a benefit is due, the Participant, former Participant or Beneficiary should submit his claim to the person or office designated by the Committee to receive claims. Under normal circumstances, a final decision shall be made as to a claim within 90 days after receipt of the claim. If the Committee notifies the claimant in writing during the initial 90-day period, it may extend the period up to 180 days after the initial receipt of the claim. The written notice must contain the circumstances necessitating the extension and the anticipated date for the final decision. If a claim is denied during the claims period, the Committee must notify the claimant in writing. The denial must include the specific reasons for it, the Plan provisions upon which the denial is based, and the claims review procedure. If no action is taken during the claims period, the claim is treated as if it were denied on the last day of the claims period.

If a Participant's, former Participant's or Beneficiary's claim is denied and he wants a review, he must apply to the Committee in writing. That application may include any comment or argument the claimant wants to make. The claimant may either represent himself or appoint a representative, either of whom has the right to inspect all documents pertaining to the claim and its denial. The Committee may schedule any meeting with the claimant or his representative that it finds necessary or appropriate to complete its review.

The request for review must be filed within 60 days after the denial. If it is not, the denial becomes final. If a timely request is made, the Committee must make its decision, under

normal circumstances, within 60 days of the receipt of the request for review. However, if the Committee notifies the claimant prior to the expiration of the initial review period, it may extend the period of review up to 120 days following the initial receipt of the request for a review. All decisions of the Committee must be in writing and must include the specific reasons for their action and the Plan provisions on which their decision is based. If a decision is not given to the claimant within the review period, the claim is treated as if it were denied on the last day of the review period.

ARTICLE VI

IN-SERVICE DISTRIBUTIONS

6.01 IN-SERVICE FINANCIAL HARDSHIP DISTRIBUTIONS.

(a) GENERAL. Prior to his Separation From Service, a Participant is entitled to receive a distribution from his Salary Deferral Contribution Account (except for income that was not credited to his Salary Deferral Account as of December 31, 1988), his Rollover Account, his After-Tax Contribution Account, his Nonforfeitable Interest in his Matching Contribution Account and his Nonforfeitable Interest in his Supplemental Contribution Account in the event of an immediate and heavy financial need incurred by the Participant and the Committee's determination that the withdrawal is necessary to alleviate that hardship.

(b) PERMITTED REASONS FOR FINANCIAL HARDSHIP DISTRIBUTIONS. A distribution shall be made on account of financial hardship only if the distribution is for: (i) expenses for medical care described in section 213(d) of the Code previously incurred by the Participant, the Participant's Spouse, or any dependents of the Participant (as defined in section 152 of the Code) or necessary for these persons to obtain medical care described in section 213(d) of the Code, (ii) costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Participant, (iii) payment of tuition and related educational fees for the next 12 months of post-secondary education for the Participant, his Spouse, children, or dependents (as defined in section 152 of the Code), (iv) payments necessary to prevent the eviction of the Participant from his principal residence or foreclosure on the mortgage of the Participant's principal residence, or (v) any other event added to this list by the Commissioner of Internal Revenue.

(c) AMOUNT. A distribution to satisfy an immediate and heavy financial need shall not be made in excess of the amount of the immediate and heavy financial need of the Participant and the Participant must have obtained all distributions, other than hardship distributions, and all nontaxable (at the time of the loan) loans currently available under all plans maintained by the Employer. The amount of a Participant's immediate and heavy financial need includes any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the financial hardship distribution.

(d) SUSPENSION OF PARTICIPATION IN CERTAIN BENEFIT PROGRAMS. The Participant's hardship distribution shall terminate his right to have the Employer make any Salary Deferral Contributions on his behalf until the next time Salary Deferral Contributions are permitted after the lapse of 12 months following the hardship distribution and his timely filing of a written request to resume his Salary Deferral Contributions. In addition, for 12 months after he receives a hardship distribution from the Plan, the Participant is prohibited from making elective contributions and employee contributions to or under all other qualified and nonqualified plans of deferred compensation maintained by the Employer, including stock option plans, stock purchase plans and Code section 401(k) cash or deferred arrangements that are part of cafeteria

plans described in section 125 of the Code. However, the Participant is not prohibited from making contributions to a health or welfare benefit plan, including one that is part of a cafeteria plan within the meaning of section 125 of the Code.

(e) RESUMPTION OF SALARY DEFERRAL CONTRIBUTIONS. When the Participant resumes Salary Deferral Contributions, he cannot have the Employer make any Salary Deferral Contributions in excess of the limit in section 402(g) of the Code for that taxable year reduced by the amount of Salary Deferral Contributions made by the Employer on the Participant's behalf during the taxable year of the Participant in which he received the hardship distribution.

(f) ORDER OF DISTRIBUTIONS. Financial hardship distributions will be made in the following order: First withdrawals will be made from the Participant's After-Tax Contribution Account, then from his Rollover Contribution Account, then from his Matching Contribution Account, then from his Supplemental Contribution Account and finally, from his Salary Deferral Contribution Account. A Participant shall not be entitled to receive a financial hardship distribution of any amount credited to his QNEC Account.

6.02 IN-SERVICE DISTRIBUTION OF AFTER-TAX CONTRIBUTIONS, MATCHING CONTRIBUTIONS AND SUPPLEMENTAL CONTRIBUTIONS. Each Participant shall be entitled to withdraw a portion or all of his After-Tax Contribution Account and his Nonforfeitable Interest in his Matching Contribution Account and his Supplemental Contribution Account. However, the minimum amount of the distribution permitted under this Section 6.02 shall be the lesser of $1,000.00 or the total amount which could otherwise be distributed under this Section 6.02. Also, a Participant may make a withdrawal of a portion of his Nonforfeitable Interest in his Matching Contribution Account and his Supplemental Contribution Account only if the Participant has been a Participant in this Plan for five or more years or the amounts withdrawn from the Matching Contribution Account and his Supplement Contribution Account have been credited to his Account for a minimum of two years. A Participant may not make another distribution request under this Section 6.02 until such Participant has made After-Tax Contributions and/or Salary Deferral Contributions for a period of twelve months or more after receiving his most recent distribution pursuant to this Section 6.02.

6.03 METHOD OF PAYMENT. Any distribution made pursuant to this Article VI will be paid in the form of a cash lump sum.

6.04 IN-SERVICE DISTRIBUTIONS FOR CERTAIN FORMER PARTICIPANTS. Former Participants who are described in Section 5.06 shall be entitled to receive distributions pursuant to this Article VI under the same terms and conditions as are applicable to Participants.

ARTICLE VII

VESTING

A Participant or former Participant has a fully nonforfeitable interest in his entire Account balance when he (a) incurs a Disability on or prior to the date of his Separation From Service, (b) attains his Normal Retirement Age on or prior to the date of his Separation From Service, or (c) incurs a Separation From Service due to death. A Participant or former Participant shall at all times have a fully nonforfeitable interest in amounts credited to his Salary Deferral Contribution Account, QNEC Account, Rollover Account and After-Tax Contribution Account. A Participant or former Participant shall have a nonforfeitable interest in the following percentage of amounts credited to his Matching Contribution Account and his Supplemental Contribution Account:

Years of Active Service Completed by the Participant or Former Participant	Vested Percentage
Less than one	0
One but less than two	20
Two but less than three	40
Three but less than four	60
Four but less than five	80
Five or more	100

Subject to the possible application of Section B.2.3 of Appendix B or Section 11.05, except as specified above, a Participant or former Participant has no vested interest in his Account balance and shall not be entitled to any benefits under the Plan upon or following his Separation From Service.

ARTICLE VIII

FORFEITURES AND RESTORATIONS

8.01 FORFEITURE ON TERMINATION OF PARTICIPATION.

(a) If as a result of his Separation From Service a Participant or former Participant receives (or is deemed to receive under Section 5.04), a distribution of his entire Nonforfeitable Interest in the Plan not later than the end of the second Plan Year following the Plan Year in which his Separation From Service occurs, the remaining nonvested portion of his Account balance will be immediately forfeited upon the distribution.

(b) If, not later than the end of the second Plan Year following the Plan Year in which his Separation From Service occurs, a Participant or former Participant receives a distribution of less than the full amount of his entire Nonforfeitable Interest in his Account balance as a result of his Separation From Service pursuant to his voluntary election to receive such distribution, the remaining nonvested portion of his Account balance will be forfeited immediately upon the distribution.

(c) If a Participant or former Participant neither receives nor is deemed to receive a distribution as a result of his Separation From Service, the nonvested portion of his Account balance will be permanently forfeited (with no right of reinstatement under Section 8.02) on the LATER of the date of his Separation From Service or the date on which he has incurred a Period of Severance of five consecutive years.

8.02 RESTORATION OF FORFEITED AMOUNTS. If a Participant or former Participant who forfeited any portion of his Account balance pursuant to the provisions of Section 8.01 subsequently performs an Hour of Service, then the following provisions shall apply:

(a) REPAYMENT REQUIREMENT. The Participant's Account balance (unadjusted for gains or losses subsequent to the forfeiture) shall be restored if he repays to the Trustee the full amount of any distribution with respect to which the forfeiture arose prior to the EARLIER of (1) the date on which he incurs a Period of Severance of five years commencing after his distribution, or (2) the fifth anniversary of the first date on which the Participant subsequently performs his first Hour of Service after his Separation From Service. A Participant who is deemed to have received a distribution under Section 5.04 (because he had no Nonforfeitable Interest in his Account balance) will be deemed to have repaid his Account balance upon his reemployment if he is reemployed before the earlier of the dates specified in clauses (1) and (2) in the preceding sentence.

(b) AMOUNT RESTORED. The amount to be restored under the preceding provisions of this Section 8.02 shall be the dollar value of the Account balance, both the amount distributed and the amount forfeited. The Participant's Account balance shall be restored as soon as administratively practicable after the later of the date the Participant first performs an Hour of Service after his Separation From Service or the date on which any required repayment is completed.

(c) NO OTHER BASIS FOR RESTORATION. Except as otherwise provided above, a Participant's Account balance shall not be restored after it has been forfeited pursuant to Section 8.01.

8.03 FORFEITURES BY LOST PARTICIPANTS OR BENEFICIARIES. If a person who is entitled to a distribution cannot be located during a reasonable search after the Committee has initially attempted making payment, his Account balance shall be forfeited. However, if at any time prior to the termination of the Plan and the complete distribution of the Trust assets, the missing former Participant or Beneficiary files a claim with the Committee for the forfeited Account balance, that Account balance shall be reinstated (without adjustment for trust income or losses during the period of forfeiture) effective as of the date of the receipt of the claim.

ARTICLE IX

ACTIVE SERVICE

9.01 GENERAL. For purposes of determining an Employee's eligibility to participate in the Plan and his nonforfeitable interest in his Account balance, the Employee shall receive credit for Active Service commencing on the later of (1) April 1, 1986 or (2) the date he first performs an Hour of Service and ending on his Severance From Service Date. If an Employee Severs Service, he shall recommence earning Active Service when he again performs an Hour of Service. If an Employee performs an Hour of Service within twelve months after his Severance From Service Date, the intervening Period of Severance shall be counted as Active Service. When determining an Employee's Active Service, all Periods of Service, whether or not completed consecutively, shall be aggregated on a per-day basis. In aggregating Active Service, thirty days shall be counted as one month and 365 days shall be counted as one year of Active Service.

9.02 DISREGARD OF CERTAIN SERVICE. If an Employee incurs a Separation From Service at a time when he does not have a Nonforfeitable Interest in a portion of his Matching Contribution Account balance or his Supplemental Contribution Account balance and his Period of Severance continues for a continuous period of five years or more, the Period of Service completed by the Employee before the Period of Severance shall not be taken into account as Active Service, if his Period of Severance equals or exceeds his Period of Service, whether or not consecutive, completed before the Period of Severance.

9.03 CERTAIN BRIEF ABSENCES COUNTED AS ACTIVE SERVICE. If an Employee performs an Hour of Service within 365 days after he Severs Service, the intervening Period of Severance shall be counted as a Period of Service.

9.04 SERVICE CREDIT REQUIRED BY LAW. An Employee will be granted credit for Active Service for time he is not actively performing services for an Affiliated Employer the extent required under federal law.

9.05 SPECIAL MATERNITY OR PATERNITY ABSENCE RULES. Except as specified below, the period of time between (a) the first anniversary of the first day of a Maternity or Paternity Absence of an Employee and (b) the second anniversary of the first day of the absence shall not be counted as a Period of Severance or as Active Service. However, if the Employee returns to active employment with an Affiliated Employer prior to the expiration of twelve months following the earlier of (1) the date of his Separation From Service or (2) the second anniversary of the first day of his Maternity or Paternity Absence, he shall be granted Active Service for the entire period of his Maternity or Paternity Absence.

9.06 EMPLOYMENT RECORDS CONCLUSIVE. The employment records of the Employer shall be conclusive for all determinations of Active Service.

ARTICLE X

INVESTMENT ELECTIONS

10.01 INVESTMENT FUNDS ESTABLISHED. It is contemplated that the assets of the Plan shall be invested in such categories of assets as may be determined from time to time by the Committee and announced and made available on an equal basis to all Participants and former Participants. In accordance with procedures established by the Committee, each Participant and former Participant may designate the percentage of his Account to be invested in each investment fund available under the Plan. Up to one hundred percent of the Trust assets may be invested in Sponsor Stock.

10.02 ELECTION PROCEDURES ESTABLISHED. The Committee shall, from time to time, establish rules to be applied in a nondiscriminatory manner as to all matters relating to the administration of the investment of funds including, but not limited to, the following:

(a) the percentage of a Participant's or former Participant's Account as it exists, from time to time, that may be transferred from one fund to another and the limitations based on amounts, percentages, time, or frequency, if any, on such transfers;

(b) the percentage of a Participant's future contributions, when allocated to his Account, that may be invested in any one or more funds and the limitations based upon amounts, percentages, time, or frequency, if any, on such investments in various funds;

(c) the procedures for making investment elections and changing existing investment elections;

(d) the period of notice required for making investment elections and changing existing investment elections;

(e) the handling of income and change of value in funds when funds are in the process of being transferred between investment funds and to investment funds; and

(f) all other matters necessary to permit the orderly operation of investment funds within the Plan.

When the Committee changes any previous applicable rule, it shall state the effective time of the change and the procedures for complying with any such change. Any change shall remain effective until such date as stated in the change, or if none is stated, then until revoked or changed in a like manner.

ARTICLE XI

ADOPTION OF PLAN BY OTHER EMPLOYERS

11.01 ADOPTION PROCEDURE. Any business organization may, with the approval of the Board, adopt the Plan by:

(a) a certified resolution or consent of the board of directors of the adopting Employer or an executed adoption instrument (approved by the board of directors of the adopting Employer) agreeing to be bound as an Employer by all the terms, conditions and limitations of the Plan except those, if any, specifically described in the adoption instrument; and

(b) providing all information required by the Committee and the Trustee.

11.02 NO JOINT VENTURE IMPLIED. The document which evidences the adoption of the Plan by an Employer shall become a part of the Plan. However, neither the adoption of the Plan and the Trust by an Employer nor any act performed by it in relation to the Plan and the Trust shall ever create a joint venture or partnership relation between it and any other Employer.

11.03 ALL TRUST ASSETS AVAILABLE TO PAY ALL BENEFITS. The Accounts of Participants employed by the Employers that adopt the Plan shall be commingled for investment purposes. All assets in the Trust shall be available to pay benefits to all Participants employed by any Employer.

11.04 QUALIFICATION A CONDITION PRECEDENT TO ADOPTION AND CONTINUED PARTICIPATION. The adoption of the Plan and the Trust by a business organization is contingent upon and subject to the express condition precedent that the initial adoption meets all statutory and regulatory requirements for qualification of the Plan and the exemption of the Trust that are applicable to it and that the Plan and Trust continue in operation to maintain their qualified and exempt status. In the event the adoption fails to initially qualify, the adoption shall fail retroactively for failure to meet the condition precedent and the portion of the Trust assets applicable to the adoption shall be immediately returned to the adopting business organization and the adoption shall be void ab initio. In the event the adoption as to a given business organization later becomes disqualified and loses its exemption for any reason, the adoption shall fail retroactively for failure to meet the condition precedent and the portion of the Trust assets allocable to the adoption by that business organization shall be immediately spun off, retroactively as of the last date for which the Plan qualified, to a separate trust for its sole benefit and an identical but separate Plan shall be created, retroactively effective as of the last date the Plan as adopted by that business organization qualified, for the benefit of the Participants covered by that adoption.

ARTICLE XII

AMENDMENT AND TERMINATION

12.01 RIGHT TO AMEND AND LIMITATIONS THEREON. The Sponsor has the sole right to amend the Plan. An amendment may be made by a certified resolution or consent of the Board, or by an instrument in writing executed by the appropriate officer of the Sponsor. The amendment must describe the nature of the amendment and its effective date. No amendment shall:

(a) vest in an Employer any interest in the Trust;

(b) cause or permit the Trust assets to be diverted to any purpose other than the exclusive benefit of the present, former or future Participants and their Beneficiaries except under the circumstances described in Section 3.11;

(c) decrease the Account of any Participant or former Participant, or eliminate an optional form of payment in violation of section 411(d)(6) of the Code; or

(d) change the vesting schedule to one which would result in a Participant's or former Participant's Nonforfeitable Interest in his Account balance (determined as of the later of the date of the adoption of the amendment or of the effective date of the amendment) of any Participant or former Participant being less than his Nonforfeitable Interest computed under the Plan without regard to the amendment. If the Plan's vesting schedule is amended or if the Plan is deemed amended by an automatic change to or from a top-heavy vesting schedule, each Participant or former Participant who has at least three years of Active Service as of the date of the amendment or change shall have his nonforfeitable percentage computed under the Plan without regard to the amendment or the change if that results in a higher Nonforfeitable Interest in his Account balance.

Each Employer shall be deemed to have adopted any amendment made by the Sponsor unless the Employer notifies the Committee of its rejection in writing within 30 days after it receives a copy of the amendment. A rejection shall constitute a withdrawal from the Plan by that Employer unless the Sponsor acquiesces in the rejection.

12.02 MANDATORY AMENDMENTS. The Contributions of each Employer to the Plan are intended to be:

(a) deductible under the applicable provisions of the Code;

(b) except as otherwise prescribed by applicable law, exempt from the Federal Social Security Act;

(c) except as otherwise prescribed by applicable law, exempt from with- holding under the Code; and

(d) excludable from any Employee's regular rate of pay, as that term is defined under the Fair Labor Standards Act of 1938, as amended.

The Sponsor shall make any amendment necessary to carry out this intention, and it may be made retroactively.

12.03 WITHDRAWAL OF EMPLOYER. An Employer may withdraw from the Plan and the Trust if the Sponsor does not acquiesce in its rejection of an amendment or by giving written notice of its intent to withdraw to the Committee. The Committee shall then determine the portion of the Trust assets that is attributable to the Participants employed by the withdrawing Employer and shall notify the Trustee to segregate and transfer those assets to the successor trustee when it receives a designation of the successor from the withdrawing Employer.

A withdrawal shall not terminate the Plan and the Trust with respect to the withdrawing Employer, if the Employer either appoints a successor trustee and reaffirms the Plan and the Trust as its new and separate plan and trust intended to qualify under section 401(a) of the Code, or establishes another plan and trust intended to qualify under section 401(a) of the Code.

The determination of the Committee, in its sole discretion, of the portion of the Trust assets that is attributable to the Participants employed by the withdrawing Employer shall be final and binding upon all parties; and, the Trustee's transfer of those assets to the designated successor Trustee shall relieve the Trustee of any further obligation, liability or duty to the withdrawing Employer, the Participants employed by that Employer and their Beneficiaries, and the successor trustee.

12.04 TERMINATION OF PLAN. The Sponsor may terminate the Plan and the Trust with respect to all Employers by executing and delivering to the Committee and the Trustee, a notice of termination, specifying the date of termination.

12.05 PARTIAL OR COMPLETE TERMINATION OR COMPLETE DISCONTINUANCE OF CONTRIBUTIONS. Without regard to any other provision of the Plan, if there is a partial or total termination of the Plan or there is a complete discontinuance of the Employer's Contributions, each of the affected Participants shall immediately have a fully Nonforfeitable Interest in his Account as of the end of the last Plan Year for which a substantial Employer Contribution was made and in any amounts later allocated to his Account. If the Employer then resumes making substantial Contributions at any time, the appropriate vesting schedule shall again apply to all amounts allocated to each affected Participant's Account beginning with the Plan Year for which they were resumed.

ARTICLE XIII

MISCELLANEOUS

13.01 PLAN NOT AN EMPLOYMENT CONTRACT. The maintenance of the Plan and the Trust is not a contract between any Employer and its Employees which gives any Employee the right to be retained in its employment. Likewise, it is not intended to interfere with the rights of any Employer to discharge any Employee at any time or to interfere with the Employee's right to terminate his employment at any time.

13.02 BENEFITS PROVIDED SOLELY FROM TRUST. All benefits payable under the Plan shall be paid or provided for solely from the Trust. No Employer assumes any liability or responsibility to pay any benefit provided by the Plan.

13.03 ASSIGNMENTS PROHIBITED. No principal or income payable or to become payable from the Trust Fund shall be subject to anticipation or assignment by a Participant, former Participant or Beneficiary to attachment by, interference with, or control of any creditor of a Participant, former Participant or Beneficiary; or to being taken or reached by any legal or equitable process in satisfaction of any debt or liability of a Participant, former Participant, or Beneficiary prior to its actual receipt by the Participant, former Participant or Beneficiary. Any attempted conveyance, transfer, assignment, mortgage, pledge, or encumbrance of any Trust assets, any part of it, or any interest in it by a Participant, former Participant or Beneficiary prior to distribution shall be void, whether that conveyance, transfer, assignment, mortgage, pledge, or encumbrance is intended to take place or become effective before or after any distribution of Trust assets or the termination of the Trust itself. The Trustee shall never under any circumstances be required to recognize any conveyance, transfer, assignment, mortgage, pledge or encumbrance by a Participant , former Participant, or Beneficiary of the Trust, any part of it, or any interest in it, or to pay any money or thing of value to any creditor or assignee of a Participant, former Participant or Beneficiary for any cause whatsoever. These prohibitions against the alienation of a Participant's Account shall not apply to a Qualified Domestic Relations Order or to a voluntary revocable assignment of benefits not in excess of ten percent of the amount of any payment from the Plan if such assignment complies with Regulations issued under Section 401(a)(13) of the Code. Further, these prohibitions shall not apply to any offset of a Participant's or former Participant's benefits provided under a Plan against an amount that the Participant or former Participant is ordered or required to pay to the Plan if--(a) the order or requirement to pay arises--(1) under a judgment of conviction for a crime involving the Plan, (2) under a civil judgment (including a consent order or decree) entered by a court in an action brought in connection with an alleged violation of part 4 of subtitle B of title I of ERISA, or (3) pursuant to a settlement agreement between the Secretary of Labor and the Participant or former Participant in connection with a violation (or alleged violation) of part 4 of subtitle B of ERISA by a fiduciary or any other person, and (b) the judgment, order, decree, or settlement agreement expressly provides for the offset of all or part of the amount ordered or required to be paid to the Plan against the Participant's or former Participant's benefits provided under the Plan.

13.04 REQUIREMENTS UPON MERGER OR CONSOLIDATION OF PLANS. The Plan shall not merge or consolidate with or transfer any assets or liabilities to any other plan unless each Participant would receive a benefit immediately after the merger, consolidation, or transfer

which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

13.05 GENDER OF WORDS USED. If the context requires it, words of one gender when used in the Plan shall include the other gender, and words used in the singular or plural shall include the other.

13.06 SEVERABILITY. Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

13.07 REEMPLOYED VETERANS. The requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 will be complied with in the operation of the Plan in the manner permitted under section 414(u) of the Code.

13.08 LIMITATIONS ON LEGAL ACTIONS. No person may bring an action pertaining to the Plan or Trust until he has exhausted his administrative claims and appeal remedies identified in section 5.13. Further, no person may bring an action pertaining to a claim for benefits under the Plan or the Trust following 90 days after the Committee's final denial of his claim for benefits.

13.09 GOVERNING LAW. The provisions of the Plan shall be construed, administered, and governed under the laws of the United States unless the specific matter in question is governed by state law in which event the laws of the State of Texas shall apply.

IN WITNESS WHEREOF, Quanex Corporation has caused this Agreement to be executed this 28th day of December, 2000, in multiple counterparts, each of which shall be deemed to be an original, to be effective the 1st day of January, 1998, except for those provisions which have an earlier effective date provided by law, or as otherwise provided under applicable provisions of the Plan.

QUANEX CORPORATION

By PAUL GIDDENS

Title VICE PRESIDENT OF HUMAN RESOURCES

APPENDIX A

LIMITATIONS ON CONTRIBUTIONS AND ALLOCATIONS

PART A.1 DEFINITIONS

DEFINITIONS. As used herein the following words and phrases have the meaning attributed to them below:

A.1.1 "ACTUAL CONTRIBUTION RATIO" shall mean the ratio of Section 401(m) Contributions actually paid into the Trust on behalf of an Employee for a Plan Year to the Employee's Annual Compensation for the same Plan Year. For this purpose, Annual Compensation for any portion of the Plan Year in which the Employee was not an eligible Employee (as defined in Section A.2.4) will not be taken into account.

A.1.2 "ACTUAL DEFERRAL PERCENTAGE" means, for a specified group of Employees for a Plan Year, the average of the ratios (calculated separately for each Employee in the group) of the amount of Section 401(k) Contributions actually paid into the Trust on behalf of the Employee for the Plan Year to the Employee's Annual Compensation for the Plan Year.

A.1.3 "ACTUAL DEFERRAL RATIO" means the ratio of Section 401(k) Contributions actually paid into the Trust on behalf of an Employee for a Plan Year to the Employee's Annual Compensation for the same Plan Year. For this purpose, Annual Compensation for any portion of the Plan Year in which the Employee was not an eligible Employee (as defined in Section A.2.3) will not be taken into account.

A.1.4 "ANNUAL ADDITIONS" means the sum of the following amounts credited on behalf of a Participant for the Limitation Year: (a) Employer contributions, (b) Employee contributions and (c) forfeitures. Excess 401(k) Contributions for a Plan Year are treated as Annual Additions for that Plan Year even if they are corrected through distribution. Excess Deferrals that are timely distributed as set forth in Section A.3.1 will not be treated as Annual Additions.

A.1.5 "CONTRIBUTION PERCENTAGE" shall mean, for a specified group of Employees for a Plan Year, the average of the ratios (calculated separately for each Employee in the group) of the amount of Section 401(m) Contributions actually paid into the Trust on behalf of the Employee for the Plan Year to the Employee's Annual Compensation for the Plan Year.

A.1.6 "EXCESS AGGREGATE 401(M) CONTRIBUTIONS" means, with respect to any Plan Year, the excess of (a) the aggregate amount of Section 401(m) Contributions actually paid into the Trust on behalf of Highly Compensated Employees for the Plan Year over (b) the maximum amount of those contributions permitted under the limitations set out in the first sentence of Section A.2.4.

A.1.7 "EXCESS AMOUNT" shall mean the excess of the Annual Additions credited to the Participant's Account for the Limitation Year over the Maximum Permissible Amount.

A.1.8 "EXCESS 401(K) CONTRIBUTIONS" means, with respect to any Plan Year, the excess of (a) the aggregate amount of Section 401(k) Contributions actually paid to the Trustee on behalf of Highly Compensated Employees for the Plan Year over (b) the maximum amount of those contributions permitted under the limitations set out in the first sentence of Section A.2.3.

A.1.9 "LIMITATION YEAR" shall mean the Plan Year. All qualified plans maintained by any Affiliated Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

A.1.10 "MAXIMUM PERMISSIBLE AMOUNT" shall mean the lesser of (a) the dollar limitation in effect under section 415(c)(1)(A) of the Code for the Limitation Year, or (b) 25 percent of the Participant's Annual Compensation for the Limitation Year. The Annual Compensation limitation referred to in clause (b) of the immediately preceding sentence shall not apply to any contribution for medical benefits (within the meaning of section 401(h) or section 419(A)(f)(2) of the Code) that is otherwise treated as an Annual Addition under section 415(L)(1) or section 419(A)(d)(2) of the Code. If a short Limitation Year is created because of an amendment changing the Limitation Year to a different 12-consecutive month period, the Maximum Permissible Amount shall not exceed the dollar limitation in effect under section 415(c)(1)(A) of the Code multiplied by a fraction, the numerator of which is the number of months in the short Limitation Year, and the denominator of which is 12.

A.1.11 "SECTION 401(K) CONTRIBUTIONS" means the sum of Salary Deferral Contributions made on behalf of the Participant during the Plan Year, and QNECs that the Employer elects to have treated as section 401(k) Contributions pursuant to section 401(k)(3)(d)(ii) of the Code.

A.1.12 "SECTION 401(M) CONTRIBUTIONS" shall mean the sum of Employer Matching Contributions and After-Tax Contributions made on behalf of the Participant during the Plan Year and other amounts that the Employer elects to have treated as Section 401(m) Contributions pursuant to section 401(m)(3)(B) of the Code. However, Employer Matching Contributions and Salary Deferral Contributions that the Employer could otherwise elect to have treated as Section 401(m) Contributions are not Section 401(m) Contributions to the extent that they are used to enable the Plan to satisfy the minimum contribution requirements of section 416 of the Code.

PART A.2 LIMITATIONS ON CONTRIBUTIONS

A.2.1 LIMITATIONS BASED UPON DEDUCTIBILITY AND THE MAXIMUM ALLOCATION PERMITTED TO A PARTICIPANT'S ACCOUNT. Notwithstanding any other provision of the Plan, no Employer shall make any contribution that would be a nondeductible contribution within the meaning of section 4972 of the Code or that would cause the limitation on allocations to each Participant's Account under section 415 of the Code and Section A.4.1 to be exceeded.

A.2.2 DOLLAR LIMITATION UPON SALARY DEFERRAL CONTRIBUTIONS. The maximum Salary Deferral Contribution that a Participant may elect to have made on his behalf during the Participant's taxable year may not, when added to the amounts deferred under other plans or arrangements described in sections 401(k), 408(k) and 403(b) of the Code, exceed $7,000 (as adjusted by the Secretary of Treasury). For purposes of applying the requirements of Section A.2.3, Excess Deferrals shall not be disregarded merely because they are Excess Deferrals or because they are distributed in accordance with this Section. However, Excess Deferrals made to the Plan on behalf of Non-Highly Compensated Employees are not to be taken into account under Section A.2.3.

A.2.3 LIMITATION BASED UPON ACTUAL DEFERRAL PERCENTAGE. The Actual Deferral Percentage for eligible Highly Compensated Employees for any Plan Year must bear a relationship to the Actual Deferral Percentage for all other eligible Employees for the PRECEDING Plan Year which meets either of the following tests:

(a) the Actual Deferral Percentage of the eligible Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees multiplied by 1.25; or

(b) the excess of the Actual Deferral Percentage of the eligible Highly Compensated Employees over that of all other eligible Employees is not more than two percentage points, and the Actual Deferral Percentage of the eligible Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees multiplied by two.

For purposes of this test an eligible Employee is an Employee who is directly or indirectly eligible to make Salary Deferral Contributions for all or part of the Plan Year. A person who is suspended from making Salary Deferral Contributions because he has made a withdrawal is an eligible Employee. If no Salary Deferral Contributions are made for an eligible Employee, the Actual Deferral Ratio that shall be included for him in

determining the Actual Deferral Percentage is zero. If the Plan and any other plan or plans which include cash or deferred arrangements are considered as one plan for purposes of section 401(a)(4) or 410(b) of the Code, the cash or deferred arrangements included in the Plan and the other plans shall be treated as one plan for purposes of this Section. If any Participant who is a Highly Compensated Employee is a participant in any other cash or deferred arrangements of the Employer, when determining the deferral percentage of such Participant, all such cash or deferred arrangements are treated as one plan for these dates.

Notwithstanding the foregoing, an individual who is not a Highly Compensated Employee will not be treated as an eligible Employee for purposes of this Section A.2.3 if the Sponsor elects to apply section 401(b)(4)(B) of the Code in determining whether the Plan meets the requirements of section 401(k)(3) of the Code.

A Salary Deferral Contribution will be taken into account under the Actual Deferral Percentage test of section 401(k) of the Code and this Section for a Plan Year only if it relates to Considered Compensation that either would have been received by the Employee in the Plan Year (but for the deferral election) or is attributable to services performed by the Employee in the Plan Year and would have been received by the Employee within 2 1/2 months after the close of the Plan Year (but for the deferral election). In addition, a Section 401(k) Contribution will be taken into account under the Actual Deferral Percentage test of section 401(k) of the Code and this Section for a Plan Year only if it is allocated to an Employee as of a date within that Plan Year. For this purpose a Section 401(k) Contribution is considered allocated as of a date within a Plan Year if the allocation is not contingent on participation or performance of services after such date and the Section 401(k) Contribution is actually paid to the Trust no later than 12 months after the Plan Year to which the Section 401(k) Contribution relates.

Failure to correct Excess 401(k) Contributions by the close of the Plan Year following the Plan Year for which they were made will cause the Plan's cash or deferred arrangement to be disqualified for the Plan Year for which the Excess 401(k) Contributions were made and for all subsequent years during which they remain in the Trust. Also, the Employer will be liable for a ten percent excise tax on the amount of Excess 401(k) Contributions unless they are corrected within 2 1/2 months after the close of the Plan Year for whiCh they were made.

A.2.4 LIMITATION BASED UPON CONTRIBUTION PERCENTAGE. The Contribution Percentage for eligible Highly Compensated Employees for any Plan Year must not exceed the greater of the following:

(a) the Contribution Percentage for all other eligible Employees for the preceding Plan Year multiplied by 1.25; or

(b) the lesser of the Contribution Percentage for all other eligible Employees for the preceding Plan Year multiplied by two, or the Contribution Percentage for all other eligible Employees for the preceding Plan Year plus two percentage points.

For purposes of this test an eligible Employee is an Employee who is directly or indirectly eligible to receive an allocation of Employer Matching Contributions for all or part of the Plan Year. Except as provided below, an Employee who would be eligible to receive an allocation of Employer Matching Contributions but for his election not to participate is an eligible Employee. An Employee who would be eligible to receive an allocation of Matching Employer Contributions but for the limitations on his Annual Additions imposed by section 415 of the Code is an eligible Employee.

Notwithstanding the foregoing, an individual who is not a Highly Compensated Employee will not be treated as an eligible Employee for purposes of this Section A.2.4 if the Sponsor elects to apply section 401(b)(4)(B) of the Code in determining whether the Plan meets the requirements of section 401(m)(2) of the Code.

If no Section 401(m) Contributions are made on behalf of an eligible Employee the Actual Contribution Ratio that shall be included for him in determining the Contribution Percentage is zero. If the Plan and any other plan or plans to which Section 401(m) Contributions are made are considered as one plan for purposes of section 401(a)(4) or 410(b) of the Code, the Plan and those plans are to be treated as one. The Actual Contribution Ratio of a Highly Compensated Employee who is eligible to participate in more than one plan of an Affiliated employer to which employee or matching contributions are made is calculated by treating all the plans in which the

Employee is eligible to participate as one plan. However, plans that are not permitted to be aggregated under Regulation section 1.410(m)-1(b)(3)(ii) are not aggregated for this purpose.

An Employer Matching Contribution will be taken into account under this Section for a Plan Year only if (1) it is allocated to the Employee's Account as of a date within the Plan Year, (2) it is paid to the Trust no later than the end of the 12-month period beginning after the close of the Plan Year, and (3) it is made on behalf of an Employee on account of his Salary Deferral Contributions for the Plan Year.

At the election of the Employer, a Participant's Salary Deferral Contributions, and QNECs made on behalf of the Participant during the Plan Year shall be treated as Section 401(m) Contributions that are Employer Matching Contributions provided that the conditions set forth in Regulation section 1.401(m)-1(b)(5) are satisfied. Salary Deferral Contributions may not be treated as Employer Matching Contributions for purposes of the contribution percentage test set forth in this Section unless such contributions, including those taken into account for purposes of the test set forth in this Section, satisfy the actual deferral percentage test set forth in Section A.2.3. Moreover, Salary Deferral Contributions and QNECs may not be taken into account for purposes of the test set forth in this Section to the extent that such contributions are taken into account in determining whether any other contributions satisfy the actual deferral percentage test set forth in Section A.2.3. Finally, Salary Deferral Contributions and QNECs may be taken into account for purposes of the test set forth in this Section only if they are allocated to the Employee's Account as of a date within the Plan Year being tested within the meaning of Regulation section 1.401(k)-1(b)(4).

Failure to correct Excess Aggregate 401(m) Contributions by the close of the Plan Year following the Plan Year for which they were made will cause the Plan to fail to be qualified for the Plan Year for which the Excess Aggregate 401(m) Contributions were made and for all subsequent years during which they remain in the Trust. Also, the Employer will be liable for a ten percent excise tax on the amount of Excess Aggregate 401(m) Contributions unless they are corrected within 2 1/2 months after the close of the Plan YeAr for which they were made.

A.2.5 ALTERNATIVE LIMITATION BASED UPON ACTUAL DEFERRAL PERCENTAGE AND CONTRIBUTION PERCENTAGE. If the second alternative permitted in Sections A.2.3 and A.2.4 is used for both the actual deferral percentage test and the contribution percentage test the following additional limitation on Salary Deferral Contributions shall apply. The Actual Deferral Percentage plus the Contribution Percentage of the eligible Highly Compensated Employees cannot exceed the greater of (a) or (b), where

(a) is the sum of:

(i) 1.25 times the greater of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year, and

(ii) the lesser of (x) two percentage points plus the lesser of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year or (y) two times the lesser of the Actual Deferral Percentage or the Contribution Percentage of the group of eligible Non-Highly Compensated Employees for the preceding Plan Year; and

(b) is the sum of:

(i) 1.25 times the lesser of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year, and

(ii) the lesser of (x) two percentage points plus the greater of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year or (y) two times the greater of the Actual Deferral Percentage or the Contribution Percentage of the group of eligible Non-Highly Compensated Employees for the preceding Plan Year.

PART A.3 CORRECTION PROCEDURES FOR ERRONEOUS CONTRIBUTIONS

A.3.1 EXCESS DEFERRAL FAIL SAFE PROVISION. As soon as practical after the close of each Plan Year, the Committee shall determine if there would be any Excess Deferrals. If there would be an Excess Deferral by a Participant, the Excess Deferral as adjusted by any earnings or losses, will be distributed to the Participant no later than April 15 following the Participant's taxable year in which the Excess Deferral was made. The income allocable to the Excess Deferrals for the taxable year of the Participant shall be determined by multiplying the income for the taxable year of the Participant allocable to Salary Deferral Contributions by a fraction. The numerator of the fraction is the amount of the Excess Deferrals made on behalf of the Participant for the taxable year. The denominator of the fraction is the Participant's total Salary Deferral Account balance as of the beginning of the taxable year plus the Participant's Salary Deferral Contributions for the taxable year.

A.3.2 ACTUAL DEFERRAL PERCENTAGE FAIL SAFE PROVISION. As soon as practicable after the close of each Plan Year, the Committee shall determine whether the Actual Deferral Percentage for the Highly Compensated Employees would exceed the limitation set forth in Section A.2.3. If the limitation would be exceeded for a Plan Year, before the close of the following Plan Year (a) the amount of Excess 401(k) Contributions for that Plan Year (and any income allocable to those contributions as calculated in the specific manner required by Section A.3.5) shall be distributed or (b) the Employer may make a Qualified Nonelective Employer Contribution which it elects to have treated as a Section 401(k) Contribution.

The amount of Excess 401(k) Contributions to be distributed shall be determined in the following manner:

First, the Plan will determine how much the Actual Deferral Ratio of the Highly Compensated Employee with the highest Actual Deferral Ratio would have to be reduced to satisfy the Actual Deferral Percentage Test or cause such Actual Deferral Ratio to equal the Actual Deferral Ratio of the Highly Compensated Employee with the next highest Actual Deferral Ratio. If a lesser reduction would enable the Plan to satisfy the Actual Deferral Percentage Test, only this lesser reduction may be made. Second, this process is repeated until the Actual Deferral Percentage Test is satisfied. The amount of Excess 401(k) Contributions is equal to the sum of these hypothetical reductions multiplied, in each case, by the Highly Compensated Employee's Annual Compensation.

Then, the total amount of Excess 401(k) Contributions shall be distributed on the basis of the respective amounts attributable to each Highly Compensated Employee. The Highly Compensated Employees subject to the actual distribution are determined using the "dollar leveling method." The Salary Deferral Contributions of the Highly Compensated Employee with the greatest dollar amount of Salary Deferral Contributions and other contributions treated as Section 401(k) Contributions for the Plan Year are reduced by the amount required to cause that Highly Compensated Employee's Salary Deferral Contributions to equal the dollar amount of the Salary Deferral Contributions and other contributions treated as Section 401(k) Contributions for the Plan Year of the Highly Compensated Employee with the next highest dollar amount. This amount is then distributed to the Highly Compensated Employee with the highest dollar amount. However, if a lesser reduction, when added to the total dollar amount already distributed under this Section A.3.2, would equal the total Excess 401(k) Contributions, the lesser reduction amount shall be distributed. This process shall be continued until the amount of the Excess 401(k) Contributions have been distributed. Recharacterized Excess 401(k) Contributions will first be determined using the ratio leveling method, then the dollar leveling method.

QNECs will be treated as Section 401(k) Contributions only if: (a) the conditions described in Regulation section 1.401(k)-1(b)(5) are satisfied and (b) they are allocated to Participants' Accounts as of a date within that Plan Year and are actually paid to the Trust no later than the end of the 12-month period immediately following the Plan Year to which the contributions relate. If the Employer makes a QNEC that it elects to have treated as a Section 401(k) Contribution, the Contribution will be in an amount necessary to satisfy the Actual Deferral Percentage test and will be allocated first to those Non-Highly Compensated Employees who had the lowest Actual Deferral Ratio. The Excess 401(k) Contributions of Highly Compensated Employees will not be recharacterized to the extent that the recharacterized amounts would exceed the Contribution Percentage as determined prior to applying the Contribution Percentage limitations.

Any distributions of the Excess 401(k) Contributions for any Plan Year are to be made to Highly Compensated Employees on the basis of the amount of contributions by, or on behalf of, each Highly Compensated Employee. The amount of Excess 401(k) Contributions to be distributed for any Plan Year must be reduced by any excess Salary Deferral Contributions previously distributed for the taxable year ending in the same Plan Year.

A.3.3 CONTRIBUTION PERCENTAGE FAIL SAFE PROVISION. If the limitation set forth in Section A.2.4 would be exceeded for any Plan Year any one or more of the following corrective action shall be taken before the close of the following Plan Year as determined by the Committee in its sole discretion: (a) the amount of the Excess Aggregate 401(m) Contributions for that Plan Year (and any income allocable to those Contributions as calculated in the manner set forth in Section A.3.5) shall be either distributed, or forfeited to the extent they are not vested or (b) the Employer may make a QNEC which it elects to have treated as a Section 401(m) Contribution. Forfeitures of Excess Aggregate 401(m) Contributions shall be allocated to Participants who are Non-Highly Compensated Employees as if such Contributions were additional Employer Matching Contributions for the Plan Year.

The amount of Excess Aggregate 401(m) Contributions to be distributed shall be determined in the following manner:

First, the Plan will determine how much the Actual Contribution Ratio of the Highly Compensated Employee with the highest Actual Contribution Ratio would have to be reduced to satisfy the Actual Contribution Percentage Test or cause such Actual Contribution Ratio to equal the Actual Contribution Ratio of the Highly Compensated Employee with the next highest Actual Contribution Ratio. If a lesser reduction would enable the Plan to satisfy the Actual Contribution Percentage Test, only this lesser reduction may be made. Second, this process is repeated until the Actual Contribution Test is satisfied. The amount of Excess Aggregate 401(m) Contributions is equal to the sum of these hypothetical reductions multiplied, in each case, by the Highly Compensated Employee's Annual Compensation.

Then, the total amount of Excess Aggregate 401(m) Contributions shall be distributed on the basis of the respective amounts attributable to each Highly Compensated Employee. The Highly Compensated Employees subject to the actual distribution are determined using the "dollar leveling method." The After-Tax Contributions and Matching Contributions of the Highly Compensated Employee with the greatest dollar amount of After-Tax Contributions and Matching Contributions and other contributions treated as matching contributions for the Plan Year are reduced by the amount required to cause that Highly Compensated Employee's After-Tax Contributions and Matching Contributions and other contributions treated as Section 401(m) Contributions for the Plan Year to equal the dollar amount of the After-Tax Contributions and Matching Contributions and other contributions treated as Section 401(m) Contributions for the Plan Year of the Highly Compensated Employee with the next highest dollar amount. This amount is then distributed to the Highly Compensated Employee with the highest dollar amount. However, if a lesser reduction, when added to the total dollar amount already distributed under this Section A.3.3, would equal the total Excess Aggregate 401(m) Contributions, the lesser reduction amount shall be distributed. This process shall be continued until the amount of the Excess Aggregate 401(m) Contributions have been distributed.

The corrective actions take under this Section A.3.3 must satisfy the requirements of section 401(a)(4) of the Code. After correction, each level of Employer Matching Contributions must be currently and effectively available to a group of employees that satisfies the minimum coverage requirements of section 410(b) of the Code. A method under which employee contributions are distributed to highly compensated employees to the extent necessary to meet the requirements of section 401(m)(2) while matching contributions attributable to such employee contributions remain allocated to the employee's account will not meet the requirement of section 401(a)(4).

A.3.4 ALTERNATIVE LIMITATION FAIL SAFE. As soon as practicable after the close of each Plan Year, the Committee shall determine whether the alternative limitation would be exceeded. If the limitation would be exceeded for any Plan Year, before the close of the following Plan Year the Actual Deferral Percentage or Contribution Percentage of the eligible Highly Compensated Employees, or a combination of both, shall be reduced by distributions made in the manner described in the Regulations. These distributions shall be in addition to and not in lieu of distributions required for Excess 401(k) Contributions and Excess Aggregate 401(m) Contributions.

A.3.5 INCOME ALLOCABLE TO EXCESS 401(K) CONTRIBUTIONS AND EXCESS AGGREGATE 401(M) CONTRIBUTIONS. The income allocable to Excess 401(k) Contributions for the Plan Year shall be determined by multiplying the income for the Plan Year allocable to Section 401(k) Contributions by a fraction. The numerator of the fraction shall be the amount of Excess 401(k) Contributions made on behalf of the Participant for the Plan Year. The denominator of the fraction shall be the Participant's total Account balance attributable to Section 401(k) Contributions as of the beginning of the Plan Year plus the Participant's Section 401(k) Contributions for the Plan Year. The income allocable to Excess Aggregate 401(m) Contributions for a Plan Year shall be determined by multiplying the income for the Plan Year allocable to Section 401(m) Contributions by a fraction. The numerator of the fraction shall be the amount of Excess Aggregate 401(m) Contributions made on behalf of the Participant for the Plan Year. The denominator of the fraction shall be the Participant's total Account balance attributable to Section 401(m) Contributions as of the beginning of the Plan Year plus the Participant's Section 401(m) Contributions for the Plan Year.

PART A.4 LIMITATION ON ALLOCATIONS

A.4.1 BASIC LIMITATION ON ALLOCATIONS. The Annual Additions which may be credited to a Participant's Accounts under the Plan for any Limitation Year will not exceed the Maximum Permissible Amount reduced by the Annual Additions credited to a Participant's Account for the same Limitation Year under any other qualified defined contribution plans maintained by any Affiliated Employer. If the Annual Additions with respect to the Participant under such other qualified defined contribution plans are less than the Maximum Permissible Amount and the Employer Contribution that would otherwise be contributed or allocated to the Participant's Accounts under the Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated under the Plan will be reduced so that the Annual Additions under all qualified defined contribution plans maintained by any Affiliated Employer for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under such other qualified defined contribution plans maintained by any Affiliated Employer in the aggregate are equal to or greater than the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Account under the Plan for the Limitation Year.

A.4.2 ESTIMATION OF MAXIMUM PERMISSIBLE AMOUNT. Prior to determining the Participant's actual Annual Compensation for the Limitation Year, the Employer may determine the Maximum Permissible Amount on the basis of a reasonable estimation of the Participant's Annual Compensation for such Limitation Year, uniformly determined for all Participants similarly situated. As soon as is administratively feasible after the end of the Limitation Year, the Maximum Permissible Amount for the Limitation Year shall be determined on the basis of the Participant's actual Annual Compensation for such Limitation Year.

A.4.3 ATTRIBUTION OF EXCESS AMOUNTS. If a Participant's Annual Additions under the Plan and all other qualified defined contribution plans maintained by any Affiliated Employer result in an Excess Amount, the total Excess Amount shall be attributed to the Plan.

A.4.4 TREATMENT OF EXCESS AMOUNTS. If an Excess Amount attributed to the Plan is held or contributed as a result of or because of (i) the allocation of forfeitures, (ii) reasonable error in estimating a Participant's Considered Compensation, (iii) reasonable error in calculating the maximum Salary Deferral Contribution that may be made with respect to a Participant under section 415 of the Code or (iv) any other facts and circumstances which the Commissioner of Internal Revenue finds to be justified, the Excess Amount shall be reduced as follows:

(a) First, the Excess Amount shall be reduced to the extent necessary by distributing to the Participant all Salary Deferral Contributions together with their earnings. These distributed amounts are disregarded for purposes of the testing and limitations contained in this Appendix A.

(b) Second, if the Participant is still employed by the Employer at the end of the Limitation Year, then such Excess Amounts shall not be distributed to the Participant, but shall be reallocated to a suspense account and shall be reapplied to reduce future Employer Contributions (including any allocation of forfeitures) under the Plan for such Participant in the next Limitation Year, and for each succeeding Limitation Year, if necessary.

(c) If, after application of paragraph (b) of this Section, an Excess Amount still exists, and the Participant is not still employed by the Employer at the end of the Limitation Year, then such Excess Amounts in the Participant's Accounts shall not be distributed to the Participant, but shall be reallocated to a suspense account and shall be reapplied to reduce future Employer Contributions (including allocation of any forfeitures), for all remaining Participants in the next Limitation Year and each succeeding Limitation Year if necessary.

(d) If a suspense account is in existence at any time during the Limitation Year pursuant to this Section, it will not participate in the allocation of the Trust Fund's investment gains and losses. If a suspense account is in existence at any time during a particular Limitation Year, all amounts in the suspense account must be allocated and reallocated to Participants' Accounts before any Employer Contribution may be made to the Plan for that Limitation Year. Excess Amounts may not be distributed to Participants or former Participants. If the Plan is terminated while a suspense account described in this Section is in existence, the amount in such suspense account shall revert to the Employer(s) to which it is attributable.

APPENDIX B

TOP-HEAVY REQUIREMENTS

PART B.1 DEFINITIONS

DEFINITIONS. As used herein, the following words and phrases have the meaning attributed to them below:

B.1.1 "AGGREGATE ACCOUNTS" means the total of all Account balances derived from Employer Contributions and Rollover Contributions.

B.1.2 "AGGREGATION GROUP" means (a) each plan of the Employer or any Affiliated Employer in which a Key Employee is a Participant and (b) each other plan of the Employer or any Affiliated Employer which enables any plan in (a) to meet the requirements of either section 401(a)(4) or 410 of the Code. Any Employer may treat a plan not required to be included in the Aggregation Group as being a part of the group if the group would continue to meet the requirements of section 401(a)(4) and 410 of the Code with that plan being taken into account.

B.1.3 "DETERMINATION DATE" means for a given Plan Year the last day of the preceding Plan Year or in the case of the first Plan Year the last day of that Plan Year.

B.1.4 "KEY EMPLOYEE" means an Employee or former or deceased Employee or Beneficiary of an Employee who at any time during the Plan Year or any of the four preceding Plan Years is (a) an officer of an Employer or any Affiliated Employer having Annual Compensation greater than 50 percent of the annual addition limitation of section 415(b)(1)(A) of the Code for the Plan Year, (b) one of the ten employees having Annual Compensation from an Employer or any Affiliated Employer of greater than 100 percent of the annual addition limitation of section 415(c)(1)(A) of the Code for the Plan Year and owning or considered as owning (within the meaning of section 318 of the Code) the largest interest in an Employer or any Affiliated Employer, treated separately, (c) a Five Percent Owner of an Employer or any Affiliated Employer, treated separately, or (d) a one percent owner of an Employer or any Affiliated Employer, treated separately, having Annual Compensation from an Employer or any Affiliated Employer of more than $150,000.00. For this purpose no more than 50 employees or, if lesser, the greater of three employees or ten percent of the employees shall be treated as officers. Section 416(i) of the Code shall be used to determine percentage of ownership. For the purpose of the test set out in (b) above, if two or more employees have the same interest in an Employer, the employee with the greater Annual Compensation from the Employer shall be treated as having the larger interest.

B.1.5 "NON-KEY EMPLOYEE" means any Employee who is not a Key Employee.

B.1.6 "TOP-HEAVY PLAN" means any plan which has been determined to be top-heavy under the test described in Appendix B of the Plan.

PART B.2 APPLICATION

B.2.1 APPLICATION. The requirements described in this Appendix B shall apply to each Plan Year that the Plan is determined to be a Top-Heavy Plan.

B.2.2 TOP-HEAVY TEST. If on the Determination Date the Aggregate Accounts of Key Employees in the Plan exceed 60 percent of the Aggregate Accounts of all Employees in the Plan, the Plan shall be a Top-Heavy Plan for that Plan Year. In addition, if the Plan is required to be included in an Aggregation Group and that group is a top-heavy group, the Plan shall be treated as a Top-Heavy Plan. An Aggregation Group is a top-heavy group if on the Determination Date the sum of (a) the present value of the cumulative accrued benefits for Key Employees under all defined benefit plans in the Aggregation Group which contains the Plan, plus (b) the total of all of the accounts of Key Employees under all defined contribution plans included in the Aggregation Group (which contains the Plan) is more than 60 percent of a similar sum determined for all employees covered in the Aggregation Group which contains the Plan.

In applying the above tests, the following rules shall apply:

(a) in determining the present value of the accumulated accrued benefits for any Employee or the amount in the account of any Employee, the value or amount shall be increased by all distributions made to or for the benefit of the Employee under the Plan during the five-year period ending on the Determination Date;

(b) all rollover contributions made after December 31, 1983 by the Employee to the Plan shall not be considered by the Plan for either test;

(c) if an Employee is a Non-Key Employee under the plan for the Plan Year but was a Key Employee under the plan for another prior Plan Year, his Account shall not be considered; and

(d) benefits shall not be taken into account in determining the top-heavy ratio for any Employee who has not performed services for the Employer during the last five-year period ending upon the Determination Date.

B.2.3 VESTING RESTRICTIONS IF PLAN BECOMES TOP-HEAVY. If a Participant has at least one Hour of Service during a Plan Year when the Plan is a Top-Heavy Plan, he shall either vest under each of the normal vesting provisions of the Plan or under the following vesting schedule, whichever is more favorable:

Completed Years of Active Service	Percentage of Amount Invested In Accounts Containing Employer Contributions
Less than two years	0
Two years but less than three years	20
Three years but less than four years	40
Four years but less than five years	60
Five years but less than six years	80
Six years or more	100

If the Plan ceases to be a Top-Heavy Plan, this requirement shall no longer apply. After that date, the normal vesting provisions of the Plan shall be applicable to all subsequent Contributions by the Employer.

B.2.4 MINIMUM CONTRIBUTIONS IF PLAN BECOMES TOP-HEAVY. If the Plan is a Top-Heavy Plan and the normal allocation of the Employer Contribution and forfeitures is less than three percent of any Non-Key Employee Participant's Annual Compensation, the Committee, without regard to the normal allocation procedures, shall allocate the Employer Contribution and the forfeitures among the Participants who are in the employ of the Employer at the end of the Plan Year in proportion to each Participant's Annual Compensation as compared to the total Annual Compensation of all Participants for that Plan Year until each Non-Key Employee Participant has had an amount equal to the lesser of (i) the highest rate of Contribution applicable to any Key Employee, or (ii) three percent of his Annual Compensation allocated to his Account. At that time, any more Employer Contributions or forfeitures shall be allocated under the normal allocation procedures described earlier in the Plan. Salary Deferral Contributions made on behalf of Key Employees are included in determining the highest rate of Employer Contributions. Salary Deferral Contributions made on behalf of Non-Key Employees are not included for that purpose. Amounts that may be treated as Section 401(k) Contributions made on behalf of Non-Key Employees may not be included in determining the minimum contribution required under this Section to the extent that they are treated as Section 401(k) Contributions for purposes of the Actual Deferral Percentage test.

In applying this restriction, the following rules shall apply:

(a) Each Employee who is eligible for Participantship (without regard to whether he has made mandatory contributions, if any are required, or whether his compensation is less than a stated amount) shall be entitled to receive an allocation under this Section; and

(b) All defined contribution plans required to be included in the Aggregation Group shall be treated as one plan for purposes of meeting the three percent maximum; this required aggregation shall not apply if the Plan is also required to be included in an Aggregation Group which includes a defined benefit plan and the Plan enables that defined benefit plan to meet the requirements of sections 401(a)(4) or 410 of the Code.

B.2.5 DISREGARD OF GOVERNMENT PROGRAMS. If the Plan is a Top-Heavy Plan, it must meet the vesting and benefit requirements described in this Article without taking into account contributions or benefits under Chapter 2 of the Code (relating to the tax on self-employment income), Chapter 21 of the Code (relating to the Federal Insurance Contributions Act), Title II of the Social Security Act, or any other Federal or State law.

B.2.6 RESTRICTIONS IF PLAN BECOMES SUPER TOP-HEAVY. For Plan Years beginning before January 1, 2000, the Plan is a super Top-Heavy Plan if as of the Determination Date the Plan would continue to meet the test specified in Section 1.032 of this Appendix B for being a Top-Heavy Plan, if 90 percent were substituted for 60 percent. In any Plan Year that the Plan is a super Top-Heavy plan the limitations in section 415 of the Code and Appendix A of the Plan shall be applied by substituting the number "1.00" for the number "1.25" wherever it appears therein. Such substitution shall not cause a reduction in any accrued benefit attributable to contributions for a Plan Year prior to the Plan Year in which the Plan is a super Top-Heavy Plan.

APPENDIX C

ADMINISTRATION OF THE PLAN

C.1 APPOINTMENT, TERM, RESIGNATION, AND REMOVAL. The Board shall appoint a Committee of not less than two persons, the members of which shall serve until their resignation, death, or removal. The Sponsor shall notify the Trustee in writing of its composition from time to time. Any member of the Committee may resign at any time by giving written notice of such resignation to the Sponsor. Any member of the Committee may be removed by the Board, with or without cause. Vacancies in the Committee arising by resignation, death, removal, or otherwise shall be filled by such persons as may be appointed by the Board.

C.2 POWERS. The Committee shall have exclusive responsibility for the administration of the Plan, according to the terms and provisions of this document, and shall have all powers necessary to accomplish such 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 which are not inconsistent with the terms and provisions thereof, provided such rules and regulations are evidenced in writing;

(b) to construe all terms, provisions, conditions, and limitations of the Plan; and its construction thereof made in good faith and without discrimination in favor of or against any Participant or former Participant shall be final and conclusive on all parties at interest;

(c) to correct any defect, supply any omission, or reconcile any inconsistency which may appear in the Plan in such manner and to such extent as it shall deem expedient to carry the Plan into effect for the greatest benefit of all parties at interest, and its judgment in such matters shall be final and conclusive as to all parties at interest;

(d) to select, employ, and compensate from time to time such consultants, actuaries, accountants, attorneys, and other agents and employees as the Committee may deem necessary or advisable for the proper and efficient administration of the Plan, and any agent, firm, or employee so selected by the Committee may be a disqualified person, but only if the requirements of section 4975(d) of the Code have been met;

(e) to resolve all questions relating to the eligibility of Employees to become Participants, and to determine the period of Active Service and the amount of Considered Compensation upon which the benefits of each Participant shall be calculated;

(f) to resolve all controversies relating to the administration of the Plan, including but not limited to (1) differences of opinion arising between the Employer and a Participant or former Participant, and (2) any questions it deems advisable to determine in order to promote the uniform and nondiscriminatory administration of the Plan for the benefit of all parties at interest;

(g) to direct and instruct or to appoint an investment manager or managers which would have the power to direct and instruct the Trustee in all matters relating to the preservation, investment, reinvestment, management, and disposition of the Trust assets; provided, however, that the Committee shall have no authority that would prevent the Trustee from being an "agent independent of the issuer," as that term is defined in Rule 10b-18 promulgated under the Securities Exchange Act of 1934, at any time that the Trustee's failure to maintain such status would result in the Sponsor or any other person engaging in a "manipulative or deceptive device or contrivance" under the provisions of Rule 10b-6 of such Act;

(h) to direct and instruct the Trustee in all matters relating to the payment of Plan benefits and to determine a Participant's or former Participant's entitlement to a benefit should he appeal a denial of his claim for a benefit or any portion thereof; and

(i) to delegate such of its clerical and recordation duties under the Plan as it may deem necessary or advisable for the proper and efficient administration of the Plan.

C.3 ORGANIZATION. The Committee shall select from among its members a chairman, who shall preside at all of its meetings, and shall select a secretary, without regard as to whether that person is a member of the Committee, who shall keep all records, documents, and data pertaining to its supervision of the administration of the Plan.

C.4 QUORUM AND MAJORITY ACTION. A majority of the members of the Committee shall 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 that meeting. In addition, the Committee may decide any question by a vote, taken without a meeting, of a majority of its members.

C.5 SIGNATURES. The chairman, the secretary, and any one or more of the members of the Committee to which the Committee has delegated the power, shall each, severally, have the power to execute any document on behalf of the Committee, and to execute any certificate or other written evidence of the action of the Committee. The Trustee, after being notified of any such delegation of power in writing, shall thereafter accept and may rely upon any document executed by such member or members as representing the action of the Committee until the Committee files with the Trustee a written revocation of that delegation of power.

C.6 DISQUALIFICATION OF COMMITTEE MEMBERS. A member of the Committee who is also a Participant of the Plan shall not vote or act upon any matter relating solely to himself.

C.7 DISCLOSURE TO PARTICIPANTS. The Committee shall make available to each Participant, former Participant, and Beneficiary for his examination such records, documents, and other data as are required under ERISA, but only at reasonable times during business hours. No Participant, former Participant, or Beneficiary shall have the right to examine any data or records reflecting the compensation paid to any other Participant, former Participant, or Beneficiary, and the Committee shall not be required to make any data or records available other than those required by ERISA.

C.8 STANDARD OF PERFORMANCE. The Committee and each of its members shall use the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in conducting his business as the administrator of the Plan; shall, when exercising its power to direct investments, diversify the investments of the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and shall otherwise act in accordance with the provisions of the Plan and ERISA.

C.9 LIABILITY OF ADMINISTRATIVE COMMITTEE AND LIABILITY INSURANCE. No member of the Committee shall be liable for any act or omission of any other member of the Committee, the Trustee, any investment manager, or any Participant or former Participant who directs the investment of his Account or other agent appointed by the Committee except to the extent required by the terms of ERISA, and any other applicable state or federal law, which liability cannot be waived. No Participant of the Committee shall be liable for any act or omission on his own part except to the extent required by the terms of ERISA, and any other applicable state or federal law, which liability cannot be waived. In this connection, each provision hereof is severable and if any provision is found to be void as against public policy, it shall not affect the validity of any other provision hereof.

Further, it is specifically provided that the Trustee may, at the direction of the Committee, purchase out of the Trust assets insurance for the members of the Committee and any other fiduciaries appointed by the Committee, and for the Trust itself to cover liability or losses occurring by reason of the act or omission of any one or more of the members of the Committee or any other fiduciary appointed by them under the Plan, provided such insurance permits recourse by the insurer against the members of the Committee or the other fiduciaries concerned in the case of a breach of a fiduciary obligation by one or more members of the Committee or other fiduciary covered thereby.

C.10 BONDING. No member of the Committee shall be required to give bond for the performance of his duties hereunder unless required by a law which cannot be waived.

C.11 COMPENSATION. The Committee shall serve without compensation for their services, but shall be reimbursed by the Employers for all expenses properly and actually incurred in the performance of their duties under the Plan unless the Employers elect to have such expenses paid out of the Trust assets.

C.12 PERSONS SERVING IN DUAL FIDUCIARY ROLES. Any person, group of persons, corporations, firm, or other entity may serve in more than one fiduciary capacity with respect to the Plan, including the ability to serve both as a successor trustee and as a member of the Committee.

C.13 ADMINISTRATOR. For all purposes of ERISA, the administrator of the Plan within the meaning of ERISA shall be the Sponsor. The Sponsor shall have final responsibility for compliance with all reporting and disclosure requirements imposed with respect to the Plan under any federal or state law, or any regulations promulgated thereunder.

C.14 NAMED FIDUCIARY. The members of the Committee shall be the "named fiduciary" for purposes of section 402(a)(1) of ERISA, and as such shall have the authority to control and manage the operation and administration of the Plan, except to the extent such authority and control is allocated or delegated to other parties pursuant to the terms of the Plan.

C.15 STANDARD OF JUDICIAL REVIEW OF COMMITTEE ACTIONS. The Committee has full and absolute discretion in the exercise of each and every aspect of its authority under the Plan, including without limitation, the authority to determine any person's right to benefits under the Plan, the correct amount and form of any such benefits; the authority to decide any appeal; the authority to review and correct the actions of any prior administrative committee; and all of the rights, powers, and authorities specified in this Appendix and elsewhere in the Plan. Notwithstanding any provision of law or any explicit or implicit provision of this document or, any action taken, or ruling or decision made, by the Committee in the exercise of any of its powers and authorities under the Plan will be final and conclusive as to all parties other than the Sponsor or Trustee, including without limitation all Participants, former Participants and Beneficiaries, regardless of whether the Committee or one or more members thereof may have an actual or potential conflict of interest with respect to the subject matter of such action, ruling, or decision. No such final action, ruling, or decision of the Committee will be subject to de novo review in any judicial proceeding; and no such final action, ruling, or decision of the Committee may be set aside unless it is held to have been arbitrary and capricious by a final judgment of a court having jurisdiction with respect to the issue.

C.16 INDEMNIFICATION OF COMMITTEE BY THE SPONSOR. The Sponsor shall indemnify and hold harmless the Committee, the Committee members, and any persons to whom the Committee has allocated or delegated its responsibilities in accordance with the provisions hereof, as well as any other fiduciary who is also an officer, director, or Employee of an Employer, and hold each of them harmless from and against all claims, loss, damages, expense, and liability arising from their responsibilities in connection with the administration of the Plan which is not otherwise paid or reimbursed by insurance, unless the same shall result from their own willful misconduct.

APPENDIX D

FUNDING

D.1 BENEFITS PROVIDED SOLELY BY TRUST. All benefits payable under the Plan shall be paid or provided for solely from the Trust, and the Employer assumes no liability or responsibility therefor.

D.2 FUNDING OF PLAN. The Plan shall be funded by one or more separate Trusts. If more than one Trust is used, each Trust shall be designated by the name of the Plan followed by a number assigned by the Committee at the time the Trust is established.

D.3 INCORPORATION OF TRUST. Each Trust is a part of the Plan. All rights or benefits which accrue to a person under the Plan shall be subject also to the terms of the agreements creating the Trust or Trusts and any amendments to them which are not in direct conflict with the Plan.

D.4 AUTHORITY OF TRUSTEE. Each Trustee shall have full title and legal ownership of the assets in the separate Trust which, from time to time, is in his separate possession. No other Trustee shall have joint title to or joint legal ownership of any asset in one of the other Trusts held by another Trustee. Each Trustee shall be governed separately by the trust agreement entered into between the Employer and that Trustee and the terms of the Plan without regard to any other agreement entered into between any other Trustee and the Employer as a part of the Plan.

D.5 ALLOCATION OF RESPONSIBILITY. To the fullest extent permitted under section 405 of ERISA, the agreements entered into between the Employer and each of the Trustees shall be interpreted to allocate to each Trustee its specific responsibilities, obligations and duties so as to relieve all other Trustees from liability either through the agreement, Plan or ERISA, for any act of any other Trustee which results in a loss to the Plan because of his act or failure to act.

D.6 TRUSTEE'S FEES AND EXPENSES. The Trustee shall receive for its services as Trustee hereunder the compensation which from time to time may be agreed upon by the Sponsor and the Trustee. All of such compensation, together with the expenses incurred by the Trustee in connection with the administration of this Trust, including fees for legal services rendered to the Trustee, all other charges and disbursements of the Trustee, and all other expenses of the Plan shall be charged to and deducted from the Trust Fund, unless the Sponsor elects in writing to have any part or all of such compensation, expenses, charges, and disbursements paid directly by the Sponsor. The Trustee shall deduct from and charge against the Trust assets any and all taxes paid by it which may be levied or assessed upon or in respect of the Trust hereunder or the income thereof, and shall equitably allocate the same among the several Participants and former Participants.

EXHIBIT 10.2

FIRST AMENDMENT TO THE QUANEX CORPORATION EMPLOYEE SAVINGS PLAN

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

W I T N E S S E T H:

WHEREAS, the Sponsor maintains a qualified plan entitled "Quanex Corporation Employee Savings Plan" (the "Plan"); and

WHEREAS, the Sponsor retained the right in Section 9.1 of the Plan to amend the Plan from time to time;

NOW, THEREFORE, the Sponsor agrees that Section 2.01 of the Plan is hereby completely amended and restated, effective as of January 1, 2001, to provide as follows:

2.01 ELIGIBILITY REQUIREMENTS. Each Employee who is employed by an Employer shall be eligible to participate in the Plan beginning on the Entry Date that occurs with or next follows the date on which the Employee completes three months of Active Service. However, an Employee who is included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer shall be excluded, even if he has met the requirements for eligibility, if there has been good faith bargaining between the Employer and the Employees' representative pertaining to retirement benefits and the agreement does not require the Employer to include such Employees in the Plan. In addition, a Leased Employee shall not be eligible to participate in the Plan unless the Plan's qualified status is dependent upon coverage of the Leased Employee. An Employee who is compensated on an hourly rated basis for services rendered at the Sponsor's MacSteel-Arkansas Division is not eligible to participate in the Plan. An Employee who is employed by the Sponsor at one of the Sponsor's Nichols divisions, the Sponsor's Fabricated Products division or the Sponsor's Piper Impact division is not eligible to participate in the Plan. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and receives no earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) is not eligible to participate in the Plan. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and who does receive earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) all of which is exempt from United States income tax under an applicable tax convention is not eligible to participate in the Plan. During any period in which an individual is classified by an Employer as an independent contractor with respect to such Employer, the individual is not eligible to participate in the Plan (even if he is subsequently reclassified by the Internal Revenue Service as a common law employee of the Employer and the Employer acquiesces to the reclassification). Finally, an Employee who is employed outside the United States is not eligible to participate in the Plan unless the Committee elects to permit him to participate in the Plan.

IN WITNESS WHEREOF, the Sponsor has executed this Agreement effective as of the 1st day of January, 2001.

QUANEX CORPORATION

By PAUL GIDDENS
Title VICE PRESIDENT - HR

EXHIBIT 10.3

PIPER IMPACT
401(K) PLAN

TABLE OF CONTENTS

PIPER IMPACT
401(K) PLAN

THIS AGREEMENT adopted by Piper Impact, Inc., a Delaware corporation (the "Sponsor"),

W I T N E S S E T H:

WHEREAS, effective January 1, 1995, Piper Impact, Inc., a Tennessee corporation (the "Prior Employer") established the Piper Impact 401(k) Plan (the "Plan") which is intended to be a profit sharing plan that satisfies the requirements of sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended; and

WHEREAS, effective as of March 29, 1996, the Sponsor purchased substantially all of the assets of the Prior Employer;

WHEREAS, on August 9, 1996, the Sponsor assumed sponsorship of the Plan and the Prior Employer terminated its participation in the Plan; and

WHEREAS, the Sponsor desires to amend and restate the Plan;

NOW, THEREFORE, the Plan is hereby amended and restated in its entirety as set forth below.

ARTICLE I

DEFINITIONS

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

1.01 "ACCOUNT" means all ledger accounts pertaining to a Member which are maintained by the Committee to reflect the Member's interest in the Trust Fund. The Committee shall establish the following Accounts and any additional Accounts that the Committee considers necessary to reflect the entire interest of the Member in the Trust Fund. Each of the Accounts listed below and any additional Accounts established by the Committee shall reflect the Contributions or amounts transferred to the Trust Fund, if any, and the appreciation or depreciation of the assets in the Trust Fund and the income earned or loss incurred on the assets in the Trust Fund attributable to the Contributions and/or other amounts transferred to the Account.

(a) Salary Deferral Contribution Account -- the Member's before-tax contributions.

(b) Matching Employer Contribution Account -- the Employer's matching contributions.

(c) Supplemental Contribution Account -- the Employer's discretionary contributions, if any, made pursuant to Section 4.03.

(d) Qualified Nonelective Employer Contribution Account -- the Employer's contributions made as a means of passing the actual deferral percentage test of section 401(k) of the Code or the actual contribution percentage test of section 401(m) of the Code.

(e) Rollover Account -- funds transferred from another qualified plan or individual retirement account for the benefit of a Member.

1.02 "ACTIVE SERVICE" means the Periods of Service which are counted for either eligibility or vesting purposes as calculated under Article II.

1.03 "AFFILIATED EMPLOYER" means the Employer and any employer which is a member of the same controlled group of corporations within the meaning of section 414(b) of the Code or which is a trade or business (whether or not incorporated) which is under common control (within the meaning of section 414(c) of the Code), which is a member of an affiliated service group (within the meaning of section 414(m) of the Code) with the Employer, or which is required to be aggregated with the Employer under section 414(o) of the Code. For purposes of the limitation on allocations contained in Appendix A, the definition of Affiliated Employer is modified by substituting the phrase "more than 50 percent" in place of the phrase "at least 80 percent" each place the latter phrase appears in section 1563(a)(1) of the Code.

1.04 "ANNUAL COMPENSATION" means the Employee's wages from the Affiliated Employers as defined in section 3401(a) of the Code for purposes of federal income tax withholding at the source (but determined without regard to any rules that limit the remuneration included in wages based on the nature or location of the employment or the services performed) modified by including elective contributions under a cafeteria plan described in section 125 of the Code and elective contributions to any plan qualified under section 401(k), 408(k), or 403(b) of the Code. However, for purposes of Appendix A of the Plan, effective for Limitation Years beginning before January 1, 1998, "Annual Compensation" does not include any salary deferral contributions to plan qualified under section 401(k) of the Code or any amount that is deferred at the election of the Employee and is not includable in the gross income of the Employee by reason of section 125 of the Code. Except for purposes of Section 1.1 of Appendix A of the Plan, Annual Compensation in excess of $150,000.00 (as adjusted by the Secretary of Treasury) shall be disregarded. If the Plan Year is ever less than twelve months, the $150,000.00 limitation (as adjusted by the Secretary of Treasury) will be prorated by multiplying the limitation by a fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is 12.

1.05 "ANNUITY STARTING DATE" means the first day of the first period for which an amount is payable as an annuity, or in the case of a benefit payable in the form of a lump sum, the date on which the Trustee disburses the lump sum.

1.06 "BENEFICIARY" OR "BENEFICIARIES" means the person or persons, or the trust or trusts created for the benefit of a natural person or persons or the Member's or former Member's estate, designated by the Member or former Member to receive the benefits payable under the Plan upon his death.

1.07 "BOARD OF DIRECTORS" means the board of directors, the executive committee or other body given management responsibility for the Sponsor.

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

1.09 "COMMITTEE" means the committee appointed by the Sponsor to administer the Plan.

1.10 "CONSIDERED COMPENSATION" means as to each Employee, that Employee's Annual Compensation modified by including elective contributions under a cafeteria plan described in section 125 of the Code and elective contributions to any plan qualified under section 401(k), 408(k) or 403(b) of the Code, and modified further by excluding the following items (even if includable in gross income), reimbursements or other expense allowances, fringe benefits (cash and noncash), moving expenses, deferred compensation, overtime wages, and welfare benefits. Considered Compensation in excess of $150,000.00 (as adjusted by the Secretary of Treasury) shall be disregarded. If the Plan Year is ever less than twelve months, the $150,000.00 limitation (as adjusted by the Secretary of Treasury) will be prorated by multiplying the limitation by a fraction, the numerator of which is the number of months in the Plan Year, and the denominator of which is 12.

1.11 "CONTRIBUTION" means the total amount of contributions made under the terms of the Plan. Each specific type of Contribution shall be designated by the type of contribution made as follows:

(a) Salary Deferral Contribution -- contributions made by the Employer under the Employee's salary deferral agreement.

(b) Matching Employer Contribution -- matching contributions made by the Employer.

(c) Supplemental Contribution -- contributions made by the Employer on discretionary basis pursuant to Section 4.03.

(d) Qualified Nonelective Employer Contribution -- contributions made by the Employer as a means of passing the actual deferral percentage test of section 401(k) of the code or the actual contribution percentage test of section 401(m) of the Code.

(e) Rollover Contribution - contributions made by a Member which consist of any part of an eligible rollover distribution (as defined in section 402 of the Code) from a qualified employee trust described in section 401(a) of the Code.

1.12 "DIRECT ROLLOVER" means a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

1.13 "DISABILITY" means a mental or physical disability which, in the opinion of a physician selected by the Committee, shall prevent the Member from earning a reasonable livelihood with any Affiliated Employer and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months and which: (a) was not contracted, suffered or incurred while the Member 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 Member receives a military pension.

1.14 "DISTRIBUTEE" means an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the alternate payee under a Qualified Domestic Relations Order, are Distributees with regard to the interest of the Spouse or former Spouse.

1.15 "ELIGIBLE RETIREMENT PLAN" means an individual retirement account described in section 408(a) of the Code, an individual retirement annuity described in section 408(b) of the Code, an annuity plan described in section 403(a) of the Code, or a qualified trust described in section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

1.16 "ELIGIBLE ROLLOVER DISTRIBUTION" as defined in section 402 of the Code means any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: (a) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's Beneficiary, or for a specified period of ten years or more; (b) any distribution to the extent the distribution is required under section 401(a)(9) of the Code; and (c) the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

1.17 "EMPLOYEE" means, except as otherwise specified in this Section, all common law employees of an Affiliated Employer and all Leased Employees.

1.18 "EMPLOYER" OR "EMPLOYERS" means the Sponsor and any other business organization which has adopted this Plan.

1.19 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.20 "EXCESS DEFERRAL" means that part, if any, of the Salary Deferral Contribution of a Member for his taxable year which, when added to the amounts he deferred under other plans or arrangements described in sections 401(k), 408(k) and 403(b) of the Code, exceeds the deferral dollar limitation permitted by section 402(g) of the Code.

1.21 "FIVE PERCENT OWNER" means an Employee who is a five percent owner as defined in section 416(i) of the Code.

1.22 "HIGHLY COMPENSATED EMPLOYEE" means an Employee of an Employer or an Affiliated Employer who, during the Plan Year or the preceding Plan Year, (a) was at any time a Five Percent Owner at any time during the Plan Year or the preceding Plan Year or (b) had Annual Compensation from the Affiliated Employers in excess of $80,000.00 (as adjusted from time to time by the Secretary of the Treasury) for the preceding Plan Year.

1.23 "HOUR OF SERVICE" means each hour for which an Employee is paid or entitled to payment for the performance of duties for an Affiliated Employer.

1.24 "LEASED EMPLOYEE" means any person who (a) is not a common law employee of an Affiliated Employer, (b) pursuant to an agreement between an Affiliated Employer and any other person, has performed services for an Affiliated Employer (or for an Affiliated Employer and related persons determined in accordance with section 414(n)(6) of the Code) on a substantially full-time basis for a period of at least one year and (c) performs the services under primary direction and control of the recipient.

1.25 "MATCHED SALARY DEFERRAL CONTRIBUTION" means that portion of the Salary Deferral Contribution attributable to each Member that does not exceed six percent of the Member's Considered Compensation earned while the Employee was a Member.

1.26 "MEMBER" means the person or persons employed by an Employer during the Plan Year and eligible to participate in the Plan.

1.27 "NON-HIGHLY COMPENSATED EMPLOYEE" means an Employee of the Employer who is not a Highly Compensated Employee.

1.28 "PERIOD OF SERVICE" means a period of employment with an Affiliated Employer which commences on the day on which an Employee performs his initial Hour of Service or performs his initial Hour of Service upon returning to the employ of an Affiliated Employer, whichever is applicable, and ends on the date the Employee Severs Service.

1.29 "PERIOD OF SEVERANCE" means the period of time commencing on the date an Employee Severs Service and ending on the date the Employee again performs an Hour of Service.

1.30 "PLAN" means the Plan, including all subsequent amendments.

1.31 "PLAN YEAR" means the calendar year, the fiscal year of the Plan.

1.32 "QUALIFIED DOMESTIC RELATIONS ORDER" means a qualified domestic relations order as defined in section 414(p) of the Code.

1.33 "QJSA" means a qualified joint and survivor annuity which is purchased with the Member's or former Member's Account balance as of the date of distribution to provide equal monthly payments for the life of the Member or former Member, and after his death, monthly payments for the life of his surviving Spouse in a monthly amount equal to one-half the amount of the monthly payment made while he was alive.

1.34 "QPSA" means a qualified preretirement survivor annuity which is purchased with the Member's Account balance as of the date of distribution that will provide equal monthly payments for the life of the surviving Spouse.

1.35 "REGULATION" means the Department of Treasury regulation specified, as it may be changed from time to time.

1.36 "REQUIRED BEGINNING DATE" means:

(a) in the case of an individual who is not a Five Percent Owner in the Plan Year that ends in the calendar year in which he attains age 70 1/2, the Required Beginning Date is April 1 of the calendar year following the later of (i) the calendar year in which the individual attains age 70 1/2, or (ii) the calendar year in which the individual Severs Service; and

(b) in the case of an individual who is a Five Percent Owner in the Plan Year that ends in the calendar year in which he attains age 70 1/2, the Required Beginning Date is April 1 of the calendar year in which he attains age 70 1/2.

1.37 "RETIREMENT AGE" means the later of time a Member attains age 65 or the fifth anniversary of the date he commenced participation in the Plan. Once a Member has attained his Retirement Age he shall have a 100 percent nonforfeitable interest in his Account balance at all times.

1.38 "ROLLOVER CONTRIBUTION" means the amount contributed by a Member of the Plan which consists of any part of an eligible rollover distribution (as defined in section 402 of the Code) from a qualified employee trust described in section 401(a) of the Code.

1.39 "SEPARATION FROM SERVICE" means an individual's termination of employment with an Affiliated Employer without commencing or continuing employment with any other Affiliated Employer.

1.40 "SERVICE" means the period or periods that a person is paid or is entitled to payment for performance of duties with an Affiliated Employer.

1.41 "SEVERS SERVICE" means the earlier of the following events: (a) the Employee's quitting, retiring, dying or being discharged, (b) the completion of a period of 365 continuous days in which the Employee remains absent from Service (with or without pay) for any reason other than quitting, retiring, dying or being discharged, such as vacation, holiday, sickness, disability, leave of absence, layoff or any other absence or (c) the second anniversary of the commencement of a continuous period of absence occasioned by the reason of the pregnancy of the Employee, the birth of a child of the Employee, the placement of a child with the Employee in connection with the adoption of the child by the Employee or the caring for the child for a period commencing immediately after the child's birth or placement.

1.42 "SPONSOR" means Piper Impact, Inc., a Delaware corporation.

1.43 "SPONSOR STOCK" means the common stock of Quanex Corporation, a Delaware corporation, the parent of the Sponsor.

1.44 "SPOUSE" means the person to whom the Member or former Member is married under applicable local law. In addition, to the extent provided in a Qualified Domestic Relations Order, a surviving former spouse of a Member or former Member will be treated as the Spouse of the Member or former Member, and to the same extent any current spouse of the Member or former Member will not be treated as a Spouse of the Member or former Member.

1.45 "TRANSFERRED" means, when used with respect to an Employee, the termination of employment with one Employer and the contemporaneous commencement of employment with another Employer.

1.46 "TRUST" means the one or more trust estates created to fund the Plan.

1.47 "TRUSTEE" means collectively one or more persons or corporations with trust powers which have been appointed by the initial Sponsor and have accepted the duties of Trustee and any successor appointed by the Sponsor.

1.48 "TRUST FUND" means all of the trust estates established under the terms of the Plan to fund the Plan, whether held to fund a particular group of Accounts or held to fund all of the Accounts of Members, collectively.

1.49 "VALUATION DATE" means each business day of the Plan Year.

ARTICLE II

ACTIVE SERVICE

2.01 WHEN ACTIVE SERVICE BEGINS. For purposes of eligibility and vesting, Active Service begins when an Employee first performs an Hour of Service for an Affiliated Employer. Once an Employee has begun Active Service for purposes of eligibility or vesting and Severs Service he shall recommence Active Service for those purposes when he again performs an Hour of Service for an Affiliated Employer.

2.02 AGGREGATION OF SERVICE. When determining an Employee's Active Service, all Periods of Service, whether or not completed consecutively, shall be aggregated on a per day basis. For purposes of eligibility and vesting, only full years of Active Service shall be counted. In aggregating Active Service, 30 days shall be counted as one month and 12 months shall be counted as one year. No fractional years shall be counted for purposes of eligibility or vesting.

2.03 PERIODS OF SERVICE OF LESS THAN ONE YEAR. If an Employee performs an Hour of Service within 12 months after he Severs Service, the intervening Period of Severance shall be counted as a Period of Service.

2.04 SERVICE PRIOR TO SEVERANCE. If an Employee Severs Service at a time when he does not have any vested right to amounts credited to his Matching Employer Contribution Account or his Supplemental Contribution Account and the Period of Severance continues for a continuous period of five years or more, the Period of Service completed by the Employee before the Period of Severance shall not be taken into account if his Period of Severance equals or exceeds his Period of Service, whether or not consecutive, completed before the Period of Severance.

2.05 PERIODS OF SEVERANCE DUE TO CHILD BIRTH OR ADOPTION. If the period of time between the first anniversary of the first day of an absence from Service by reason of the pregnancy of the Employee, the birth of a child of the Employee, the placement of a child with the Employee in connection with the adoption of the child by the Employee or for purposes of caring for the child for a period beginning immediately following the birth or placement and the second anniversary of the first day of the absence occurs during or after the first Plan Year beginning after December 31, 1984, it shall neither be counted as a Period of Service nor of Severance.

2.06 TRANSFERS. If an Employee of one Employer is Transferred to the service of another Employer, his Active Service shall not be interrupted and he shall continue to be in Active Service for purposes of eligibility, vesting and allocation of Contributions and/or forfeitures. If an Employee is transferred to the service of an Affiliated Employer that has not adopted the Plan he will not Sever Service; however, even though he shall continue to be in Active Service for eligibility and vesting purposes he shall not receive any allocation of Contributions or forfeitures.

2.07 EMPLOYMENT RECORDS CONCLUSIVE. The employment records of the Employer shall be conclusive for all determinations of Active Service.

2.08 SERVICE CREDIT REQUIRED UNDER FEDERAL LAW. An Employee shall be credited with such additional years of Active Service as are required under any applicable law of the United States.

2.09 SPECIAL TRANSITIONAL RULE. Any person who was an Employee before March 1, 1997, will have all or a portion of his Active Service figured under the provisions of the Plan in effect before March 1, 1997, if that method of calculating service is more beneficial for the Employee than the method otherwise set out in this Article II.

2.10 CREDIT FOR SERVICE WITH PIPER IMPACT, INC. A TENNESSEE CORPORATION. For purposes of determining an Employee's Active Service for eligibility to participate and vesting, his service with Piper Impact, Inc., a Tennessee corporation will be counted as Active Service under the Plan.

ARTICLE III

ELIGIBILITY

3.01 ELIGIBILITY REQUIREMENTS. Effective April 1, 1997, each Employee shall be eligible to participate in the Plan beginning on the entry date which occurs with or next follows the date on which the Employee completes three months of Active Service. However, all Employees who are included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer shall be excluded, even if they have met the requirements for eligibility, if there has been good faith bargaining between the Employer and the Employees' representative pertaining to retirement benefits and the agreement does not require the Employer to include such Employees in the Plan. In addition, a Leased Employee shall not be eligible to participate in the Plan unless the Plan's qualified status is dependent upon coverage of the Leased Employee. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and receives no earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) is not eligible to participate in the Plan. An Employee who is a nonresident alien (within the meaning of section 7701(b) of the Code) and who does receive earned income (within the meaning of section 911(d)(2) of the Code) from any Affiliated Employer that constitutes income from sources within the United States (within the meaning of section 861(a)(3) of the Code) all of which is exempt from United States income tax under an applicable tax convention is not eligible to participate in the Plan. An Employee who is expatriated to the United States from another country is not eligible to participate in the Plan for so long as he continues to accrue deferred compensation or retirement benefits under any agreement or program to which an Affiliated Employer other than an Employer is a party. Finally, an Employee who is employed outside the United States is not eligible to participate in the Plan unless the Committee elects to permit him to participate in the Plan. The Plan's entry dates will be January 1, April 1, July 1 and October 1 of each Plan Year.

3.02 ELIGIBILITY UPON REEMPLOYMENT. If an Employee Severs Service with the Employer prior to the date he initially begins participating in the Plan, he shall be eligible to begin participation in this Plan on the later of the date he would have become a Member if he did not Sever Service or the date on which he performs an Hour of Service after he Severs Service. Subject to Section 3.03, once an Employee becomes a Member, his eligibility to participate in the Plan shall continue until he Severs Service.

3.03 CESSATION OF PARTICIPATION. An individual who has become a Member will cease to be a Member on the earliest of the date on which he (a) Severs Service, (b) is transferred from the employ of an Employer to the employ of an Affiliated Employer that has not adopted the Plan, (c) becomes included in a unit of employees covered by a collective bargaining agreement that does not require coverage of those employees under the Plan, (d) becomes a Leased Employee, or (e) becomes included in another classification of Employees who, under the terms of the Plan, are not eligible to participate. Under these circumstances, the Member's Account becomes frozen; he cannot contribute to the Plan or share in the allocation of any Employer Contributions or forfeitures for the

frozen period. However, his Accounts shall continue to share in any Plan income allocable to his Accounts during the frozen period of time.

3.04 RECOMMENCEMENT OF PARTICIPATION. A former Member will again become a Member on the day on which he again becomes included in a classification of Employees who, under the terms of the Plan, are eligible to participate.

ARTICLE IV

CONTRIBUTIONS

4.01 SALARY DEFERRAL CONTRIBUTIONS. The Employer shall make a Salary Deferral Contribution in an amount equal to the amount by which its Members' Considered Compensation was reduced as a result of salary deferral agreements. Any such salary deferral agreement shall be an agreement in a form satisfactory to the Committee to prospectively receive Considered Compensation from the Employer in a reduced amount and to have the Employer contribute an amount equal to the amount of the reduction to the Trust Fund on account of the Member. Any such salary deferral agreement shall be revocable in accordance with its terms, provided that no revocation shall be retroactive or permit payment to the Member of the amount required to be contributed to the Trust Fund. A Member shall be entitled to prospectively modify his salary deferral agreement at least once a year. A Member's right to benefits derived from Salary Deferral Contributions made to the Plan on his behalf shall be nonforfeitable. The election to have Salary Deferral Contributions made, the ability to change the rate of Salary Deferral Contributions, the right to suspend Salary Deferral Contributions, and the manner of commencing new Salary Deferral Contributions shall be permitted under any uniform method determined by the Committee from time to time.

4.02 EMPLOYER MATCHING CONTRIBUTIONS. The Employer shall make an Employer Matching Contribution in an amount equal to 25 percent of the Matched Salary Deferral Contributions for all Members.

4.03 SUPPLEMENTAL CONTRIBUTIONS. The Employer may contribute for any Plan Year a Supplemental Contribution in such amount, if any, as shall be determined by the Employer.

4.04 ROLLOVER CONTRIBUTIONS AND PLAN-TO-PLAN TRANSFERS. The Committee may permit Rollover Contributions by Members and/or direct transfers to or from another qualified plan on behalf of Members from time to time. If Rollover Contributions and/or direct transfers to or from another qualified plan are permitted, the opportunity to make those contributions and/or direct transfers must be made available to Members on a nondiscriminatory basis. For this purpose only, all Employees who are included in a classification of Employees who are eligible to participate in the Plan shall be considered to be Members of the Plan even though they may not have met the Active Service requirements for eligibility. However, they shall not be entitled to elect to have Salary Deferral Contributions made or to share in Employer Contributions or forfeitures unless and until they have met the requirements for eligibility, contributions and allocations. A Rollover Contribution shall not be accepted unless it is directly rolled over to the Plan in a rollover described in section 401(a)(31) of the Code. A Member shall not be permitted to make a Rollover Contribution if the property he intends to contribute is for any reason unacceptable to the Trustee. A Rollover Contribution Account shall be established for any Employee who makes a Rollover Contribution.

4.05 QUALIFIED NONELECTIVE EMPLOYER CONTRIBUTIONS. The Employer may make a Qualified Nonelective Employer Contribution in such amount, if any, as shall be determined by the

Employer. A Member's right to benefits derived from Qualified Nonelective Employer Contributions made to the Plan on his behalf shall be nonforfeitable. In no event will Qualified Nonelective Employer Contributions be distributed before Salary Deferral Contributions may be distributed

4.06 RESTORATION CONTRIBUTIONS. The Employer shall, for each Plan Year, make a restoration contribution in an amount equal to the sum of (a) such amount, if any, as shall be necessary to fully restore all Matching Employer Contribution Accounts and Supplemental Contribution Accounts required to be restored pursuant to the provisions of Section 5.10, after application of all forfeitures and any appreciation in the value of the Trust Fund available for such restoration; plus (b) an amount equal in value to the value of forfeited benefits described in and payable under Section 6.09.

4.07 NONDEDUCTIBLE CONTRIBUTIONS NOT REQUIRED. Notwithstanding any other provision of the Plan, no Employer shall be required to make any contribution that would be a "nondeductible contribution" within the meaning of section 4972 of the Code.

4.08 FORM OF PAYMENT OF CONTRIBUTIONS. Contributions may be paid to the Trustee either in cash or in qualifying employer securities (as such term is defined in Section 407(d) of ERISA) or any combination thereof, provided that payment may not be made in any form constituting a prohibited transaction under section 4975 of the Code or Section 406 of ERISA.

4.09 DEADLINE FOR PAYMENT OF EMPLOYER CONTRIBUTIONS. Salary Deferral Contributions shall be paid to the Trustee in installments. The installment for each payroll period shall be paid as soon as administratively feasible, and shall be in an amount equal to the amount by which all Members' Considered Compensation was reduced pursuant to salary deferral agreements for such period. The Matching Employer Contributions, Supplemental Contributions and Qualified Nonelective Employer Contributions for a Plan Year shall be paid to the Trustee in one or more installments, as the Employer may from time to time determine; provided, however, that such contributions may not be paid later than the time prescribed by law (including extensions thereof) for filing the Employer's income tax return for its taxable year ending with or within such Plan Year.

4.10 RETURN OF CONTRIBUTIONS FOR MISTAKE, DISQUALIFICATION OR DISALLOWANCE OF DEDUCTION. Subject to the limitations of section 415 of the Code, the assets of the Trust shall not revert to any Employer or be used for any purpose other than the exclusive benefit of the Members and their Beneficiaries and the reasonable expenses of administering the Plan except:

(a) any Contribution made because of a mistake of fact may be repaid to the Employer within one year after the payment of the Contribution;

(b) all Contributions are conditioned upon the Plan's initial qualification under section 401 of the Code and may be repaid to the Employer within one year after the date of denial of the initial qualification of the Plan; and

(c) all Employer Contributions are conditioned upon their deductibility under section 404 of the Code; therefore, to the extent the deduction is disallowed, the Contributions may be repaid to the Employer within one year after the disallowance.

The Employer has the exclusive right to determine if a Contribution or any part of it is to be repaid or is to remain as a part of the Trust Fund except that the amount to be repaid is limited, if the Contribution is made by mistake of fact or if the deduction for the Contribution is disallowed, to the excess of the amount contributed over the amount that would have been contributed had there been no mistake or over the amount disallowed. Earnings which are attributable to any excess contribution cannot be repaid. Losses attributable to an excess contribution must reduce the amount that may be repaid. All repayments of Contributions made due to a mistake of fact or with respect to which a deduction is disallowed are limited so that the balance in a Member's Account cannot be reduced to less than the balance that would have been in the Member's Account had the mistaken amount or the amount disallowed never been contributed.

ARTICLE V

ALLOCATION AND VALUATION OF ACCOUNTS

5.01 INFORMATION STATEMENTS FROM EMPLOYER. As soon as practical after the last day of each calendar quarter, the Employer shall provide the Committee with a schedule setting forth the amount of its Salary Deferral Contribution, Employer Matching Contribution, Supplemental Employer Contribution, Qualified Nonelective Employer Contribution, and restoration contribution; the names of its Members, the number of years of Active Service of each of its Members, the amount of Considered Compensation paid to each Member, and the amount of Considered Compensation paid to all its Members. Such schedules shall be conclusive evidence of such facts.

5.02 ALLOCATION OF SALARY DEFERRAL CONTRIBUTION. The Committee shall allocate the Employer's Salary Deferral Contribution among the Employer's Members by allocating to each such Member the amount by which his Considered Compensation was reduced pursuant to a salary deferral agreement (as described in Section 4.1) and shall credit each such Member's share to the Member's Salary Deferral Contribution Account.

5.03 ALLOCATION OF MATCHING EMPLOYER CONTRIBUTION. The Committee shall separately allocate the Employer Matching Contribution among the Employer's Members in the proportion which the Matched Salary Deferral Contributions of each such Member bears to the total Matched Salary Deferral Contributions of all such Members. Each Member's proportionate share shall be credited to his Matching Employer Contribution Account.

5.04 ALLOCATION OF SUPPLEMENTAL CONTRIBUTION. The Committee shall allocate the Supplemental Contribution among the Employer's Members in the proportion that the Considered Compensation of each Member for the Plan Year bears to the total Considered Compensation of all Members for the Plan Year. Each Member's proportionate share shall be credited to his Supplemental Contribution Account.

5.05 ALLOCATION OF QUALIFIED NONELECTIVE EMPLOYER CONTRIBUTION. The Committee shall separately allocate the Qualified Nonelective Employer Contribution among the Non-Highly Compensated Employees who are Members based upon each such Member's Considered Compensation as compared to the Considered Compensation of all such Members.

5.06 ALLOCATION OF DIVIDENDS ON SPONSOR STOCK. Cash and Sponsor Stock dividends paid with respect to Sponsor Stock shall be allocated among the Members and former Members with Account balances in proportion to the number of shares of Sponsor Stock (of the class with respect to which the dividend is paid) allocated to Member's or former Member's Account as of the record date for the dividend.

5.07 SPONSOR STOCK SPLITS. If the shares of Company Stock are subdivided, the additional shares acquired by the Trustee upon the subdivision will be allocated among the Members and former Members with Account balances in proportion to the number of shares of Sponsor Stock (of

the class with respect to which the subdivision is made) allocated to the Member's or former Member's Account as of the record date for the subdivision.

5.08 VALUATION OF ACCOUNTS. A Member's or former Member's Accounts shall be valued at fair market value on each Valuation Date. The earnings and losses attributable to any asset in the Trust Fund will be allocated solely to the Account of the Member or former Member on whose behalf the investment in the asset was made. In determining the fair market value of the Members' or former Member's Accounts, the Trustee shall utilize such sources of information as it may deem reliable including, but not limited to, stock market quotations, statistical evaluation services, newspapers of general circulation, financial publications, advice from investment counselors or brokerage firms, or any combination of sources which in the opinion of the Trustee will provide the price such assets were last traded at on a registered stock exchange; provided, however, that with respect to regulated investment company shares, the Trustee shall rely exclusively on information provided to it by the investment adviser to such funds.

5.09 ALLOCATION OF FORFEITURES. At the time a forfeiture occurs, the amount forfeited will first be used to reinstate any Account required to be reinstated under Section 5.10, and any remaining amount will be applied to the payment of Matching Employer Contributions or Supplemental Contributions.

5.10 RESTORATION OF FORFEITED AMOUNTS. If a Member or former Member who forfeited any portion of his Matching Employer Contribution Account or his Supplemental Contribution Account pursuant to the provisions of Section 6.10 resumes employment covered under the Plan, then the following provisions shall apply:

(a) REPAYMENT REQUIREMENT. The Member's Employer Matching Contribution Account and Supplemental Contribution Account shall be restored if he repays to the Trustee the full amount of any distribution from the Employer Matching Contribution Account and Supplemental Contribution Account with respect to which the forfeiture arose. Such repayment must be made prior to the earlier of (a) the date on which he incurs a Period of Severance of five years, or (b) the fifth anniversary of the first date on which the Member is subsequently re-employed by the Employer.

(b) MEMBERS WITH NO VESTED INTEREST. If a Member or former Member who forfeited any portion of his Employer Matching Contribution Account pursuant to the provisions of Section 6.10 received no distribution from his Employer Matching Contribution Account or his Supplemental Contribution Account as a result of his termination of participation in the Plan (because his vested percentage was zero), that Account will be restored if, and only if, he resumes employment covered under the Plan prior to incurring a Period of Severance of five years.

(c) AMOUNT RESTORED. The amount to be restored under the preceding provisions of this Section shall be the dollar value of the amount in the Member's Employer Matching Contribution Account and Supplemental Contribution Account, both the amount distributed and the amount forfeited, unadjusted by any subsequent gains or losses. The Member's

Employer Matching Contribution Account or his Supplemental Contribution Account balance shall be restored as soon as administratively practicable after the later of the date the Member resumes employment covered under the Plan or the date on which any required repayment is completed. No distribution shall be made to a Member from his Employer Matching Contribution Account or his Supplemental Contribution Account as a result of a prior Separation From Service after the restoration of such Account has been effectuated.

(d) NO OTHER BASIS FOR RESTORATION. Except as otherwise provided above, a Member's Employer Matching Contribution Account and Supplemental Contribution Account shall not be restored upon resumption of employment covered by the Plan. Any portion of the Trust Fund attributable to Years of Service prior to resumption of employment by a Member whose Employer Matching Contribution Account and Supplemental Contribution Account has not been restored shall be held and distributed in accordance with applicable provisions of the Plan and elections made thereunder. A separate Employer Matching Contribution Account and Supplemental Contribution Account shall be established and maintained for Employer Matching Contributions and Supplemental Contributions allocable to such a Member after his resumption of employment covered by the Plan.

5.11 NO VESTING UNLESS OTHERWISE PRESCRIBED. No allocations, adjustments, credits, or transfers shall ever vest in any Member or former Member any right, title, or interest in the Trust Fund except at the times and upon the terms and conditions herein set forth.

ARTICLE VI

BENEFITS

6.01 VALUATION OF ACCOUNTS FOR WITHDRAWALS AND DISTRIBUTIONS. For the purpose of making a distribution or withdrawal, a Member's Accounts shall be his Accounts as valued as of the Valuation Date which is coincident with or next follows the event which caused the distribution or withdrawal, adjusted for Contributions, distributions and withdrawals, if any, made between the Valuation Date and that event.

6.02 DEATH BENEFIT. Subject to Sections 6.18 and 6.19 and Appendix C, if a Member or former Member dies, the death benefit payable to his Beneficiary shall be 100 percent of the remaining amount in all of his Accounts as of the day he dies.

6.03 RETIREMENT BENEFIT. An Employee may retire on the first day of any month after he attains his Retirement Age. If a Member retires, he is entitled to receive 100 percent of all of his Accounts as of the day he retires.

6.04 DISABILITY BENEFIT. Upon an Employee's Separation From Service due to a Disability, he is entitled to receive 100 percent of all of his Accounts as of the day he terminated because of his Disability.

6.05 SEVERANCE BENEFIT. Upon an Employee's Separation From Service for any reason other than death, retirement after attaining Retirement Age or disability, he is entitled to receive (a) 100 percent of all of his Accounts, except his Matching Employer Contribution Account and Supplemental Contribution Account, and (b) that percentage of his Matching Employer Contribution Account and Supplemental Contribution Account, if any, as shown in the vesting schedule below, as of the date of his Separation From Service.

Completed Years of Active Service	Percentage of Amount Invested In Accounts Containing Employer Contributions
Less than two years	0%
Two years but less than three years	20%
Three years but less than four years	40%
Four years but less than five years	60%
Five years but less than six years	80%
Six years or more	100%

Prior to a Member's Separation From Service, he will have a nonforfeitable interest in the portion of the Matching Employer Contributions and Supplemental Contributions specified in the above vesting schedule.

6.06 DISTRIBUTIONS PURSUANT TO QUALIFIED DOMESTIC RELATIONS ORDERS. The Committee will instruct the Trustee to pay benefits in accordance with the terms of any order that has been determined, in accordance with Plan procedures, to be a Qualified Domestic Relations Order. A Qualified Domestic Relations Order may require the payment of an immediate cash lump sum to an alternate payee even if the Member or former Member is not then entitled to receive an immediate payment of Plan benefits.

6.07 FINANCIAL HARDSHIP DISTRIBUTIONS.

(a) GENERAL. Prior to his Separation From Service, a Member is entitled to receive a distribution from his Salary Deferral Contribution Account, his Rollover Account, his vested interests in his Matching Employer Contribution Account and his Supplemental Contribution Account in the event of an immediate and heavy financial need incurred by the Member and the Committee's determination that the withdrawal is necessary to alleviate that hardship.

(b) PERMITTED REASONS FOR FINANCIAL HARDSHIP WITHDRAWALS. A distribution shall be made on account of financial hardship only if the distribution is for: (i) Expenses for medical care described in section 213(d) of the Code previously incurred by the Member, the Member's Spouse, or any dependents of the Member (as defined in section 152 of the Code) or necessary for these persons to obtain medical care described in section 213(d) of the Code, (ii) costs directly related to the purchase (excluding mortgage payments) of a principal residence for the Member, (iii) payment of tuition and related educational fees for the next 12 months of post-secondary education for the Member, his Spouse, children, or dependents (as defined in section 152 of the Code), (iv) payments necessary to prevent the eviction of the Member from his principal residence or foreclosure on the mortgage of the Member's principal residence, or (v) any other event added to this list by the Commissioner of Internal Revenue.

(c) AMOUNT. A distribution to satisfy an immediate and heavy financial need shall not be made in excess of the amount of the immediate and heavy financial need of the Member and the Member must have obtained all distributions, other than hardship distributions, and all nontaxable (at the time of the loan) loans currently available under all plans maintained by the Employer. The amount of a Member's immediate and heavy financial need includes any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the financial hardship distribution.

(d) SUSPENSION OF PARTICIPATION IN CERTAIN BENEFIT PROGRAMS. The Member's hardship distribution shall terminate his right to have the Employer make any Salary Deferral Contributions on his behalf until the next time Salary Deferral Contributions are permitted after the lapse of 12 months following the hardship distribution and his timely filing of a written request to resume his Salary Deferral Contributions. In addition, for 12 months after he receives a hardship distribution from the Plan, the Member is prohibited from making elective contributions and employee contributions to all other qualified and nonqualified plans of deferred compensation maintained by the Employer, including stock option plans,

stock purchase plans and Code section 401(k) cash or deferred arrangements that are part of cafeteria plans described in section 125 of the Code. However, the Member is not prohibited from making contributions to a health or welfare benefit plan, including one that is part of a cafeteria plan within the meaning of section 125 of the Code.

(e) RESUMPTION OF SALARY DEFERRAL CONTRIBUTIONS. When the Member resumes Salary Deferral Contributions, he cannot have the Employer make any Salary Deferral Contributions in excess of the limit in section 402(g) of the Code for that taxable year reduced by the amount of Salary Deferral Contributions made by the Employer on the Member's behalf during the taxable year of the Member in which he received the hardship distribution.

(f) ORDER OF WITHDRAWALS. Financial hardship distributions will be made in the following order: First withdrawals will be made from the Member's Rollover Account, then from his Matching Employer Contribution Account, then from his Supplemental Contribution Account, and finally, from his Salary Deferral Contribution Account. A Member shall not be entitled to receive a financial hardship distribution of any amount credited to his Qualified Nonelective Employer Contribution Account, or of any income that is allocable or credited to his Member's Salary Deferral Contribution Account.

(g) METHOD OF PAYMENT. Distributions pursuant to this Section 6.07 will normally be paid in lump sums. However, the QJSA requirements of Section 6.13 will apply to any distributions made under this Section 6.07 on or after the date as of which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code.

6.08 AGE 59 1/2 DISTRIBUTIONS. Prior to his Separation From Service, a Member may withdraw part or all of his vested Account balance on or after the date that he attains age 59 1/2 . Distributions pursuant to this Section 6.08 will normally be paid in lump sums. However, the QJSA requirements of Section 6.13 will apply to any distributions made under this Section 6.08 on or after the date as of which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees Pension Plan as one plan for purposes of section 410(b) of the Code.

6.09 LOANS. The Committee may direct the Trustees to make loans to Members (and Beneficiaries who are "parties in interest" within the meaning of ERISA) who have a vested interest in the Plan. The Loan Committee established by the Committee will be responsible for administering the Plan loan program. All loans will comply with the following requirements:

(a) All loans will be made solely from the Member's or Beneficiary's Account.

(b) Loans will be available on a nondiscriminatory basis to all Beneficiaries who are "parties in interest" within the meaning of ERISA, and to all Members.

(c) Loans will not be made for less than $1,000.00.

(d) The maximum amount of a loan may not exceed the lesser of (A) $50,000.00 reduced by the person's highest outstanding loan balance from the Plan during the preceding one-year period, or (B) one-half of the present value of the person's vested Account balance under the Plan determined as of the date on which the loan is approved by the Loan Committee.

(e) Any loan from the Plan will be evidenced by a note or notes (signed by the person applying for the loan) having such maturity, bearing such rate of interest, and containing such other terms as the Loan Committee will require by uniform and nondiscriminatory rules consistent with this Section and proper lending practices.

(f) All loans will bear a reasonable rate of interest which will be established by the Loan Committee. In determining the proper rate of interest to be charged, at the time any loan is made or renewed, the Loan Committee will contact at least two of the largest banks in the geographic location in which the Member or Beneficiary resides to determine what interest rate the banks would charge for a similar loan taking into account the collateral offered.

(g) Each loan will be fully secured by a pledge of the borrowing person's vested Account balance. No more than 50 percent of the person's vested Account balance (determined immediately after the origination of the loan) will be considered as security for any loan.

(h) The term of the loan will not be less than 18 months. Generally, the term of the loan will not be more than five years. The Loan Committee may agree to a longer term (but not more than seven years) only if such term is otherwise reasonable and the proceeds of the loan are to be used to acquire a dwelling which will be used within a reasonable time (determined at the time the loan is made) as the principal residence of the borrowing person.

(i) The loan agreement will require level amortization over the term of the loan. A Member's loan agreement will also require that loan repayments be made through payroll deductions.

(j) If a person fails to make a required payment within 30 days of the due date set forth in the loan agreement, the loan will be in default.

(k) If a Member has an outstanding loan from the Plan at the time of his Separation From Service, the outstanding loan principal balance and any accrued but unpaid interest will become immediately due in full. The Member will have the right to immediately pay the Trustee that amount. If the Member fails to repay the loan, the Trustee will foreclose on the loan and the Member will be deemed to have received a Plan distribution of the amount foreclosed upon. The Trustee will not foreclose upon a Member's Salary Deferral Contributions Account or Qualified Nonelective Employer Contributions Account until the Member's Separation From Service.

(l) If a Beneficiary defaults on his loan, the Trustee will foreclose on the loan and the Beneficiary will be deemed to have received a Plan distribution of the amount foreclosed upon.

(m) No person shall be entitled to apply for a new Plan loan until at least 90 days have transpired since he fully repaid his last loan from the Plan.

(n) No amount that is pledged as collateral for a Plan loan to a Participant will be available for withdrawal before he has fully repaid his loan.

(o) All interest payments made pursuant to the terms of the loan agreement will be credited to the borrowing person's Account and will not be considered as general earnings of the Trust Fund to be allocated to other Members.

(p) The Spouse of a Member must consent to any loan from the Plan that is made, extended or renewed after the date on which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code. The Spouse's consent must (1) be in writing, (2) consent to the loan, (3) acknowledge the effect of the Spouse's consent to the Member's borrowing from the Plan, and (4) be witnessed by a notary public or a Plan representative.

6.10 FORFEITURE BY LOST MEMBERS OR BENEFICIARIES. If a person who is entitled to a distribution cannot be located during a reasonable search after the Trustee has initially attempted making payment, that person's Account shall be forfeited. However, if at any time prior to the termination of the Plan and the complete distribution of the Trust Fund, the former Member or Beneficiary files a claim with the Committee for the forfeited benefit, that benefit shall be reinstated (without adjustment for trust income or losses during the forfeited period) effective as of the date of the receipt of the claim. As soon as appropriate following the Employer's Contribution of the reinstated amount, it shall be paid to the former Member or Beneficiary in a single sum.

6.11 FORFEITURE ON TERMINATION OF PARTICIPATION. If as a result of his Separation From Service a former Member receives, not later than the end of the second Plan Year following the Plan Year in which his Separation From Service occurs, a distribution of his entire vested interest in his Account, the nonvested amount in his Account is immediately forfeited. A former Member who receives no distribution upon his Separation From Service because he has no vested interest shall be treated as if he received a distribution of his entire vested interest and that interest was less than $5,000.00.

If a former Member who has a vested interest in his Account receives no distribution or a distribution of less than the full amount of his entire vested interest as a result of his Separation From Service, the nonvested amount in his Account is immediately forfeited following five consecutive one-year Periods of Severance.

6.12 CLAIMS PROCEDURE. When a benefit is due, the Member or Beneficiary should submit his claim to the person or office designated by the Committee to receive claims. Under normal

circumstances, a final decision shall be made as to a claim within 90 days after receipt of the claim. If the Committee notifies the claimant in writing during the initial 90-day period, it may extend the period up to 180 days after the initial receipt of the claim. The written notice must contain the circumstances necessitating the extension and the anticipated date for the final decision. If a claim is denied during the claims period, the Committee must notify the claimant in writing. The denial must include the specific reasons for it, the Plan provisions upon which the denial is based, and the claims review procedure. If no action is taken during the claims period, the claim is treated as if it were denied on the last day of the claims period.

If a Member's or Beneficiary's claim is denied and he wants a review, he must apply to the Committee in writing. That application may include any comment or argument the claimant wants to make. The claimant may either represent himself or appoint a representative, either of whom has the right to inspect all documents pertaining to the claim and its denial. The Committee may schedule any meeting with the claimant or his representative that it finds necessary or appropriate to complete its review.

The request for review must be filed within 90 days after the denial. If it is not, the denial becomes final. If a timely request is made, the Committee must make its decision, under normal circumstances, within 60 days of the receipt of the request for review. However, if the Committee notifies the claimant prior to the expiration of the initial review period, it may extend the period of review up to 120 days following the initial receipt of the request for a review. All decisions of the Committee must be in writing and must include the specific reasons for their action and the Plan provisions on which their decision is based. If a decision is not given to the claimant within the review period, the claim is treated as if it were denied on the last day of the review period.

6.13 NORMAL FORM OF DISTRIBUTIONS. The normal form of distributions under the Plan is a cash lump sum payment.

6.14 DIRECT ROLLOVER OPTION. To the extent required under Regulations, a Distributee has the right to direct that any portion of his Eligible Rollover Distribution will be directly paid to an Eligible Retirement Plan specified by him that will accept the Eligible Rollover Distribution.

6.15 CHOICE OF DISTRIBUTION METHODS. Each Member or former Member shall have the right to elect the method of distribution applicable to him. An election of an option available under this Article shall be made within the 90-day period that ends on the Member's or former Member's Annuity Starting Date, and may be rescinded or changed by a Member or former Member at any time prior to the distribution. An election, change, or rescission of an option must be made by executing and properly filing the form or forms approved by the Committee. Proof of age and other information may be required by the Committee.

6.16 SINGLE SUM PAYMENT OF SMALL AMOUNTS UPON SEPARATION FROM SERVICE. Notwithstanding any other provision of the Plan, each Member or former Member (a) who does not die before the Annuity Starting Date and (b) whose vested Account balance at the time of a distribution to him on account of his Separation From Service is less than or equal to $5,000.00, shall be paid in the form of a single sum payment. A surviving Spouse or other Beneficiary of a

Member or former Member whose Account balance is less than or equal to $5,000.00 shall be paid in the form of a single sum payment. For this purpose, if the value of a Member's or former Member's Account balance determined at the time of any prior payment to him exceeded $5,000.00, then the benefit to be distributed at any subsequent time shall be deemed to exceed that amount.

6.17 CONSENT TO DISTRIBUTIONS UPON SEPARATION FROM SERVICE. Notwithstanding any other provision of the Plan, no benefit shall be distributed or commence to be distributed to a Member or former Member prior to his attainment of the later of age 62 or Retirement Age without his consent, unless the benefit is payable in a single sum under Section 6.16. Any such consent shall be valid only if given not more than 90 days prior to the Member's or former Member's Annuity Starting Date and after his receipt of the notice regarding benefits described in Section 6.21(a).

6.18 QUALIFIED JOINT AND SURVIVOR ANNUITY REQUIREMENTS. On and after the date on which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code, this Section 6.18 will apply. Except for small benefits payable under Section 6.16, each Member or former Member who (a) is married on his Annuity Starting Date and (b) does not die before his Annuity Starting Date will be paid in the form of a QJSA, unless he and his Spouse make a valid election to waive this form of payment. Except for small benefits payable under Section 6.16, each other Member who does not die before the Annuity Starting Date, will be paid in the form of a life only annuity unless he makes a valid election to waive this form of payment. A Member's waiver of the QJSA form of payment will not be effective unless the waiver (1) designates a specific nonspouse Beneficiary who will receive Plan benefits and (2) specifies the particular optional form of benefits selected instead of the QJSA. Also, a Member's or former Member's waiver of the QJSA will not be effective unless his Spouse signs either a specific or a general consent to his waiver. A specific spousal consent must (1) be in writing, (2) consent to the waiver of the QJSA, (3) consent to the specific nonspouse Beneficiary designated by the Member or former Member to receive Plan benefits, (4) consent to the particular optional form of benefit selected by the Member or former Member, (5) acknowledge the effect of the Spouse's consent to the Member's or former Member's waiver of the QJSA, and (6) be witnessed by a notary public or a Plan representative. A general spousal consent must (1) be in writing, (2) consent to the Member's or former Member's waiver of the QJSA, (3) specify that the Member or former Member can change the Beneficiary designated by him to receive Plan benefits, without any requirement of further consent by the Spouse, (4) specify that the Member or former Member can change the optional form of benefit elected by the Member or former Member, without any requirement of further consent by the Spouse, (5) acknowledge that the Spouse has the right to limit consent to a specific Beneficiary and a specific optional form of benefit, and that the Spouse voluntarily elects to relinquish both of those rights, (6) acknowledge the effect of the Spouse's consent to the Member's or former Member's waiver of the QJSA, and (7) be witnessed by a notary public or a Plan representative. However, a Member's or former Member's election to waive the QJSA shall be effective if it is established to the satisfaction of the Committee that spousal consent to his waiver may not be obtained because (1) there is no Spouse, (2) the Spouse cannot be located, or (3) there exist such other circumstances which obviate the necessity of obtaining the spousal consent. Any consent by the Member's or former Member's Spouse (or establishment that the consent of the Member's or former Member's Spouse may not be obtained) shall be effective only with respect to such Spouse.

6.19 QUALIFIED PRERETIREMENT SURVIVOR ANNUITY REQUIREMENTS.

(a) GENERAL RULES. On and after the date on which an Employee elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code, this Section 6.19 will apply. Except for small benefits payable under Section 6.12, the death benefit of a Member or former Member who (1) is married on the date of his death and (2) dies before his Annuity Starting Date will be paid in the form of a QPSA, unless he and his Spouse make a valid election to waive this form of payment. Subject to Section 6.21, the surviving Spouse of such a Member or former Member may elect to have payments commence to her as soon as administratively practicable, or at any later date selected by her.

(b) WAIVERS. Any valid election to waive the QPSA must be made in writing by the Member or former Member and consented to by the Member's or former Member's Spouse. Any spousal consent to the waiver must: (1) be witnessed by a member of the Committee, the Trustee, or a notary public, and (2) consent to the specific nonspouse Beneficiary or Beneficiaries selected by the Member or former Member (or permit future changes in designations by the Member provided that general consent requirements similar to those described in Section 6.18 are satisfied). However, if the Member or former Member establishes to the satisfaction of the Committee or the Trustee that the spouse's written consent cannot be obtained because there is no Spouse or the Spouse cannot be located, a waiver signed only by the Member or former Member will be considered a valid election. The consent to a waiver is valid only with respect to the Spouse who signs it; therefore, if the Member or former Member remarries after executing a waiver, the Member's or former Member's new Spouse must execute a new consent. The Member or former Member may revoke a prior waiver without his Spouse's consent at any time before benefit payments begin. Except as specified below, an election to waive the QPSA will be valid only if it is made after the first day of the Plan Year in which the Member or former Member attains age 35 and before the Member's or former Member's death.

(c) PRE-AGE 35 WAIVERS. A Member or former Member may waive the QPSA, with spousal consent, before the first day of the Plan Year in which he attains age 35 if the Sponsor provides him a written explanation of the QPSA (that meets the requirements of Section 6.20) within the period beginning one year before he Severs Service and ending one year after he Severs Service. However, any such waiver will expire and become invalid beginning on the first day of the Plan Year in which the Member or former Member attains age 35.

6.20 INFORMATION PROVIDED TO MEMBERS. Information regarding the form of benefits available under the Plan shall be provided to Members or former Members in accordance with the following provisions:

(a) GENERAL INFORMATION. Except as otherwise provided in paragraph (c), the Sponsor shall provide each Member or former Member with a written general explanation

or description of (1) the eligibility conditions and other material features of the optional forms of benefit available under the Plan, (2) the relative values of the optional forms of benefit available under the Plan, and (3) the Member's or former Member's right, if any, to defer receipt of the distribution.

(b) TIME FOR GIVING NOTICE. The written general explanation or description regarding any optional forms of benefit available under the Plan shall be provided to a Member or former Member no less than 30 days and no more than 90 days before his Annuity Starting Date unless he legally waives this requirement.

(c) EXCEPTION FOR MEMBERS WITH SMALL BENEFIT AMOUNTS. Notwithstanding the preceding provisions of this Section, no information regarding any optional forms of benefit otherwise available under the Plan shall be provided to the Member or former Member if his benefit is payable in a single sum under Section 6.16.

(d) QJSA NOTICE. This paragraph applies on and after the date on which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code. No less than 30 days (seven days if the Member or former Member legally waives the 30-day notice requirement) and no more than 90 days before the Annuity Starting Date of a Member or former Member who is subject to Section 6.18, the Sponsor shall provide him a written notice explaining the terms and conditions of each retirement option, and in particular (1) the automatic QJSA or life annuity, (2) the Member's or former Member's right to make, and the effect of, a waiver of the automatic QJSA, (3) the right of the Member's or former Member's Spouse to consent or not to consent to such a waiver, (4) the right to make, and the effect of, a revocation of a previous waiver or election, (5) the eligibility conditions and other material features of the optional forms of benefit, (6) the relative values of the optional forms of benefit, and (7) the Member's or former Member's right to request a written explanation of the financial effect upon a Member's or former Member's annuity of electing to waive the QJSA or life annuity.

(e) QPSA NOTICE. This paragraph applies on and after the date on which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code. The Sponsor will provide each Member or former Member who is subject to Section 6.19 a written explanation of: (a) the terms and conditions of the QPSA, (b) the Member's or former Member's right to waive the QPSA and the effect of the waiver, (c) the rights of the Member's or former Member's Spouse, and (d) the right to revoke a prior waiver and the effect of the revocation. This written explanation will be provided within the latest of the period (a) beginning on the first day of the Plan Year in which the Member or former Member attains age 32 and ending with the close of the Plan Year preceding the Plan Year in which the Member or former Member attains age 35, (b) ending one year after the individual becomes a Member, or (c) ending one year after the QPSA rules first become effective with respect to the Member or former Member.

6.21 OPTIONAL FORMS OF DISTRIBUTION. On and after the date on which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code, all of the optional forms of payment available under the Quanex Corporation Salaried Employees' Pension Plan (as discussed more fully in Appendix C hereto) will be available under the Plan.

6.22 TIME OF DISTRIBUTIONS. Notwithstanding any other provision of the Plan, all benefits payable under the Plan shall be distributed, or commence to be distributed, in compliance with the following provisions:

(a) DISTRIBUTION DEADLINES FOR MEMBERS OR FORMER MEMBERS WHO ARE 70 1/2 OR OLDER. If a Member or former Member attains 70 1/2, the Member or former Member must elect to receive the distribution required under section 401(a)(9) of the Code in one lump sum or in installments which must commence by his Required Beginning Date. If installments are elected, each installment paid must be equal to or greater than the minimum required distribution under section 401(a)(9) of the Code.

(b) DISTRIBUTION DEADLINE FOR DEATH BENEFITS. If a Member or former Member dies before the distribution of his Plan benefit has commenced, his entire interest shall be distributed within five years after his death. If a Member or former Member dies after the distribution of his Plan benefit has commenced, the remaining portion of his interest in the Plan, if any, will be distributed at least as rapidly as under the installment method of distribution selected by him.

(c) LIMITATIONS ON DEATH BENEFITS. Benefits payable under the Plan shall not be provided in any form that would cause a Member's death benefit to be more than incidental. Any distribution required to satisfy the incidental benefit requirement shall be considered a required distribution for purposes of section 401(a)(9) of the Code.

(d) COMPLIANCE WITH SECTION 401(A)(9). All distributions under the Plan will be made in accordance with the requirements of section 401(a)(9) of the Code and all Regulations promulgated thereunder. The provisions of the Plan reflecting section 401(a)(9) of the Code override any distribution options in the Plan inconsistent with such Section.

(e) COMPLIANCE WITH SECTION 401(A)(14). Unless the Member or former Member otherwise elects, the payment of benefits under the Plan to the Member or former Member will begin not later than the 60th day after the close of the Plan Year in which occurs the latest of (a) the date on which the Member or former Member attains the later of age 62 or Retirement Age, (b) the tenth anniversary of the year in which the Member or former Member commenced participation in the Plan, or (c) the Member's or former Member's Separation From Service.

6.23 DESIGNATION OF BENEFICIARY. Each Member has the right to designate and to revoke the designation of his Beneficiary or Beneficiaries. Each designation or revocation must be evidenced by a written document in the form required by the Committee, signed by the Member and

filed with the Committee. If no designation is on file at the time of a Member's death or if the Committee determines that the designation is ineffective, the designated Beneficiary shall be the Member's Spouse, if living, or if not, the executor, administrator or other personal representative of the Member's estate.

If a Member is considered to be married under local law, the Member's designation of any Beneficiary, other than the Member's Spouse, shall not be valid unless the spouse acknowledges in writing that she understands the effect of the Member's beneficiary designation and consents to it. The consent must be to a specific Beneficiary. The written acknowledgement and consent must be filed with the Committee, signed by the Spouse and at least two witnesses, one of whom must be a member of the Committee or a notary public. However, if the Spouse cannot be located or there exist other circumstances as described in sections 401(a)(11) and 417(a)(2) of the Code, the requirement of the Member's Spouse's acknowledgement and consent may be waived. If a Beneficiary other than the Member's Spouse is named, the designation shall become invalid if the Member is later determined to be married under local law, the Member's missing Spouse is located or the circumstances which resulted in the waiver of the requirement of obtaining the consent of the Member's Spouse no longer exist.

6.24 DISTRIBUTIONS TO DISABLED PERSONS. If the Committee determines that any person to whom a payment is due is unable to care for his affairs because of physical or mental disability, it shall have the authority to cause the payments to be made to the Spouse, brother, sister or other person the Committee determines to have incurred, or to be expected to incur, expenses for that person unless a prior claim is made by a qualified guardian or other legal representative. The Committee and the Trustee shall not be responsible to oversee the application of those payments. Payments made pursuant to this power shall be a complete discharge of all liability under the Plan and Trust and the obligations of the Employer, the Trustee, the Trust Fund and the Committee.

ARTICLE VII

ADMINISTRATION OF THE PLAN

7.01 APPOINTMENT, TERM OF SERVICE & REMOVAL. The Board of Directors shall appoint a Committee to administer the Plan. The members shall serve until their resignation, death or removal. Any member may resign at any time by mailing a written resignation to the Board of Directors. Any member may be removed by the Board of Directors, with or without cause. Vacancies may be filled by the Board of Directors from time to time.

7.02 POWERS. The Committee is a fiduciary. It has the exclusive responsibility for the general administration of the Plan and Trust, and has all powers necessary to accomplish that purpose, including but not limited to the following rights, powers, and authorities:

(a) to make rules for administering the Plan and Trust so long as they are not inconsistent with the terms of the Plan;

(b) to construe all provisions of the Plan and Trust;

(c) to correct any defect, supply any omission, or reconcile any inconsistency which may appear in the Plan or Trust;

(d) to select, employ, and compensate at any time any consultants, actuaries, accountants, attorneys, and other agents and employees the Committee believes necessary or advisable for the proper administration of the Plan and Trust; any firm or person selected may be a disqualified person, but only if the requirements of section 4975(d) of the Code have been met;

(e) to determine all questions relating to eligibility, Active Service, Compensation, allocations and all other matters relating to benefits or Members' entitlement to benefits;

(f) to determine all controversies relating to the administration of the Plan and Trust, including but not limited to any differences of opinion arising between an Employer and the Trustee or a Member, or any combination of them and any questions it believes advisable for the proper administration of the Plan and Trust;

(g) to direct or to appoint an investment manager or managers who can direct the Trustee in all matters relating to the investment, reinvestment and management of the Trust Fund;

(h) to direct the Trustee in all matters relating to the payment of Plan benefits; and

(i) to delegate any clerical or recordation duties of the Committee as the Committee believes is advisable to properly administer the Plan and Trust.

The actions of the Committee in exercising all of the rights, powers, and authorities set out in this Section and all other Sections of the Plan, when performed in good faith and in its sole judgment, shall be final, conclusive and binding on all parties.

7.03 ORGANIZATION. The Committee may select, from among its members, a chairman, and may select a secretary. The secretary need not be a member of the Committee. The secretary shall keep all records, documents and data pertaining to its administration of the Plan and Trust.

7.04 QUORUM AND MAJORITY ACTION. A majority of the Committee constitutes a quorum for the transaction of business. The vote of a majority of the members present at any meeting shall decide any question brought before that meeting. In addition, the Committee may decide any question by a vote, taken without a meeting, of a majority of its members.

7.05 SIGNATURES. The chairman, the secretary and any one or more of the members of the Committee to which the Committee has delegated the power shall each, severally, have the power to execute any document on behalf of the Committee, and to execute any certificate or other written evidence of the action of the Committee. The Trustee, after it is notified of any delegation of power in writing, shall accept and may rely upon any document executed by the appropriate member or members as representing the action of the Committee until the Committee files a written revocation of that delegation of power with the Trustee.

7.06 DISQUALIFICATION OF COMMITTEE MEMBER. A member of the Committee who is also a Member of the Plan shall not vote or act upon any matter relating solely to himself.

7.07 DISCLOSURE TO MEMBERS. The Committee shall make available to each Member and Beneficiary for his examination those records, documents and other data required under ERISA, but only at reasonable times during business hours. No Member or Beneficiary has the right to examine any data or records reflecting the compensation paid to any other Member or Beneficiary. The Committee is not required to make any other data or records available other than those required by ERISA.

7.08 LIABILITY OF COMMITTEE AND LIABILITY INSURANCE. No member of the Committee shall be liable for any act or omission of any other member of the Committee, the Trustee, any investment manager appointed by the Committee or any other agent appointed by the Committee unless required by the terms of ERISA or another applicable state or federal law under which liability cannot be waived. No member of the Committee shall be liable for any act or omission of his own unless required by ERISA or another applicable state or federal law under which liability cannot be waived.

If the Committee directs the Trustee to do so, it may purchase out of the Trust Fund insurance for the members of the Committee, for any other fiduciaries appointed by the Committee and for the Trust Fund itself to cover liability or losses occurring because of the act or omission of any one or

more of the members of the Committee or any other fiduciary appointed under the Plan. But, that insurance must permit recourse by the insurer against the members of the Committee or the other fiduciaries concerned if the loss is caused by breach of a fiduciary obligation by one or more members of the Committee or other fiduciary.

7.09 EXEMPTION FROM BOND. No member of the Committee is required to give bond for the performance of his duties unless required by a law which cannot be waived.

7.10 COMPENSATION. The Committee shall serve without compensation but shall be reimbursed by the Trust Fund for all expenses properly incurred in the performance of its duties unless the Employer elects to pay those expenses.

7.11 PERSONS SERVING IN DUAL FIDUCIARY ROLES. Any person, group of persons, corporations, firm or other entity, may serve in more than one fiduciary capacity with respect to the Plan, including serving as both Trustee and as a member of the Committee.

7.12 ADMINISTRATOR. For all purposes of ERISA, the administrator of the Plan is the Sponsor. The administrator has the final responsibility for compliance with all reporting and disclosure requirements imposed under all applicable federal or state laws and regulations.

ARTICLE VIII

TRUST FUND AND CONTRIBUTIONS

8.01 FUNDING OF PLAN. The Plan shall be funded by one or more separate Trusts. If more than one Trust is used, each Trust shall be designated by the name of the Plan followed by a number assigned by the Committee at the time the Trust is established.

8.02 INCORPORATION OF TRUST. Each Trust is a part of the Plan. All rights or benefits which accrue to a person under the Plan shall be subject also to the terms of the agreements creating the Trust or Trusts and any amendments to them which are not in direct conflict with the Plan.

8.03 AUTHORITY OF TRUSTEE. Each Trustee shall have full title and legal ownership of the assets in the separate Trust which, from time to time, is in his separate possession. No other Trustee shall have joint title to or joint legal ownership of any asset in one of the other Trusts held by another Trustee. Each Trustee shall be governed separately by the trust agreement entered into between the Employer and that Trustee and the terms of the Plan without regard to any other agreement entered into between any other Trustee and the Employer as a part of the Plan.

8.04 ALLOCATION OF RESPONSIBILITY. To the fullest extent permitted under Section 405 of ERISA, the agreements entered into between the Employer and each of the Trustees shall be interpreted to allocate to each Trustee its specific responsibilities, obligations and duties so as to relieve all other Trustees from liability either through the agreement, the Plan or ERISA, for any act of any other Trustee which results in a loss to the Plan because of his act or failure to act.

ARTICLE IX

ADOPTION OF PLAN BY OTHER EMPLOYERS

9.01 ADOPTION PROCEDURE. Any business organization may, with the approval of the Board of Directors, adopt the Plan by:

(a) a certified resolution or consent of the board of directors of the adopting Employer or an executed adoption instrument (approved by the board of directors of the adopting Employer) agreeing to be bound as an Employer by all the terms, conditions and limitations of the Plan except those, if any, specifically described in the adoption instrument; and

(b) providing all information required by the Committee and the Trustee.

9.02 NO JOINT VENTURE IMPLIED. The document which evidences the adoption of the Plan by an Employer shall become a part of the Plan. However, neither the adoption of the Plan and its related Trust Fund by an Employer nor any act performed by it in relation to the Plan and its related Trust Fund shall ever create a joint venture or partnership relation between it and any other Employer.

9.03 ALL TRUST ASSETS AVAILABLE TO PAY ALL BENEFITS. The Accounts of Members employed by the Employers which adopt the Plan shall be commingled for investment purposes. All assets in the Trust Fund shall be available to pay benefits to all Members employed by any Employer.

9.04 QUALIFICATION A CONDITION PRECEDENT TO ADOPTION AND CONTINUED PARTICIPATION. The adoption of the Plan and the Trust or Trusts used to fund the Plan by a business organization is contingent upon and subject to the express condition precedent that the initial adoption meets all statutory and regulatory requirements for qualification of the Plan and the exemption of the Trust or Trusts and that the Plan and the Trust or Trusts that are applicable to it continue in operation to maintain their qualified and exempt status. In the event the adoption fails to initially qualify, the adoption shall fail retroactively for failure to meet the condition precedent and the portion of the Trust Fund applicable to the adoption shall be immediately returned to the adopting business organization and the adoption shall be void ab initio. In the event the adoption as to a given business organization later becomes disqualified and loses its exemption for any reason, the adoption shall fail retroactively for failure to meet the condition precedent and the portion of the Trust Fund allocable to the adoption by that business organization shall be immediately spun off, retroactively as of the last date for which the Plan qualified, to a separate Trust for its sole benefit and an identical but separate Plan shall be created, retroactively effective as of the last date the Plan as adopted by that business organization qualified, for the benefit of the Members covered by that adoption.

ARTICLE X

AMENDMENT AND TERMINATION

10.01 RIGHT TO AMEND AND LIMITATIONS THEREON. The Sponsor has the sole right to amend the Plan. An amendment may be made by a certified resolution or consent of the Board of Directors, or by an instrument in writing executed by the appropriate officer of the Sponsor. The amendment must describe the nature of the amendment and its effective date. No amendment shall:

(a) vest in an Employer any interest in the Trust Fund;

(b) cause or permit the Trust Fund to be diverted to any purpose other than the exclusive benefit of the present or future Members and their Beneficiaries except under the circumstances described in Section 4.10;

(c) decrease the Account of any Employee, or eliminate an optional form of payment in violation of section 411(d)(6) of the Code;

(d) increase substantially the duties or liabilities of the Trustee without its written consent; or

(e) change the vesting schedule to one which would result in the nonforfeitable percentage of a Member's Account (determined as of the later of the date of the adoption of the amendment or of the effective date of the amendment) of any Member being less than the nonforfeitable percentage computed under the Plan without regard to the amendment. If the Plan's vesting schedule is amended, if the Plan is amended in any other way that affects the computation of the Member's nonforfeitable percentage, or if the Plan is deemed amended by an automatic change to or from a Top-Heavy vesting schedule, each Member with at least three years of Active Service as of the date of the amendment or change shall have his nonforfeitable percentage computed under the Plan without regard to the amendment or the change if that results in a higher nonforfeitable percentage.

Each Employer shall be deemed to have adopted any amendment made by the Sponsor unless the Employer notifies the Committee of its rejection in writing within 30 days after it receives a copy of the amendment. A rejection shall constitute a withdrawal from the Plan by that Employer unless the Sponsor acquiesces in the rejection.

10.02 MANDATORY AMENDMENTS. The Contributions of each Employer to the Plan are intended to be:

(a) deductible under the applicable provisions of the Code;

(b) except as otherwise prescribed by applicable law, exempt from the Federal Social Security Act;

(c) except as otherwise prescribed by applicable law, exempt from withholding under the Code; and

(d) excludable from any Employee's regular rate of pay, as that term is defined under the Fair Labor Standards Act of 1938, as amended.

The Sponsor shall make any amendment necessary to carry out this intention, and it may be made retroactively.

10.03 WITHDRAWAL OF EMPLOYER. An Employer may withdraw from the Plan and its related Trust Fund if the Sponsor does not acquiesce in its rejection of an amendment or by giving written notice of its intent to withdraw to the Committee. The Committee shall then determine the portion of the Trust Fund that is attributable to the Members employed by the withdrawing Employer and shall notify the Trustee to segregate and transfer those assets to the successor Trustee or Trustees when it receives a designation of the successor from the withdrawing Employer.

A withdrawal shall not terminate the Plan and its related Trust Fund with respect to the withdrawing Employer, if the Employer either appoints a successor Trustee or Trustees and reaffirms the Plan and its related Trust Fund as its new and separate plan and trust intended to qualify under section 401(a) of the Code, or establishes another plan and trust intended to qualify under section 401(a) of the Code.

The determination of the Committee, in its sole discretion, of the portion of the Trust Fund that is attributable to the Members employed by the withdrawing Employer shall be final and binding upon all parties; and, the Trustee's transfer of those assets to the designated successor Trustee shall relieve the Trustee of any further obligation, liability or duty to the withdrawing Employer, the Members employed by that Employer and their Beneficiaries, and the successor Trustee or Trustees.

10.04 TERMINATION OF PLAN. The Sponsor may terminate the Plan and its related Trust Fund with respect to all Employers by executing and delivering to the Committee and the Trustee, a notice of termination, specifying the date of termination.

10.05 PARTIAL OR COMPLETE TERMINATION OR COMPLETE DISCONTINUANCE OF CONTRIBUTIONS. Without regard to any other provision of the Plan, if there is a partial or total termination of the Plan or there is a complete discontinuance of the Employer's Contributions, each of the affected Members shall immediately become 100 percent vested in his Account as of the end of the last Plan Year for which a substantial Employer Contribution was made and in any amounts later allocated to his Account. If the Employer then resumes making substantial Contributions at any time, the appropriate vesting schedule shall again apply to all amounts allocated to each affected Member's Account beginning with the Plan Year for which they were resumed.

10.06 CONTINUANCE PERMITTED UPON SALE OR TRANSFER OF ASSETS. An Employer's participation in the Plan and its related Trust Fund shall not automatically terminate if it consolidates

or merges and is not the surviving corporation, sells substantially all of its assets, is a party to a reorganization and its Employees and substantially all of its assets are transferred to another entity, liquidates, or dissolves, if there is a successor organization. Instead, the successor may assume and continue the Plan and its related Trust Fund by executing a direction, entering into a contractual commitment or adopting a resolution providing for the continuance of the Plan and its related Trust Fund. Only upon the successor's rejection of the Plan and its related Trust Fund or its failure to respond to the Employer's, the Sponsor's or the Trustee's request that it affirm its assumption of the Plan within 90 days of the request shall the Plan automatically terminate. In that event, the appropriate portion of the Trust Fund shall be distributed exclusively to the Members or their Beneficiaries as soon as possible. If there is a disposition to an unrelated entity of substantially all of the assets used by the Employer in a trade or business or a disposition by the Employer of its interest in a subsidiary, the Employer may make a lump sum distribution from the Plan if it continues the Plan after the disposition; but the distribution can only be made for those Members who continue employment with the acquiring entity.

ARTICLE XI

MISCELLANEOUS

11.01 PLAN NOT AN EMPLOYMENT CONTRACT. The adoption and maintenance of the Plan and its related Trust Fund is not a contract between any Employer and its Employees which gives any Employee the right to be retained in its employment. Likewise, it is not intended to interfere with the rights of any Employer to discharge any Employee at any time or to interfere with the Employee's right to terminate his employment at any time.

11.02 BENEFITS PROVIDED SOLELY FROM TRUST. All benefits payable under the Plan shall be paid or provided for solely from the Trust Fund. No Employer assumes any liability or responsibility to pay any benefit provided by the Plan.

11.03 ASSIGNMENTS PROHIBITED. No principal or income payable or to become payable from the Trust Fund shall be subject: to anticipation or assignment by a Member or by a Beneficiary to attachment by, interference with, or control of any creditor of a Member or Beneficiary, or to being taken or reached by any legal or equitable process in satisfaction of any debt or liability of a Member or Beneficiary prior to its actual receipt by the Member or Beneficiary. Any attempted conveyance, transfer, assignment, mortgage, pledge, or encumbrance of the Trust Fund, any part of it, or any interest in it by a Member or Beneficiary prior to distribution shall be void, whether that conveyance, transfer, assignment, mortgage, pledge, or encumbrance is intended to take place or become effective before or after any distribution of Trust assets or the termination of this Trust Fund itself. The Trustee shall never under any circumstances be required to recognize any conveyance, transfer, assignment, mortgage, pledge or encumbrance by a Member or Beneficiary of the Trust Fund, any part of it, or any interest in it, or to pay any money or thing of value to any creditor or assignee of a Member or Beneficiary for any cause whatsoever. These prohibitions against the alienation of a Member's Account shall not apply to Qualified Domestic Relations Orders.

11.04 REQUIREMENTS UPON MERGER OR CONSIDERATION OF PLANS. The Plan shall not merge or consolidate with or transfer any assets or liabilities to any other plan unless each Member would (if the Plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation, or transfer (if the Plan had then terminated).

11.05 GENDER OF WORDS USED. If the context requires it, words of one gender when used in the Plan shall include the other gender, and words used in the singular or plural shall include the other.

11.06 SEVERABILITY. Each provision of this Agreement may be severed. If any provision is determined to be invalid or unenforceable, that determination shall not affect the validity or enforceability of any other provision.

11.07 REEMPLOYED VETERANS. The requirements of the Uniformed Services Employment and Reemployment Rights Act of 1994 will be complied with in the operation of the Plan in the manner permitted under section 414(u) of the Code.

11.08 GOVERNING LAW. The provisions of the Plan shall be construed, administered, and governed under the laws of the State of Texas and, to the extent applicable, by the laws of the United States.

IN WITNESS WHEREOF, Piper Impact, Inc. has caused this Agreement to be executed this 13th day of July 1998, in multiple counterparts, each of which shall be deemed to be an original, to be effective the 1st day of January 1998, except for those provisions which have an earlier effective date provided by law, or as otherwise provided under applicable provisions of the Plan.

PIPER IMPACT, INC.

By WAYNE M. ROSE

VICE PRESIDENT AND CFO

Title

APPENDIX A

LIMITATIONS ON CONTRIBUTIONS

PART A. DEFINITIONS

DEFINITIONS. As used herein the following words and phrases have the meaning attributed to them below:

(a) "ACTUAL CONTRIBUTION RATIO" means the ratio of Section 401(m) Contributions actually paid into the Trust on behalf of an Employee for a Plan Year to the Employee's Annual Compensation for the same Plan Year. For this purpose, effective for Plan Years starting on or after January 1, 1998, Annual Compensation for any portion of the Plan Year in which the Employee was not an eligible Employee (as defined in Section 2.1 of Appendix A) will not be taken into account.

(b) "ACTUAL DEFERRAL PERCENTAGE" means, for a specified group of Employees for a Plan Year, the average of the ratios (calculated separately for each Employee in the group) of the amount of Section 401(k) Contributions actually paid into the Trust on behalf of the Employee for the Plan Year to the Employee's Annual Compensation for the Plan Year.

(c) "ACTUAL DEFERRAL RATIO" means the ratio of Section 401(k) Contributions actually paid into the Trust on behalf of an Employee for a Plan Year to the Employee's Annual Compensation for the same Plan Year. For this purpose, effective for Plan Years starting on or after January 1, 1998, Annual Compensation for any portion of the Plan Year in which the Employee was not an eligible Employee (as defined in Section 2.1 of Appendix A) will not be taken into account.

(d) "ANNUAL ADDITIONS" means the sum of the following amounts credited on behalf of a Member for the Limitation Year: (a) Employer contributions, (b) Employee contributions and (c) forfeitures. Excess 401(k) Contributions for a Plan Year are treated as Annual Additions for that Plan Year even if they are corrected through distribution. Excess Deferrals that are timely distributed as set forth in Section 3.2 of Appendix A will not be treated as Annual Additions.

(e) "CONTRIBUTION PERCENTAGE" means, for a specified group of Employees for a Plan Year, the average of the ratios (calculated separately for each Employee in the group) of the amount of Section 401(m) Contributions actually paid into the Trust on behalf of the Employee for the Plan Year to the Employee's Annual Compensation for the Plan Year.

(f) "EXCESS 401(K) CONTRIBUTIONS" means, with respect to any Plan Year, the excess of (a) the aggregate amount of Section 401(k) Contributions actually paid to the Trustee on behalf of Highly Compensated Employees for the Plan Year over (b) the maximum amount of those contributions permitted under the limitations set out in the first sentence of Section 2.1 of Appendix A.

(g) "EXCESS AGGREGATE 401(M) CONTRIBUTIONS" means, with respect to any Plan Year, the excess of (a) the aggregate amount of Section 401(m) Contributions actually paid to the Trustee on behalf of Highly Compensated Employees for the Plan Year over (b) the maximum amount of those contributions permitted under the limitations set out in the first sentence of Section 2.2 of Appendix A.

(h) "LIMITATION YEAR" means the calendar year.

(i) "SECTION 401(K) CONTRIBUTIONS" means the sum of Salary Deferral Contributions made on behalf of the Member during the Plan Year, Matching Contributions (to the extent that the Matching contributions are not used to enable the Plan to satisfy the minimum contribution requirements of section 416 of the Code) and Qualified Nonelective Employer Contributions that the Employer elects to have treated as section 401(k) Contributions pursuant to section 401(k)(3)(d)(ii) of the Code.

(j) "SECTION 401(M) CONTRIBUTIONS" means the sum of Matching Contributions and After-Tax Contributions made on behalf of the Member during the Plan Year and other amounts that the Employer elects to have treated as Section 401(m) Contributions pursuant to section 401(m)(3)(B) of the Code. However, Matching Contributions and Salary Deferral Contributions that the Employer could otherwise elect to have treated as Section 401(m) Contributions are not Section 401(m) Contributions to the extent that they are used to enable the Plan to satisfy the minimum contribution requirements of section 416 of the Code.

PART B. SUMMARY OF SECTIONS 415 AND 402(G) LIMITATIONS

1.1 SECTION 415 LIMITATION ON TOTAL ALLOCATIONS. The Annual Additions that may be credited to an individual Member's Accounts under this Plan and any other qualified defined contribution plan maintained by an Affiliated Employer for a Limitation Year shall not exceed the lesser of (a) $30,000.00 (as adjusted by the Secretary of Treasury), or (b) 25 percent of the Member's Annual Compensation for the Limitation Year. If the Limitation Year is ever less than 12 months, the $30,000.00 limitation (as adjusted by the Secretary of Treasury) will be prorated by multiplying the limitation by a fraction, the numerator of which is the number of months in the Limitation Year, and the denominator of which is 12. The Plan will be operated in compliance with section 415 of the Code and its Regulations, the terms of which are incorporated in this Plan.

1.2 DOLLAR LIMITATION ON SALARY DEFERRAL CONTRIBUTIONS. The maximum Salary Deferral Contribution that a Member may elect to have made on his behalf during the Member's taxable year may not, when added to the amounts deferred on a pre-tax basis under other plans or arrangements described in sections 401(k), 408(k), 403(b) and 408(p) of the Code exceed $7,000.00 (as adjusted by the Secretary of Treasury). For purposes of applying the requirements of Section 2.1 of Appendix A and Appendix B, Excess Deferrals shall not be disregarded merely because they are Excess Deferrals or because they are distributed in accordance with Section 3.2 of Appendix A. However, Excess Deferrals made to the Plan on behalf of Non-Highly Compensated Employees will not be taken into account under Section 2.1 of Appendix A.

PART C. SUMMARY OF SECTIONS 401(K) AND 401(M) LIMITATIONS

2.1 LIMITATION BASED UPON ACTUAL DEFERRAL PERCENTAGE. The Actual Deferral Percentage for Highly Compensated Employees for any Plan Year must bear a relationship to the Actual Deferral Percentage for all other eligible Employees for the SAME Plan Year which meets either of the following tests:

(a) the Actual Deferral Percentage of the Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees multiplied by 1.25; or

(b) the excess of the Actual Deferral Percentage of the Highly Compensated Employees over that of all other eligible Employees is not more than two percentage points, and the Actual Deferral Percentage of the Highly Compensated Employees is not more than the Actual Deferral Percentage of all other eligible Employees multiplied by two.

For purposes of this test, an eligible Employee is an Employee who is directly or indirectly eligible to make Salary Deferral Contributions for all or part of the Plan Year. A person who is suspended from making Salary Deferral Contributions because he has made a withdrawal is an eligible Employee. If no Salary Deferral Contributions are made for an eligible Employee, the Actual Deferral Ratio that shall be included for him in determining the Actual Deferral Percentage is zero. If this Plan and any other plan or plans which include cash or deferred arrangements are considered as one plan for purposes of section 401(a)(4) or 410(b) of the Code, the cash or deferred arrangements included in this Plan and the other plans shall be treated as one plan for these tests. If any Highly Compensated Employee is a Member of this Plan and any other cash or deferred arrangements of the Employer, when determining the deferral percentage of the Employee, all of the cash or deferred arrangements are treated as one. A Salary Deferral Contribution will be taken into account under the Actual Deferral Percentage test of Code section 401(k) and this Section for a Plan Year only if it relates to Annual Compensation that either would have been received by the Employee in the Plan Year (but for the deferral election) or is attributable to services performed by the employee in the Plan Year and would have been received by the Employee within 2 1/2 months after the close of the Plan Year (but for the deferral election). In addition,

a Section 401(k) Contribution will be taken into account under the Actual Deferral Percentage test of Code section 401(k) and this Section for a Plan Year only if it is allocated to an Employee as of a date within that Plan Year. For this purpose, a Section 401(k) Contribution is considered allocated as of a date within a Plan Year if the allocation is not contingent on participation or performance of services after that date and the Section 401(k) Contribution is actually paid to the Trustee no later than 12 months after the Plan Year to which the Section 401(k) Contribution relates. Failure to correct Excess 401(k) Contributions by the close of the Plan Year following the Plan Year for which they were made will cause the Plan's cash or deferred arrangement to be disqualified for the Plan Year for which the Excess 401(k) Contributions were made and for all subsequent years during which they remain in the Plan Fund. Also, the Employer will be liable for a ten percent excise tax on the amount of Excess 401(k) Contributions unless they are corrected within 2 1/2 months after the close of the Plan Year for which they were made.

2.2 LIMITATION BASED UPON CONTRIBUTION PERCENTAGE. The Contribution Percentage for eligible Highly Compensated Employees for any Plan Year must not exceed the greater of the following:

(c) the Contribution Percentage for all other eligible Employees for the SAME Plan Year multiplied by 1.25; or

(d) the lesser of the Contribution Percentage for all other eligible Employees for the preceding Plan Year multiplied by two, or the Contribution Percentage for all other eligible Employees for the preceding Plan Year plus two percentage points.

For purposes of this test, an eligible Employee is an Employee who is directly or indirectly eligible to make After-Tax Contributions or to receive an allocation of Matching Contributions under the Plan for all or part of the Plan Year. A person who is suspended from making After-Tax Contributions because he has made a withdrawal, a person who would be eligible to receive an allocation of Matching Contributions but for his election not to participate and a person who would be eligible to receive an allocation of Matching Contributions but for the limitation on his Annual Additions imposed by section 415 of the Code are all eligible Employees. If no Section 401(m) Contributions are made on behalf of an eligible Employee, the Actual Contribution Ratio that shall be included for him in determining the Contribution Percentage is zero. If this Plan and any other plan or plans to which Section 401(m) Contributions are made are considered as one plan for purposes of section 401(a)(4) or 410(b) of the Code, this Plan and those plans are to be treated as one. The Actual Contribution Ratio of a Highly Compensated Employee who is eligible to participate in more than one plan of an Affiliated Employer to which employee or matching contributions are made is calculated by treating all the plans in which the Employee is eligible to participate as one plan. However, plans that are not permitted to be aggregated under Regulation section 1.410(m)-1(b)(3)(ii) are not aggregated for this purpose. A Matching Contribution will be taken into account under this Section 2.2 of Appendix A for a Plan Year only if (a) it is allocated to the Employee's Account as of a date within the Plan Year, (b) it is paid to the Trustee no later than the end of the 12-month period beginning after the close of the Plan Year, and (c) it is made on behalf of an Employee on account of his Salary Deferral Contributions for the Plan Year. At the election of the Employer, a Member's Salary Deferral Contributions and Qualified Nonelective Employer Contributions made on behalf of the Member during the Plan Year shall be treated as Section 401(m) Contributions that are Matching Contributions provided that the conditions set forth in Regulation section 1.401(m)-1(b)(5) are satisfied. Salary Deferral Contributions may not be treated as Matching Contributions for purposes of the Contribution Percentage test unless the contributions, including those taken into account for purposes of the test, satisfy the Actual Deferral Percentage test set forth in Section 2.1 of Appendix A. Salary Deferral Contributions and Qualified Nonelective Employer Contributions may not be taken into account for purposes of the test to the extent that those contributions are taken into account in determining whether any other contributions satisfy the Actual Deferral Percentage test set forth in Section 2.1 of Appendix A. Finally, Salary Deferral Contributions and Qualified Nonelective Employer Contributions may be taken into account for purposes of the test only if they are allocated to the Employee's Account as of a date within the Plan Year being tested within the meaning of Regulation section 1.401(k)-1(b)(4). Failure to correct Excess Aggregate 401(m) Contributions by the close of the Plan Year following the Plan Year for which they were made will cause the Plan to fail to be qualified for the Plan Year for which the Excess Aggregate 401(m) Contributions were made and for all subsequent years during which they remain in the Plan Fund. Also, the Employer will be liable for a ten percent excise tax on the amount of Excess Aggregate 401(m) Contributions unless they are corrected within 2 1/2 months after the close of the Plan Year for which they were made.

2.3 ALTERNATIVE LIMITATION BASED UPON ACTUAL DEFERRAL PERCENTAGE AND CONTRIBUTION PERCENTAGE. If the second alternative permitted in Sections 2.1 and 2.2 of Appendix A is used for both the Actual Deferral Percentage test and the Contribution Percentage test, the following additional limitation on Salary Deferral Contributions shall apply. The Actual Deferral Percentage plus the Contribution Percentage of the eligible Highly Compensated Employees cannot exceed the greater of (a) or (b), where:

(a) is the sum of:

(i) 1.25 times the greater of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year, and

(ii) the lesser of (x) two percentage points plus the lesser of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year or (y) two times the lesser of the Actual Deferral Percentage or the Contribution Percentage of the group of eligible Non-Highly Compensated Employees for the preceding Plan Year, and

(b) is the sum of:

(i) 1.25 times the lesser of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year, and

(ii) the lesser of (x) two percentage points plus the greater of the Actual Deferral Percentage or the Contribution Percentage of the eligible Non-Highly Compensated Employees for the preceding Plan Year or (y) two times the greater of the Actual Deferral Percentage or the Contribution Percentage of the group of eligible Non-Highly Compensated Employees for the preceding Plan Year.

PART D. CORRECTION PROCEDURES FOR ERRONEOUS CONTRIBUTIONS

3.1 CORRECTION OF EXCESS ANNUAL ADDITIONS. If Annual Additions are made in excess of the limitations contained in Section 1.1 of Appendix A, to the maximum extent permitted by law, those excess Annual Additions shall be attributed to the Plan. If an excess Annual Addition attributed to the Plan is held or contributed as a result of the allocation of forfeitures, reasonable error in estimating a Member's Annual Compensation, reasonable error in calculating the maximum Salary Deferral Contribution that may be made for a Member under section 415 of the Code or because of other facts and circumstances which the Commissioner of Internal Revenue finds to be justified, the excess Annual Addition shall be corrected as follows:

(a) first, the excess Annual Addition shall be reduced to the extent necessary by distributing to the Member all Employee After-Tax Contributions and then Salary Deferral Contributions together with their earnings. These distributed amounts are disregarded for purposes of the testing and limitations contained in this Appendix A;

(b) second, if the Member is still employed by the Employer at the end of the Plan Year, any remaining excess funds shall be placed in an unallocated suspense account to be applied to reduce future Employer Contributions for that Member for as many Plan Years as are necessary to exhaust the suspense account in keeping with the amounts which would otherwise be allocated to that Member's Account; and

(c) third, if the Member is not employed by the Employer at the end of the Plan Year, the remaining excess funds shall be placed in an unallocated suspense account to reduce future Employer Contributions for all remaining Members for as many Plan Years as are necessary to exhaust the suspense account.

(d) If the Plan terminates prior to the exhaustion of the suspense account, the remaining amount shall revert to the Employer.

3.2 EXCESS DEFERRAL FAIL SAFE. As soon as practical after the close of each Plan Year, the Committee shall determine if there would be any Excess Deferrals. If there would be an Excess Deferral by a Member, the Excess Deferral as adjusted by any earnings or losses, will be distributed to the Member no later than April 15 following the Member's taxable year in which the Excess Deferral was made. The income allocable to the Excess Deferrals for the taxable year of the Member shall be determined by multiplying the income for the taxable year of the Member allocable to Salary Deferral Contributions by a fraction. The numerator of the fraction is the amount of the Excess Deferrals made on behalf of the Member for the taxable year. The denominator of the fraction is the Member's total Salary Deferral Account balance as of the beginning of the taxable year plus the Member's Salary Deferral Contributions for the taxable year.

3.3 ACTUAL DEFERRAL PERCENTAGE FAIL SAFE. As soon as practicable after the close of each Plan Year, the Committee shall determine whether the Actual Deferral Percentage for the Highly Compensated Employees would exceed the limitation set forth in Section 2.1 of Appendix A. If the limitation would be exceeded for a Plan Year, before the close of the following Plan Year (a) the amount of Excess 401(k) Contributions for that Plan Year (and any income allocable to those Contributions as calculated in the specific manner required by Section 3.6 of Appendix A) shall be distributed, or (b) to the extent provided in Regulations, and permitted by the Committee, the Employee may elect to treat the amount of the Excess 401(k) Contributions as an amount distributed to the Employee and then contributed by the Employee to the Plan as an Employee After-Tax Contribution, provided the recharacterized amounts shall remain subject to the same rules and restrictions to which the Salary Deferral Contributions are subjected, or (c) the Employer may make a Qualified Nonelective Employer Contribution which it elects to have treated as a Section 401(k) Contribution. The amount of Excess 401(k) Contributions to be distributed shall be that amount of the Salary Deferral Contributions by or on behalf of those Highly Compensated Employees with the largest Salary Deferral Contributions as is equal to the Excess 401(k) Contributions, taken ratably from each Account, based solely on those Salary Deferral Contributions for the Plan Year. This initial distribution shall not reduce those Accounts affected below the next highest level of Salary Deferral Contributions. If any further reduction is necessary, the same process is to be repeated at the next highest level of Salary Deferral Contributions by or on behalf of the Highly Compensated Employees, and if necessary repeated in successively lower levels of Salary Deferral Contributions until the cash or deferred arrangement satisfies the Actual Deferral Percentage test. Qualified Nonelective Employer Contributions shall be treated as Section 401(k) Contributions only if: (a) the conditions described in Regulation section 1.401(k)- 1(b)(5) are satisfied and (b) they are allocated to Members' Accounts as of a date within that Plan Year and are actually paid to the Trustee no later than the end of the 12-month period immediately following the Plan Year to which the contributions relate. If the Employer makes a Qualified Nonelective Employer Contribution that it elects to have treated as a Section 401(k) Contribution, the Contribution will be in an amount necessary to satisfy the Actual Deferral Percentage test and will be allocated first to those Non-Highly Compensated Employees who had the lowest Actual Deferral Ratios. The Excess 401(k) Contributions of Highly Compensated Employees will not be recharacterized to the extent that the recharacterized amounts would exceed the Contribution Percentage as determined prior to applying the Contribution Percentage limitations. Excess 401(k) Contributions may not be recharacterized after 2 1/2 months after the close of the Plan Year to which the recharacterization relates. The amount of recharacterized Excess 401(k) Contributions, in combination with After-Tax Contributions actually made by the Member, may not exceed the maximum amount of After-Tax Contributions (determined without regard to Section 2.2 of Appendix A) that the Member could have made under the provisions of the Plan in effect on the first day of the Plan Year in the absence of recharacterization. Any distributions of the Excess 401(k) Contributions for any Plan Year are to be made to Highly Compensated Employees on the basis of the amount of contributions by or on behalf of each Highly Compensated Employee. The amount of Excess 401(k) Contributions to be distributed or recharacterized for any Plan Year must be reduced by any excess Salary Deferral Contributions previously distributed for the taxable year ending in the same Plan Year.

3.4 CONTRIBUTION PERCENTAGE FAIL SAFE. If the limitation set forth in Section 2.1 or 2.2 of Appendix A would be exceeded for any Plan Year, before the close of the following Plan Year any one or more of the following corrective actions shall be taken, as determined by the Committee in its sole discretion: (a) the amount of the Excess Aggregate 401(m) Contributions for that Plan Year (and any income allocable to those Contributions as calculated in the specific manner required by Section 3.6 of Appendix A) shall be distributed, or (b) the Employer may make a Qualified

Nonelective Employer Contribution which it elects to have treated as a Section 401(m) Contribution. Any distributions of the Excess Aggregate 401(m) Contributions for any Plan Year are to be made to Highly Compensated Employees on the basis of the amount of Section 401(m) Contributions made to the Plan by or on their behalf determined under the leveling procedure described in Section 3.3 of Appendix A.

3.5 ALTERNATIVE LIMITATION FAIL SAFE. As soon as practicable after the close of each Plan Year, the Committee shall determine whether the alternative limitation would be exceeded. If the limitation would be exceeded for any Plan Year, before the close of the following Plan Year the Actual Deferral Percentage or Contribution Percentage of the eligible Highly Compensated Employees, or a combination of both, shall be reduced by distributions made in the manner described in the Regulations. These distributions shall be in addition to and not in lieu of distributions required for Excess 401(k) Contributions and Excess Aggregate 401(m) Contributions.

3.6 INCOME ALLOCABLE TO EXCESS 401(K) AND EXCESS AGGREGATE 401(M) CONTRIBUTIONS. The income allocable to Excess 401(k) Contributions for any Member for the Plan Year shall be determined by multiplying the income for the Plan Year allocable to Section 401(k) Contributions by a fraction. The numerator of the fraction is the amount of Excess 401(k) Contributions made on behalf of the Member for the Plan Year. The denominator of the fraction is the Member's total Account balance attributable to Section 401(k) Contributions as of the beginning of the Plan Year plus the Member's Section 401(k) Contributions for the Plan Year. The income allocable to Excess Aggregate 401(m) Contributions for a Plan Year shall be determined by multiplying the income for the Plan Year allocable to Section 401(m) Contributions by a fraction. The numerator of the fraction is the amount of Excess Aggregate 401(m) Contributions made on behalf of the Member for the Plan Year. The denominator of the fraction is the Member's total Account balance attributable to Section 401(m) Contributions as of the beginning of the Plan Year plus the Member's Section 401(m) Contributions for the Plan Year.

APPENDIX B

TOP-HEAVY REQUIREMENTS

DEFINITIONS. As used herein, the following words and phrases have the meaning attributed to them below:

(a) "AGGREGATE ACCOUNTS" means the total of all Account balances derived from Employer Contributions and Rollover Contributions.

(b) "AGGREGATION GROUP" means (a) each plan of the Employer or any Affiliated Employer in which a Key Employee is a Member and (b) each other plan of the Employer or any Affiliated Employer which enables any plan in (a) to meet the requirements of either section 401(a)(4) or 410 of the Code. Any Employer may treat a plan not required to be included in the Aggregation Group as being a part of the group if the group would continue to meet the requirements of section 401(a)(4) and 410 of the Code with that plan being taken into account.

(c) "DETERMINATION DATE" means for a given Plan Year the last day of the preceding Plan Year or in the case of the first Plan Year the last day of that Plan Year.

(d) "KEY EMPLOYEE" means an Employee or former or deceased Employee or Beneficiary of an Employee who at any time during the Plan Year or any of the four preceding Plan Years is (a) an officer of an Employer or any Affiliated Employer having Annual Compensation greater than 50 percent of the annual addition limitation of section 415(b)(1)(A) of the Code for the Plan Year, (b) one of the ten employees having Annual Compensation from an Employer or any Affiliated Employer of greater than 100 percent of the annual addition limitation of Section 415(c)(1)(A) of the Code for the Plan Year and owning or considered as owning (within the meaning of Section 318 of the Code) the largest interest in an Employer or any Affiliated Employer, treated separately, (c) a Five Percent Owner of an Employer or any Affiliated Employer, treated separately, or (d) a one percent owner of an Employer or any Affiliated Employer, treated separately, having Annual Compensation from an Employer or any Affiliated Employer of more than $150,000.00. For this purpose no more than 50 employees or, if lesser, the greater of three employees or ten percent of the employees shall be treated as officers. Section 416(i) of the Code shall be used to determine percentage of ownership. For the purpose of the test set out in (b) above, if two or more employees have the same interest in an Employer, the employee with the greater Annual Compensation from the Employer shall be treated as having the larger interest.

(e) "NON-KEY EMPLOYEE" means any Employee who is not a Key Employee.

(f) "TOP-HEAVY PLAN" means any plan which has been determined to be top-heavy under the test described in Appendix B of the Plan.

1.1 APPLICATION. The requirements described in this Appendix B shall apply to each Plan Year that the Plan is determined to be a Top-Heavy Plan .

1.2 TOP-HEAVY TEST. If on the Determination Date the Aggregate Accounts of Key Employees in the Plan exceed 60 percent of the Aggregate Accounts of all Employees in the Plan, the Plan shall be a Top-Heavy Plan for that Plan Year. In addition, if the Plan is required to be included in an Aggregation Group and that group is a top-heavy group, this Plan shall be treated as a Top-Heavy Plan. An Aggregation Group is a top-heavy group if on the Determination Date the sum of (a) the present value of the cumulative accrued benefits for Key Employees under all defined benefit plans in the Aggregation Group which contains the Plan, plus (b) the total of all of the accounts of Key Employees under all defined contribution plans included in the Aggregation Group (which contains the Plan) is more than 60 percent of a similar sum determined for all employees covered in the Aggregation Group which contains the Plan.

In applying the above tests, the following rules shall apply:

(a) in determining the present value of the accumulated accrued benefits for any Employee or the amount in the account of any Employee, the value or amount shall be increased by all distributions made to or for the benefit of the Employee under the Plan during the five-year period ending on the Determination Date;

(b) all rollover contributions made after December 31, 1983 by the Employee to the Plan shall not be considered by the Plan for either test;

(c) if an Employee is a Non-Key Employee under the plan for the Plan Year but was a Key Employee under the plan for another prior Plan Year, his Account shall not be considered; and

(d) benefits shall not be taken into account in determining the top-heavy ratio for any Employee who has not performed services for the Employer during the last five-year period ending upon the Determination Date.

1.3 VESTING RESTRICTIONS IF PLAN BECOMES TOP-HEAVY. If a Member has at least one Hour of Service during a Plan Year when the Plan is a Top-Heavy Plan, he shall either vest under each of the normal vesting provisions of the Plan or under the following vesting schedule, whichever is more favorable:

Completed Years of Active Service	Percentage of Amount Invested In Accounts Containing Employer Contributions
Less than two years	0%
Two years but less than three years	20%
Three years but less than four years	40%
Four years but less than five years	60%
Five years but less than six years	80%
Six years or more	100%

If the Plan ceases to be a Top-Heavy Plan, this requirement shall no longer apply. After that date, the normal vesting provisions of the Plan shall be applicable to all subsequent Contributions by the Employer.

1.4 MINIMUM CONTRIBUTIONS IF PLAN BECOMES TOP-HEAVY. If the Plan is a Top-Heavy Plan and the normal allocation of the Employer Contribution and forfeitures is less than three percent of any Non-Key Employee Member's Annual Compensation, the Committee, without regard to the normal allocation procedures, shall allocate the Employer Contribution and the forfeitures among the Members who are in the employ of the Employer at the end of the Plan Year in proportion to each Member's Annual Compensation as compared to the total Annual Compensation of all Members for that Plan Year until each Non-Key Employee Member has had an amount equal to the lesser of (i) the highest rate of Contribution applicable to any Key Employee, or (ii) three percent of his Annual Compensation allocated to his Account. At that time, any more Employer Contributions or forfeitures shall be allocated under the normal allocation procedures described earlier in the Plan. Salary Deferral Contributions made on behalf of Key Employees are included in determining the highest rate of Employer Contributions. Salary Deferral Contributions made on behalf of Non-Key Employees are not included for that purpose. Amounts that may be treated as Section 401(k) Contributions made on behalf of Non-Key Employees may not be included in determining the minimum contribution required under this Section to the extent that they are treated as Section 401(k) Contributions for purposes of the Actual Deferral Percentage test.

In applying this restriction, the following rules shall apply:

(a) Each Employee who is eligible for membership (without regard to whether he has made mandatory contributions, if any are required, or whether his compensation is less than a stated amount) shall be entitled to receive an allocation under this Section; and

(b) All defined contribution plans required to be included in the Aggregation Group shall be treated as one plan for purposes of meeting the three percent maximum; this required aggregation shall not apply if the Plan is also

required to be included in an Aggregation Group which includes a defined benefit plan and the Plan enables that defined benefit plan to meet the requirements of sections 401(a)(4) or 410 of the Code.

1.5 COVERAGE UNDER MULTIPLE TOP-HEAVY PLANS. If the Plan is a Top-Heavy Plan, it must meet the vesting and benefit requirements described in this Article without taking into account contributions or benefits under Chapter 2 of the Code (relating to tax on self-employment income), Chapter 21 of the Code (relating to Federal Insurance Contributions Act), Title II of the Social Security Act or any other federal or state law.

If a Non-Key Employee is covered by both a Top-Heavy defined contribution plan and a defined benefit plan, he shall receive the defined benefit minimum, offset by the benefits provided under the defined contribution plan.

1.6 RESTRICTIONS IF PLAN BECOMES SUPER TOP-HEAVY. If the Plan is determined to be a Top-Heavy Plan, the number "1.00" must be substituted for the number "1.25" when applying the limitations of section 415 of the Code to the Plan, unless the Plan would not be a Top-Heavy Plan if "90%" were substituted for "60%" and the Employer Contribution for the Plan Year for each Non-Key Employee, who is a Member, is not less than four percent of the Member's Annual Compensation.

APPENDIX C

OPTIONAL FORMS OF DISTRIBUTION

Subject to Sections 6.16, 6.18 and 6.19 of the Plan, the optional forms of distributions set forth below shall be available on and after the date on which an Employer elects to treat the Plan and the Quanex Corporation Salaried Employees' Pension Plan as one plan for purposes of section 410(b) of the Code:

1. OPTION A. A pension under which the Member or former Member shall receive equal monthly payments for his lifetime.

2. OPTION B. A last survivor pension under which the Member or former Member shall receive 85 percent of the monthly pension benefit otherwise payable under Option A, and upon the death of the Member or former Member, the Beneficiary shall receive1/2of the monthly pension benefit paid to the Member or former Member prior to this death, provided however, that if the Beneficiary is younger than the Member or former Member, the 85 percent factor shall be reduced by one percent for each full year's difference in the age of the Member or former Member and the Beneficiary, and if the Beneficiary is older than the Member or former Member, the 85 percent factor shall be increased by one percent for each full years difference in the age of the Member or former Member and the Beneficiary (up to a maximum of 100 percent).

3. OPTION C. A last survivor pension under which the Member or former Member shall receive 70 percent of the monthly pension benefit otherwise payable under Option A, and upon the death of the Member or former Member, the Beneficiary shall receive a monthly pension benefit equal to that paid to the Member or former Member.

4. OPTION D. A reduced monthly pension payable to the Member or former Member during his lifetime, provided that, if the Member or former Member dies prior to his receipt of an amount equal to 120 monthly payments, the then-present value of the remainder of such 120 monthly payments shall be payable to his Beneficiary in a lump sum. If the former Member dies prior to his receipt of all of such 120 payments without having designated a Beneficiary, of if the Beneficiary predeceases the former Member, the then-present value of any remaining payments shall be paid in a lump sum to the former Member's estate. If the designated Beneficiary dies after the former Member and before all of such 120 monthly payments have been made, the then-present value of the unpaid balance of such payments shall be paid in a lump sum to the Beneficiary's estate.

5. LIMITATIONS ON OPTIONS B, C AND D.

   (a) Options A, B and C will not be available to any member if the reduced pension is less than $10 per month.

   (b) Except as otherwise provided elsewhere in the Plan, any election shall be automatically revoked if either the Member or former Member or Beneficiary dies before the Member's or former Member's Annuity Starting Date.

   (c) Where the Beneficiary is a person other than the Member's or former Member's Spouse, the Beneficiary under either Option B or Option C must be of such age and sex that the amount payable to the Member or former Member will exceed 50 percent of the amount that would otherwise be payable if the Member or former Member had elected a life annuity for his life.

   No pension can exceed the life of the Member or former Member or the life of the Member or former Member and his designated Beneficiary, or in the case of a period certain, the life expectancy of the Member or former Member or the life expectancy of the Member or former Member and his designated Beneficiary.

EXHIBIT 10.4

FIRST AMENDMENT TO
THE PIPER IMPACT 401(K) PLAN

THIS AGREEMENT by Piper Impact, Inc., a Delaware corporation, (the "Sponsor"),

WITNESSETH:

WHEREAS, on July 13, 1998, the Sponsor executed the amendment and restatement of the plan agreement known as the "Piper Impact 401(k) Plan" (the "Plan"); and

WHEREAS, the Sponsor retained the right in Section 10.01 of the Plan to amend the Plan from time to time; and

WHEREAS, the directors of the Sponsor have approved resolutions to amend the Plan;

NOW, THEREFORE, the Sponsor agrees as follows:

(1) Effective January 1, 1999, Section 4.03 of the Plan is amended in its entirety to provide as follows:

> 4.03 SUPPLEMENTAL CONTRIBUTIONS. The Employer may contribute for any Plan Year a Supplemental Contribution for its Employees who are on its payroll for its Utah plant in such amount, if any, as shall be determined by the Employer. The Employer may contribute for any Plan Year a Supplemental Contribution for its Employees who are on its payroll for its Mississippi plant in such amount, if any, as shall be determined by its Employer. The amount of Supplemental Contribution made on behalf of Employees on the Employer's payroll for its Utah and Mississippi plants need not be uniform.

(2) Effective January 1, 1999, Section 5.04 of the Plan is amended in its entirety to provide as follows:

> 5.04 ALLOCATION OF SUPPLEMENTAL CONTRIBUTION. The Committee shall allocate the Supplemental Contribution for its Employees who are on its payroll for its Utah plant among the Employer's Members who are on its payroll for its Utah plant in the proportion that the Considered Compensation of each such Member bears to the total Considered Compensation of all such Members for the Plan Year. The
>
> Committee shall allocate the Supplemental Contribution for its Employees who are on its payroll for its Mississippi plant among the Employer's Members who are on its payroll for its Mississippi plant in the proportion that the Considered Compensation of each such Member bears to the total Considered Compensation of all such Members for the Plan Year.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed this 7th day of December, 1998.

PIPER IMPACT, INC.

By VERNON E. OECHSLE

Title: PRESIDENT AND CEO

EXHIBIT 10.5

SECOND AMENDMENT TO
THE PIPER IMPACT 401(K) PLAN

THIS AGREEMENT by Piper Impact, Inc., a Delaware corporation, (the "Sponsor"),

WITNESSETH:

WHEREAS, on July 13, 1998, the Sponsor executed the amendment and restatement of the plan agreement known as the "Piper Impact 401(k) Plan" (the "Plan"); and

WHEREAS, the Sponsor retained the right in Section 10.01 of the Plan to amend the Plan from time to time; and

WHEREAS, the directors of the Sponsor have approved resolutions to amend the Plan;

NOW, THEREFORE, effective January 1, 2001, Section 3.1 of the Plan is amended in its entirety to provide as follows:

3.1 ELIGIBILITY REQUIREMENTS. Each Employee of an Employer shall be eligible to participate in this Plan beginning on the entry date which occurs with or next follows the date on which the Employee completes three months of Active Service and attains the age of 21. However, all Employees who are included in a unit of Employees covered by a collective bargaining agreement between the Employees' representative and the Employer shall be excluded, even if they have met the requirements for eligibility, if there has been good faith bargaining between the Employer and the Employees' representative pertaining to retirement benefits and the agreement does not require the Employer to include such Employees in this Plan. In addition, a Leased Employee shall not be eligible to participate in the Plan unless the Plan's qualified status is dependent upon coverage of the Leased Employee. Employees of Quanex Corporation who are not working at its Piper Impact division are not eligible to participate in the Plan. The Plan's entry dates will be January 1, April 1, July 1 and October 1 of each Plan Year.

IN WITNESS WHEREOF, the Sponsor has caused this Agreement to be executed effective as of the 1ST day of January, 2001.

PIPER IMPACT, INC.

By TERRY M. MURPHY
Title: VP FINANCE AND CFO